



FINANCIAL AND COMPLIANCE AUDIT REPORT

State of Tennessee Single Audit Report

For the Year Ended June 30, 2018

Justin P. Wilson
Comptroller of the Treasury



DIVISION OF STATE AUDIT



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

March 27, 2019

The Honorable Bill Lee, Governor
Members of the General Assembly

Ladies and Gentlemen:

We are pleased to submit the thirty-fifth *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2018. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996 and the provisions of Title 2, *Code of Federal Regulations*, Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance).

This *Single Audit Report* reflects federal expenditures of over \$14.4 billion. We noted instances of noncompliance that resulted in qualified opinions on compliance for 3 of the state's 24 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, 2018, 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 a significant deficiency as well as a material weakness in internal control over financial reporting. We noted no instances of noncompliance that we considered to be material to the state's basic financial statements. The significant deficiency and material weakness in internal control over financial reporting are described in Section II of the Schedule of Findings and Questioned Costs.

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

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

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

**State of Tennessee
Single Audit Report
For the Year Ended June 30, 2018**

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Selected Statistical Data

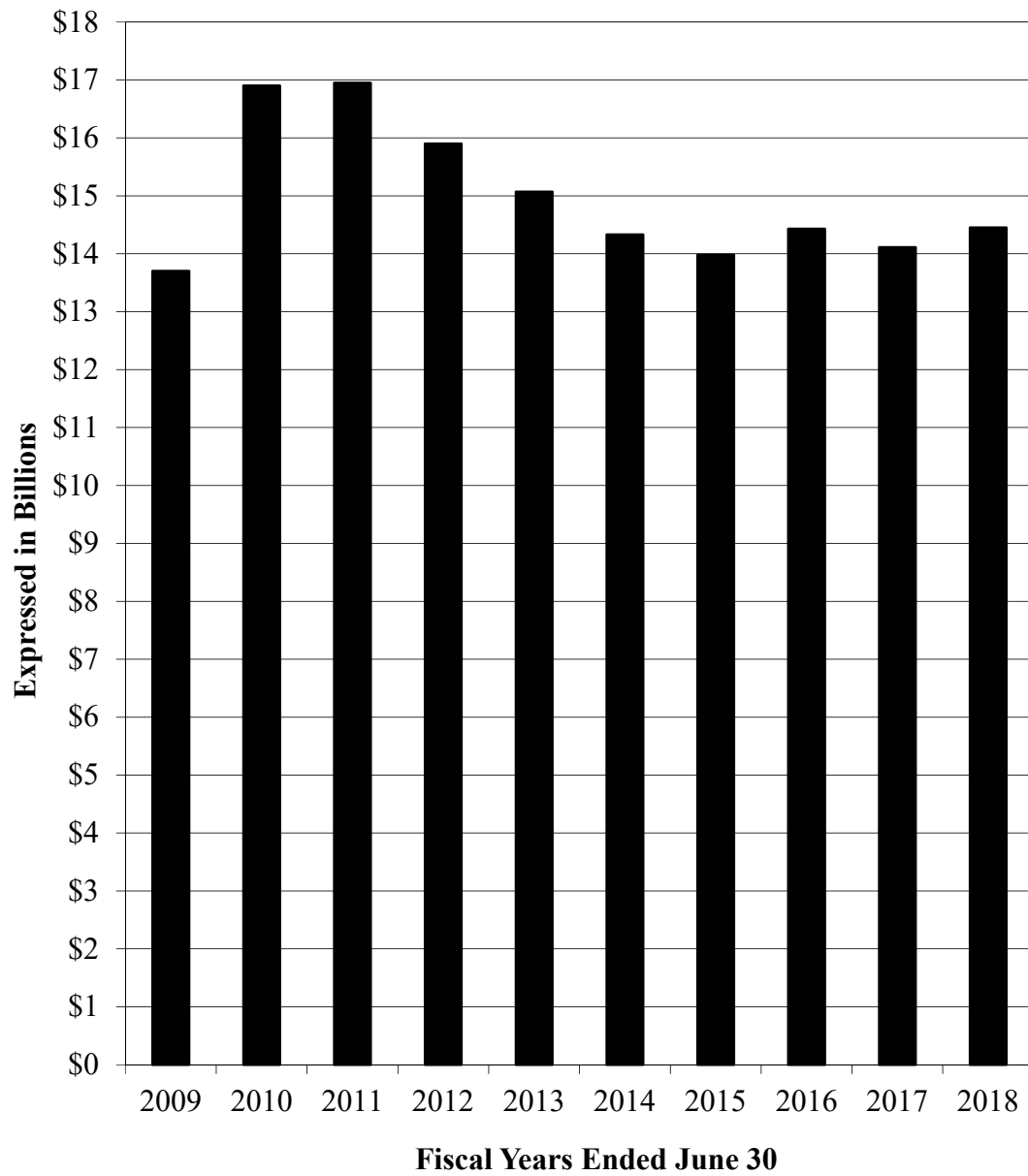
Total Federal Expenditures – Ten-Year Summary

Expenditures by Awarding Agency

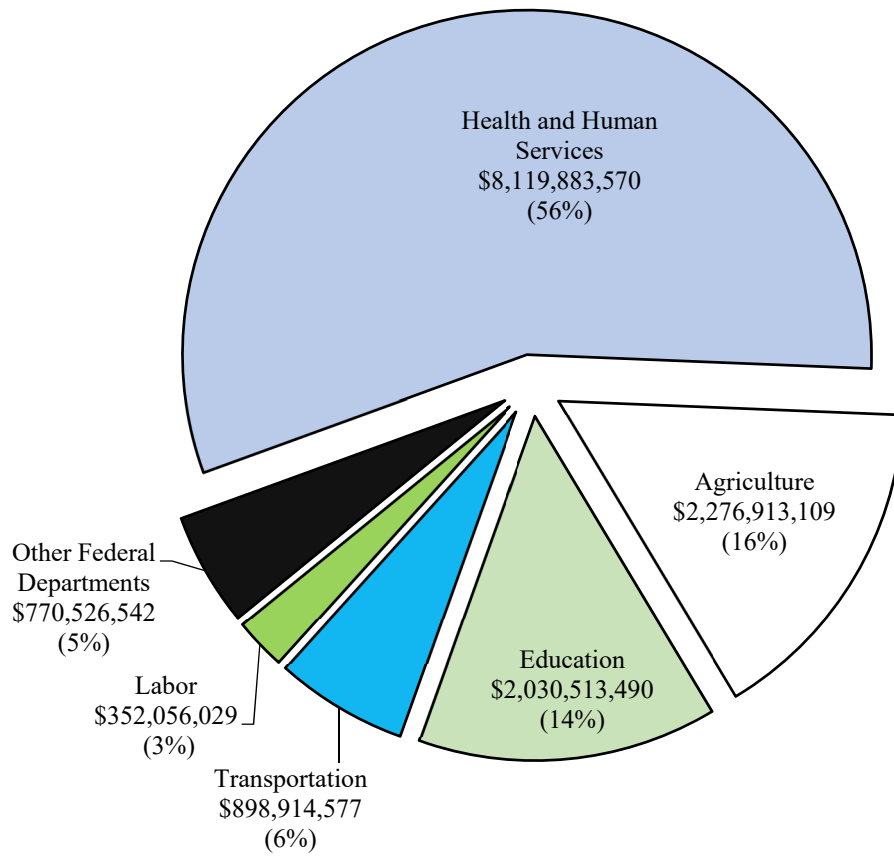
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

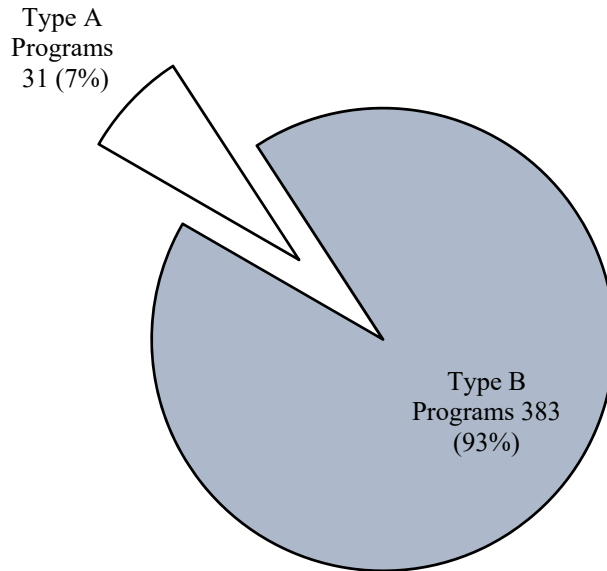
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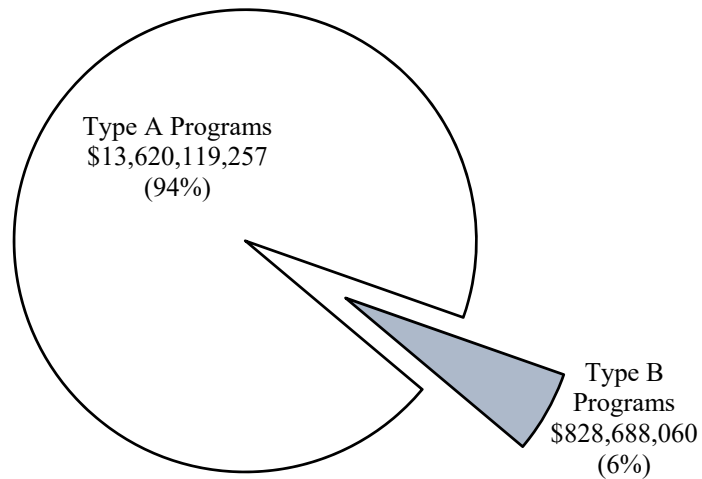
Expenditures by Awarding Agency July 1, 2017, through June 30, 2018



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, 2018, 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 Lee, 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, 2018, 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, 2018. 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.

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

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. We consider the deficiency described in finding 2018-002 in the accompanying schedule of findings and questioned costs to be a material weakness.

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. We consider the deficiency described in finding 2018-001 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters


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

The State of Tennessee's Responses to Findings

The State of Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State of Tennessee's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

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



Deborah V. Loveless, CPA, Director
Division of State Audit
December 21, 2018



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

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 Lee, 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, 2018. 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, CFDA 84.126 Rehabilitation Services – Vocational Rehabilitation Grants to States, 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
2018-016	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
2018-023	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	Matching, Level of Effort, Earmarking
2018-026	-	Child Care and Development Fund Cluster	Allowable Costs/Cost Principles

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

Qualified Opinion on CFDA 10.558 Child and Adult Care Food Program, CFDA 84.126 Rehabilitation Services – Vocational Rehabilitation Grants to States, 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, 2018.

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, 2018.

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 2018-003 through 2018-007, 2018-009 through 2018-011, 2018-013, 2018-014, 2018-016 through 2018-022, 2018-024, 2018-025, 2018-027 through 2018-035, 2018-038 through 2018-040, 2018-042, 2018-044, and 2018-045. 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 2018-004 through 2018-007, 2018-015, 2018-016, 2018-018, 2018-023, 2018-024, 2018-026, 2018-035, and 2018-046 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 2018-003, 2018-008 through 2018-017, 2018-019 through 2018-022, 2018-024, 2018-025, 2018-027 through 2018-034, 2018-036, 2018-038 through 2018-041, 2018-043, 2018-044, and 2018-046 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, 2018, 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, 2018, 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 21, 2019

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, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

- We identified material weaknesses in internal control over major programs.
- We identified significant deficiencies in internal control over major programs.
- We issued qualified opinions for CFDA 10.558 Child and Adult Care Food Program, CFDA 84.126 Rehabilitation Services – Vocational Rehabilitation Grants to States, and the Child Care and Development Fund 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, 2018

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

CFDA Number	Name of Major Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
10.558	Child and Adult Care Food Program
12.401	National Guard Military Operations and Maintenance (O&M) Projects
14.228	Community Development Block Grants/State’s program and Non-Entitlement Grants in Hawaii
17.225	Unemployment Insurance
64.015	Veterans State Nursing Home Care
84.010	Title I Grants to Local Educational Agencies
84.048	Career and Technical Education – Basic Grants to States
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)
84.369	Grants for State Assessments and Related Activities
93.658	Foster Care Title IV-E
93.659	Adoption Assistance
93.917	HIV Care Formula Grants
93.994	Maternal and Child Health Services Block Grant to the States
-	Research and Development Cluster
-	Supplemental Nutrition Assistance Program (SNAP) Cluster
-	Child Nutrition Cluster
-	Workforce Innovation and Opportunity Act Cluster
-	Highway Planning and Construction Cluster
-	Special Education 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, 2018**

Section II – Financial Statement Findings

Finding Number	2018-001
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration
Federal Award	
Identification Number	N/A
Federal Award Year	N/A
Finding Type	Significant Deficiency
Compliance Requirement	N/A
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Division of Benefits Administration did not have adequate controls to ensure the accuracy of census data for postemployment benefits

Condition, Cause, and Effect

The Department of Finance and Administration, Division of Benefits Administration, did not have adequate controls related to the accumulation of census data used in the measurement of the other postemployment benefits (OPEB) liability of employers participating in the State Employee Group OPEB Plan, the Local Government Group OPEB Plan, the Teacher Group OPEB Plan, or the Tennessee Plan. The census data, or demographic data of plan members, considered significant by the actuary in calculating the OPEB liability includes member status (such as active, inactive, retired), service credits, gender, and date of birth. Our initial review of the census data files provided to the actuary by the Division of Benefits Administration revealed unacceptably high error rates in member status and service credits. We found problems with 16 of 60 active members (27%) and 8 of 60 retired members (14%) in this initial review.

The high error rate in the initial census data submission to the actuary occurred because the Division of Benefits Administration used the census data for pensions maintained by the Tennessee Consolidated Retirement System (TCRS) without ensuring the data was suitable for its purposes. In some cases, the data was not suitable because there are differences in the statutory provisions of the OPEB plans and the pension plans. TCRS plan provisions allow for the combining of service credits from different employers participating in the pension plans; however, OPEB plan provisions do not allow for the combining of service credits earned from employers of the different plans.

After sharing the results of our initial review with the division, management asked TCRS to provide revised data to reflect service credits earned with the current or most recent employer.

After these changes were made, the division submitted the revised data to the actuary. We then tested the revised census data. We selected a sample of 60 active members from a population of 56,097 members in the State Employee Group OPEB Plan and the Tennessee Plan. We also selected a sample of 60 retired members from a population of 50,903 members in the State Employee Group OPEB Plan, the Local Government Group OPEB Plan, the Teacher Group OPEB Plan, and the Tennessee Plan.

We found that for 9 of the 60 active members (15%) tested, the earned service credits or the members' status was not accurate.

- The service credits for four state employees included those earned while working at a local government prior to state employment; plan provisions prohibit combining local government credits with state credits because the two entities are in separate plans.
- The service credits for one unvested state employee included those earned while working at a local education agency; plan provisions allow combining local education agency credits for teachers with state credits only after the state employee is vested in the state plan using state service credits only.
- The service credits reported for one employee in Department of Treasury's optional retirement plan did not match those reported by TCRS in its tracking system.
- One state employee was incorrectly shown as being eligible for OPEB, even though the employee's prior pension contributions were refunded to the employee when he previously left employment from a local school district. Plan provisions state that when a terminating employee receives a refund of pension contributions, the terminating employee forfeits any service credits earned. In addition, the employee's rehire date was after the date the plans closed to new membership; however, the file indicated the person was eligible because the original hire date was included on the file submitted to the actuary.
- The service credits for one employee were not reported by the employing component unit during the year; thus, the credits were understated on the file submitted to the actuary.
- One employee listed as active on the actuary file had terminated employment six months prior to the measurement date and was no longer eligible for continued coverage. However, because the employing component unit did not report the employee's termination to the plan administrator until after the measurement date, the service credits for the employee were overstated, and the employee was incorrectly listed as active.

We found that for 3 of the 60 retired members (5%) tested, the earned service credits reported to the actuary were not accurate.

- The service credits for one retired state employee included those earned while working at a local government prior to state employment; plan provisions prohibit combining local government credits with state credits because the two entities are in separate plans.

- One retiree was reported as being the surviving spouse of a retiree, which would indicate the retiree was not eligible for a subsidy for the Tennessee Plan; however, the retiree is eligible to receive a subsidy of \$25 per month.
- The service credits reported for one retiree were the unvested credits of an active employee who was previously the dependent of the retiree. The retiree had waived coverage for himself, but the spouse was receiving coverage. This error resulted in the actuary assuming the retiree and spouse were not eligible for coverage; however, the spouse was eligible for an 80% subsidy in the State Employee Group OPEB Plan.

Because some errors did not cause a misstatement of the liability, some caused an overstatement, and other errors caused an understatement, the overall risk of material misstatement of the liability is low. In addition, the actuary uses probability tables to estimate the subsidy level for which active employees will be eligible, if any, upon retirement.

We also noted that management did not have a documented understanding with the actuary as to how the actuary should handle conflicting information within the census data. Examples of conflicting information included 2,530 of 154,266 active employees who also had a date of retirement; 404 active employees who also had a date of death; and 2,266 of 50,904 retirees listed as eligible for coverage who did not have the minimum number of service credits to be eligible for coverage under any plan other than the Tennessee Plan unless the member was on disability. We also noted many active and retired members who were also listed as beneficiaries of other TCRS members.

In the annual risk assessment, management included the risk of the liability not being properly reported, but did not indicate the risk that the census data may not be accurate. The risk assessment also did not consider the possibility that the actuary could incorrectly interpret census data fields when calculating the liability.

Criteria

The recently effective accounting standard, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASBS 75), requires employers participating in OPEB plans to report an OPEB liability in the financial statements of the participating employers. The calculation of the OPEB liability is dependent on the completeness and accuracy of the underlying census data of the members of the plan.

Plan management is responsible for the design, implementation, and maintenance of internal control related to the accuracy of members' census data. An adequate system of internal control related to the OPEB liability calculation should include procedures to review census data for compliance with plan provisions prior to submitting the data to the plan actuary, as well as a documented understanding with the actuary of how to account for conflicting elements of the census data.

Section 9-18-102, *Tennessee Code Annotated*, states:

- (a) Each agency of state government and institution of higher education shall establish and maintain internal controls, which shall provide reasonable assurance that:
 - (1) Obligations and costs are in compliance with applicable law; . . . and
 - (3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

Recommendation

Management should ensure procedures are implemented to review the census data for compliance with current plan provisions prior to submitting the data to the plan actuary. Management should document an understanding with the actuary concerning how to account for conflicting census data elements.

Management's Comment

We concur. While the overall risk of material misstatement of the OPEB liability is low, Benefits Administration is committed to providing the most accurate OPEB census data possible to the plan actuaries. Benefits Administration management is in the process of implementing procedures to review the census data for compliance with current plan provisions prior to submitting the data to the plan actuary. Benefits Administration management is also in the process of creating a document concerning how to account for conflicting census data elements for use by the plan actuary. Both of these modifications to the control process will be in place prior to the submission of the fiscal year 2019 OPEB census file to the plan actuary, currently anticipated by the end of December 2018. In addition, Benefits Administration has included the two areas above in its divisional risk assessment.

Finding Number	2018-002
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration
Federal Award Identification	
Number	N/A
Federal Award Year	N/A
Finding Type	Material Weakness
Compliance Requirement	N/A
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Finance and Administration did not provide adequate internal controls in one area that could have affected state operations

The Department of Finance and Administration did not design and monitor effective internal controls that were related to critical business processes affecting multiple state systems. This condition was in violation of state policies and industry-accepted best practices. Department management implemented updated internal controls during the audit period to correct this condition.

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 condition we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should monitor the controls they implemented to correct this condition and, if the controls are not effective, promptly develop and implement additional controls. Management should also assign staff to be responsible for ongoing monitoring of the risks and mitigating controls related to this condition and take action if deficiencies occur. Furthermore, management should ensure that the condition associated with this finding is adequately identified and assessed in the department's documented risk assessment.

Management's Comment

We concur. F&A management has taken steps to fully remediate the condition identified and will continue to perform ongoing monitoring to ensure prompt notification and remediation of any issues that may arise. F&A's risk assessment documentation will be updated to reflect an assessment of the condition related to this finding.

**State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

Section III – Federal Award Findings and Questioned Costs

Finding Number	2018-003
CFDA Number	14.228
Program Name	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Federal Agency	Department of Housing and Urban Development
State Agency	Department of Economic and Community Development
Federal Award Identification Number	B-15-DC-47-0001, B16DC470001
Federal Award Year	2015 and 2016
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Procurement and Suspension and Debarment Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The department did not monitor housing rehabilitation grant contractors for suspension and debarment status

Background

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

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

The grants provide funds for various types of projects, including housing rehabilitation, emergency equipment purchases, water and sewer lines and systems, and commercial facade upgrades. For each type of project, the department is responsible for administering grant awards to subrecipients. Each subrecipient receiving a grant award is responsible for procuring the necessary trades to complete the project via contracts.

As the pass-through entity, the department is responsible for overseeing and monitoring the subrecipients to ensure compliance with federal regulations. According to federal requirements,

the department is required to ensure that the subrecipient and the subrecipients' contractor(s) are not suspended or debarred from participating in federally funded projects.

Condition and Cause

We tested a random nonstatistical sample of 25 subrecipients from the total population of 74 CDBG 2018 grant subrecipients. We found that the department did not monitor subrecipients or reperform checks for 3 of 25 subrecipients' contractors (12%) to ensure compliance with suspension and debarment requirements. All three subrecipient grants were for housing rehabilitation. The Federal Program Director stated that historically, the department has not checked suspension and debarment status for housing rehabilitation contractors. Housing rehabilitation projects are exempt from certain federal requirements, such as the Davis-Bacon Wage Act, and the department mistakenly understood that monitoring subrecipients for compliance with suspension and debarment requirements was one of these exemptions. From our review, we verified that all three contractors were not suspended or debarred from federal projects.

Criteria

Title 2, *Code of Federal Regulations*, Part 200, prohibits non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR 180.220. All non-procurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR 180.215.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity, as defined in 2 CFR 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction.

Effect

Failure to check contractors for suspension and debarment information increases the risk that an unscrupulous contractor will receive a federal award, resulting in potential fraud, waste, or abuse. Furthermore, the department's noncompliance with suspension and debarment requirements could result in the federal grantor, Housing and Urban Development, requesting the return of the grant award.

Recommendation

The Federal Program Director should revise the department's subrecipient monitoring process to include activities to ensure that the department's subrecipients and related contractors have not been suspended or debarred from participating in the grant award.

Management's Comment

We concur with the finding. The finding correctly states that 3 of the 25 (12%) of the samples tested were not in compliance. It is important to note that all three omissions of debarment reviews related to Housing Rehabilitation contracts. The overall CDBG program consists of several projects; Housing Rehabilitation is only one project segment of the CDBG program.

Additionally, the average percentage of housing rehabilitation out of all CDBG grants contracts awarded annually for the past 8 years has been 4.2%. Only 5 of the 74 (6.7%) grant contracts included in the tested population were housing rehabilitation grants.

The CDBG program has adjusted our processes to ensure that reviews of debarment and suspension documentation is included in all housing rehabilitation grant monitoring going forward as it has been with other project types.

During November 2018, we reviewed the debarment status on SAM.gov of the awarded bidders for the projects in question. We also received the signed forms from the grantees confirming each awarded bidder was in compliance. We then checked the debarment status of all housing grantee contractors that are currently open. All awarded contractors were in compliance.

Finding Number	2018-004
CFDA Number	14.228
Program Name	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Federal Agency	Department of Housing and Urban Development
State Agency	Department of Economic and Community Development
Federal Award Identification Number	B-17-DC-47-0001
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

Management has not established proper controls over its report preparation process, and reported inaccurate information to its federal grantor

Background

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

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

The CDBG grants provide funds for various types of projects, including housing rehabilitation, purchase of emergency equipment, construction/repair of water and sewer lines and systems, and commercial facade upgrades. HUD requires the department to prepare and submit the HUD 60002 Report, *Economic Opportunities for Low- and Very Low-Income Persons* annually to report the uses of the federal funding. The department receives information for the HUD report from the approximately 108 grantees Section 3 Summary Reports from each grantee and enters the data into the department's Customer Relationship Management (CRM) system. A Grants Analyst uses the information that is retrieved from the system to prepare three reports: CDBG Regular, CDBG Disaster, and CDBG Combined (CDBG Regular and CDBG Disaster). According to the Director

of CDBG he reviews the reports and submits them to the Tennessee Housing and Development Agency (THDA);¹ THDA then submits² the final report to HUD on behalf of the department.

We reviewed all three HUD reports (CDBG Regular, CDBG Disaster, and CDBG Combined) that the Grants Analyst submitted to THDA during fiscal year 2018 to determine whether the key line items were reported properly. To ensure the department compiled and prepared the data accurately, we traced the data in the HUD reports to the data in the Section 3 reports the grantees submitted.

Condition and Cause

In order to verify that the information reported was accurate and reliable, we reperformed the calculations for the three reports by obtaining the grantee summary information that the grantees submitted to the department. We found that the department did not properly report the information grantees had submitted resulting in materially misstated amounts on key line items for two of the three HUD reports. Specifically, we found that the department misreported the following (see **Table 1**, **Table 2**, and **Table 3**):

**HUD Annual Reports for Fiscal Year 2018
Net Amounts Reported in Error**

Table 1 - CDBG Regular Report Variances			
Key Line Item	Amount on Report	Actual Amount	Difference
b. Total dollar amount of construction contracts awarded during the period	\$28,189,055	\$28,120,942	\$68,113
e. Total dollar amount of non-construction contracts awarded during the reporting period	\$7,878,261	\$7,919,377	(41,116)

Table 2 – CDBG Disaster Report Variances			
Key Line Item	Amount on Report	Actual Amount	Difference
b. Total dollar amount of construction contracts awarded during the period	\$37,715,711	\$35,459,617	\$2,256,094
e. Total dollar amount of non-construction contracts awarded during the reporting period	\$6,424,229	\$6,265,729	\$158,500

¹ Tennessee Housing Development Authority has the state's only access to the HUD system; therefore, THDA submits all reports on behalf of the department.

² The report is due 90 days after the fiscal year ending date.

Table 3 - CDBG Combined Report Variances (Combination of Tables 1 and 2 above)			
Key Line Item	Amount on Report	Actual Amount	Difference
b. Total dollar amount of construction contracts awarded during the period	\$65,904,766	\$63,580,559	\$2,324,207
e. Total dollar amount of non-construction contracts awarded during the reporting period	\$14,302,491	\$14,185,107	\$117,384
f. Dollar amount of non-construction contracts awarded to Section 3 businesses during the reporting period	\$80,000	\$8,000	\$72,000

According to the Director of CDBG, the department has not developed formal written procedures governing the preparation processes for its HUD reports. Additionally, while the Director stated a review of the reports is performed, he does not document his review; therefore, we could not verify whether the Director's review was adequate or complete.

The Director stated that these errors were from the Grants Analyst making transposition and typographical errors when entering grantee information into the system. The Director indicated that no additional measures to ensure accuracy are performed on the information after the Grant Analyst enters the information into the Customer Relationship Management system.

Given the problems identified during our fieldwork, we also reviewed the department's December 2017 Financial Integrity Act Risk Assessment and determined that management's risk assessment did not identify the risks of inaccurate federal financial reports in its annual risk assessment.

Criteria

The "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.

Also, according to the *Government Accountability Office's Standards for Internal Control in the Federal Government*, Principle 10.03, "Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system."

Effect

Because the department is required to report annual accomplishments regarding employment and other economic opportunities provided to low- and very low-income persons under Section 3 of the Housing and Urban Development Act of 1968, it is important for the department to accurately prepare and submit the reports. Without accurate data, HUD is unable to effectively monitor and analyze the key critical information about the beneficiaries of the program.

Additionally, department management may also unknowingly rely on incorrect data maintained in the Customer Relationship Management system when making decisions.

Recommendation

The Commissioner should ensure that management immediately establishes written procedures for its federal report processes to ensure reports are accurately prepared and appropriately reviewed before submission. Furthermore, the Director should determine if corrected HUD 60002 reports to the federal agency are required.

The Commissioner should assess all significant risks, including the risks noted in this finding, in the department's documented risk assessment. In addition, the Commissioner should adequately document and approve risk assessment and the mitigating controls. 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

We concur with this finding. Written procedures are being developed and will be implemented with the next submission of the HUD 60002 Report. We will also confirm with THDA, as the agency who submits the report to HUD, whether revised reports are needed. The CDBG Director reports that a review of the information is completed although oversights from a handful of rounding errors and transposed numbers ultimately resulted in these discrepancies. It should be noted that the purpose of the HUD 60002 report is to track the number of low-income hires on construction projects, so the errors did not impact the intent of the report.

Finding Number	2018-005
CFDA Number	84.010, 84.027, 84.173, 84.048, and 84.367
Program Name	Title I Grants to Local Educational Agencies Special Education Cluster Career and Technical Education – Basic Grants to States Supporting Effective Instruction State Grants
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award Identification Number	S010A150042, S010A170042, H027A150052, H027A170052, H173A150095, H173A170095, V048A150042, V048A170042, S367A150040, and S367A170040
Federal Award Year	2015 and 2018
Finding Type	Material Weakness (84.010, 84.027, 84.173, 84.048, and 84.367) and Noncompliance (84.048)
Compliance Requirement	Period of Performance
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$2,634 (84.048)

Department of Education management did not have a key internal control in place to prevent or detect when local educational agencies spend grant funds before or after the allowable period of performance, increasing the risk of reporting expenditures to the wrong grant award

Background

Federal funding for the Department of Education’s federal programs is only available to the department and its subrecipients for a limited time (a grant’s period of performance). For U.S. Department of Education programs, the department has 15 months to charge expenditures to each grant award; however, these programs are also covered by the Tydings Amendment (Title 20, *United States Code*, Chapter 31, Section 1225[b]), which extends the period of performance 12 additional months, for a total of 27 months.

Department’s Reimbursement Process

The department awards federal funds to subrecipients, including local educational agencies (LEAs), and then reimburses the subrecipients for their expenditures. The subrecipients use ePlan, the department’s grants management system, to submit reimbursement requests to the department. Because subrecipients request federal funds on a reimbursement basis, it is important that the department ensure that the expenditures were incurred within the grant’s period of performance. For example, if a grant begins on July 1, 2017, the subrecipient may submit a reimbursement request on July 15, 2017; however, the request may contain underlying expenditures that were incurred prior to July 1.

Additionally, if a grant ends on September 30, 2017, federal regulations allow for a three-month period of liquidation of expenditures after the grant’s end date. If an expenditure was incurred

before September 30, the subrecipient has until December 31 to request reimbursement against that particular grant. As a result, it is important that the department determine that subrecipient expenditures requested during the liquidation period, September 30 through December 31, were incurred (and thus properly obligated) before September 30.

Condition and Cause

Based on discussions with department management, staff did not review supporting documentation from LEAs before charging the grant or after the fact as part of their subrecipient monitoring—a key internal control—to ensure the expenditures the department staff reimbursed to LEAs occurred within the proper period of performance. It is critical for department staff to review LEA support for reimbursements paid at both the beginning and the end of a grant because these reimbursements are at high risk for noncompliance. This review can be achieved before charges are made to the grant awards or through the subrecipient monitoring process; however, we found that management’s process did not include an effective review before charges were made to the grants or during the monitoring visits. See **Table 1** and **Table 2** for grant information and the total high-risk reimbursements for beginning and ending grants.

Table 1
High-risk Reimbursements for Federal Education Grants Beginning in Fiscal Year 2018

Program	Award Number	Beginning Date	Ending Date	Liquidation Date	1st Quarter³ Reimbursement Amount
Title I ⁴	S010A170042	7/1/2017	9/30/2019	12/31/2019	\$5,489,244
IDEA, Part B ⁵	H027A170052	7/1/2017	9/30/2019	12/31/2019	\$7,487,971
IDEA Preschool	H173A170095	7/1/2017	9/30/2019	12/31/2019	\$ 443,250
CTE ⁶	V048A170042	7/1/2017	9/30/2019	12/31/2019	\$1,617,238
SEI ⁷	S367A170040	7/1/2017	9/30/2019	12/31/2019	\$940,393

Source: Applicable grant award letters and Edison, the state's accounting system.

Table 2
High-Risk Reimbursements for Federal Education Grants Ending in Fiscal Year 2018

Program	Award Number	Beginning Date	Ending Date	Liquidation Date	Liquidation Reimbursements⁸
Title I	S010A150042	7/1/2015	9/30/2017	12/31/2017	\$2,708,462
IDEA, Part B	H027A150052	7/1/2015	9/30/2017	12/31/2017	\$4,998,666
IDEA Preschool	H173A150095	7/1/2015	9/30/2017	12/31/2017	\$ 217,799
CTE	V048A150042	7/1/2015	9/30/2017	12/31/2017	\$ 30,070
SEI	S367A150040	7/1/2015	9/30/2017	12/31/2017	\$ 967,410

Source: Applicable grant award letters and Edison, the state's accounting system.

³ In our regular audit procedures to determine compliance with period of performance requirements, we review expenditures paid during the beginning of the period of performance, which we define as the first quarter after the grant start date, and verify that the costs were not incurred prior to the start of the period of performance, unless authorized by the U.S. Department of Education or, for LEAs, the Tennessee Department of Education.

⁴ Title I Grants to Local Educational Agencies (Title I) is a federal program to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

⁵ Pursuant to the federal Individuals with Disabilities Education Act (IDEA), Special Education Cluster grants ensure that all children with disabilities are provided a free, appropriate public education that emphasizes special education and related services designed to meet their unique needs; ensure that the rights of children with disabilities and their parents or guardians are protected; assist states, localities, educational service agencies, and federal agencies to provide for the education of all children with disabilities; and assess and ensure the effectiveness of efforts to educate children with disabilities.

⁶ The Career and Technical Education – Basic Grants to States (CTE) is a federal program for states and outlying areas to develop the career, technical, and academic skills of secondary and postsecondary students.

⁷ Supporting Effective Instruction State Grants (SEI) is a federal program to provide funds to state and local educational agencies to increase student achievement consistent with the state's challenging academic standards; improve the quality and effectiveness of teachers, principals, and other school leaders; increase the number of teachers, principals, and other school leaders who are effective in improving student academic achievement in schools; and provide low-income and minority students greater access to effective teachers, principals, and other school leaders.

⁸ Liquidation reimbursements are expenditures that occurred during the grant liquidation period, September 30 through December 31. We also included any expenditures or adjustments made for the remainder of the fiscal year.

Prior Audit Findings and Corrective Action

In the 2015 and 2016 *Single Audit Reports*, we reported findings for expenditures occurring outside of the period of performance. As a part of the department's corrective action in 2016, the department stated that for reimbursement requests drawing against a grant that had ended, "the Office of Local Finance [would conduct] additional follow-ups with the sub-recipient to collect documentation and clarification on when expenses were formally obligated." While the Office of Local Finance did appear to seek clarification from subrecipients, we determined that it did not collect or review documentation to determine if expenditures occurred (were properly obligated) within the period of performance. Although these findings and corrective actions applied to CTE and another U.S. Department of Education program,⁹ department management should have applied these procedures to all its federal programs because management uses the same process for most of them.

Department's Process – Ending Grants

According to the Executive Director of Local Finance, between October 1 and December 31 of each year, the department reviews all LEA reimbursement requests to determine if the reimbursement request is charged to a grant that ended on September 30 of that year. If so, the Director of Local Disbursements emails the LEA to ask if the reimbursement request contains any expenditures that were incurred after September 30.¹⁰ If the LEA states that there are expenditures incurred after September 30, the department sends the reimbursement request back to the LEA to remove those expenditures. If the LEA states that the reimbursement request contains no expenditures that incurred after September 30, the department approves the request and processes it for payment.

The Executive Director of Local Finance stated that some LEAs send supporting documentation when they respond to the department's email; however, the department does not require nor does it have a formal review process for the supporting documentation. Since the department does not require districts to submit documentation for these questionable expenditures or perform any type of formal review to determine if expenditures were obligated within the period of performance, the department does not have a key internal control in place to ensure that the expenditures comply with period of performance requirements for grants that have ended.

Department's Process – Beginning Grants

The Executive Director of Local Finance stated that the department does not make new grants available to LEAs in ePlan until the grant's start date. She stated that as a result, an LEA would not have access to and, therefore, the ability to request reimbursement from the new grant until the period of performance began. While this is correct, the department does not have an expenditure review process before paying reimbursements to an LEA—a key control; therefore, the department

⁹ The other U.S. Department of Education program was the Twenty-First Century Community Learning Centers program, which we did not audit for fiscal year 2018.

¹⁰ While expenditures must be incurred by September 30, LEAs have an additional 90 days to be reimbursed for the expenditures.

would not know if the underlying expenditures that make up the request for reimbursement were incurred prior to the start of the grant's period of performance.

Additionally, the Executive Director of Local Finance stated that during the department's fiscal monitoring, fiscal monitors review LEA expenditures for compliance with period of performance requirements, including if expenditures occurred before the grant start date. However, the department only monitors a small percentage of LEAs each year, based on risk factors, and many LEAs go several years without any monitoring. Additionally, as noted in Finding 2018-007, the department was unable to provide any documentation gathered during subrecipient monitoring of expenditures reviewed for compliance with period of performance requirements.

Testwork Results

We performed multi-purpose testwork on the department's expenditures charged to federal programs to determine their compliance with activities allowed or unallowed and allowable costs/cost principles. As part of this testwork, we also reviewed the expenditures to ensure they occurred within the period of performance of the specific federal grant award charged. We found that the department did not comply with period of performance requirements for the Career and Technical Education program. Specifically, the department reimbursed Robertson County from award V048A170042 for travel that partially occurred prior to July 1, 2017, the grant's start date, resulting in known questioned costs of \$2,634. Our expenditure sample contained \$4,125 in reimbursements to subrecipients from award V048A170042; therefore, when we projected this error to the population of grant expenditures paid for the first quarter of the year from award V048A170042, \$962,331, we found that likely questioned costs exceeded \$25,000.

Without an effective key control in place, the department could not demonstrate its process to ensure compliance with period of performance requirements. As a result of this and the noncompliance we found in the testwork noted, we did not perform additional procedures to specifically test compliance with

- expenditures charged in the first quarter of beginning grants, or
- expenditures charged during the liquidation period of ending grants.

Cause

Department management did not require LEAs to submit documentation in order for Office of Local Finance staff to verify that the expenditures occurred within the period of performance. When we discussed this issue with Office of Local Finance staff, they believed that the LEAs' email verification that the expenditures complied with period of performance requirements was an adequate internal control and provided the necessary assurance that expenditures occurred within the period of performance. Also, as noted in Finding 2018-006 regarding the specific period of performance requirements for Title I carryover and Finding 2018-007 regarding LEAs' unallowable expenditures, the department's lack of review of LEA expenditures impacts many areas of federal compliance. Furthermore, as noted in Finding 2018-007, department monitoring staff did not have sufficient documentation of their review of subrecipients' compliance with period of performance requirements, including Title I carryover requirements or subrecipient

expenditure requirements, such as allowable costs, to demonstrate that their subrecipient monitoring efforts are adequate to detect noncompliance.

Criteria

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

Also, according to the U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government*, Principle 10.03, “Management designs appropriate types of control activities for the entity’s internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system.”

Risk Assessment

In the department’s 2018 annual risk assessment, management addressed the risk that federal funds would not be expended within timeframes specified in the federal award at the subrecipient level. Management identified a number of control activities for different program areas, including

- Career and Technical Education
 - Procedures to appropriately monitor and document all grant and subgrant activities.
 - Grant manager assigned to each grant.
- Title I and Supporting Effective Instruction
 - Maintain a library of resources within ePlan for stakeholders and TDOE [Tennessee Department of Education] staff to use, including on allowable uses.

- Regular technical assistance trainings on internal controls and program rules.
- Annual risk-based monitoring for both programmatic and fiscal requirements.

However, we did not believe these control activities were adequate to ensure compliance as they do not determine if expenditures were obligated in the proper period.

Additionally, for special education, management did not identify risks of noncompliance with period of performance requirements or any related control activities.

Effect

When the department does not have proper internal controls in place to determine when subrecipients expended (obligated) funds and to ensure that subrecipient reimbursements are charged to the appropriate grant award, the department increases the risk that funds will be expended outside of the period of performance. The lack of mitigating controls increases the risk of noncompliance with the federal program requirements and may require the state to return these funds to the U.S. Department of Education.

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 corrective action 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

Management should develop adequate control procedures to ensure that reimbursements made to subrecipients before and after the grant award's period of performance are for obligations that occurred within the period of performance. Additionally, management should update the department's annual risk assessment to reflect any new controls the department adds to the process for expending federal funds within the timeframes specified in the federal award.

Management's Comment

We concur. The department will review, update, and disseminate its written procedures for reviewing reimbursement requests at the beginning and end of the period of performance. Reviews will be performed to determine the period covered by the request and to see if it falls within the period of availability of the grant funds. Documentation will be requested from LEAs if necessary to determine the period of the request, and stored in the department's grant system. Periodic formal and informal fiscal monitorings will also review the period of performance requirements.

Finding Number	2018-006
CFDA Number	84.010
Program Name	Title I Grants to Local Educational Agencies
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award	
Identification Number	S010A160042
Federal Award Year	2016
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Period of Performance
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	\$23,755

The Department of Education did not have an effective key internal control in place to ensure local educational agencies (LEAs) met Title I carryover requirements; as a result, 2 LEAs inappropriately carried over excess funds, totaling \$23,755, beyond the initial 15 months of availability

Background

Federal program funding is only available to the Tennessee Department of Education and its subrecipients (such as local educational agencies) for a limited time (a grant's period of performance). For U.S. Department of Education programs, such as the Title I Grants to Local Educational Agencies program (Title I), the department has 15 months to charge expenditures to each grant award; however, these programs are also covered by the Tydings Amendment (Title 20, *United States Code* [USC], Chapter 31, Section 1225[b]), which extends the period of performance 12 additional months, for a total of 27 months.

The department must also comply with Title I's grant-specific requirements for period of performance, and these requirements involve funding to local educational agencies (LEAs). Pursuant to Section 1127 of the federal Elementary and Secondary Education Act (20 USC 6339), an LEA that receives \$50,000 or more in Title I funds may not carry over more than 15% of its Title I funds from the initial 15 months of funding availability to the remaining 12 months covered by the Tydings Amendment. As a result, each LEA must expend at least 85% of each grant award during the initial 15 months. If the LEA meets this 85% (or more) spending requirement, it may carry forward up to 15% of the awarded funds to spend in the remaining 12-month period.

In addition, the department may grant a waiver to an LEA that allows the LEA to carry over more than 15% once every 3 years if the LEA's request is reasonable and necessary, or if Congress makes additional Title I funds available to states during the grant period. To determine the department's compliance with carryover requirements, we reviewed LEA expenditures charged to grant award S010A160042, which had an initial 15-month availability period of July 1, 2016, to September 30, 2017.

Department's Procedures to Calculate Carryover

The department awards federal funds to subrecipients, including LEAs,¹¹ and then reimburses the subrecipients for their expenditures. The subrecipients use ePlan, the department's grants management system, to submit reimbursement requests to the department for payment.

According to the Executive Director of Local Finance, to determine which LEAs expended 85% of the current year award, management extracts the LEAs' reimbursements from ePlan and performs the following activities and calculation. She stated that approximately every two weeks from July 1 to December 31, the department's Fiscal Director runs an expenditure report in ePlan and reviews the total amount reimbursed to each LEA from the specific Title I grant, as of the report generation date. The Fiscal Director enters the total reimbursement amount for each LEA in a spreadsheet (the key control) that calculates the percentage of the Title I allocation each LEA has spent to date to determine the amount that the LEA would need to spend to reach 85% of the award amount, if it has not already met the requirement. For those LEAs that have yet to meet the 85% threshold, the Fiscal Director monitors the LEAs and communicates with them to ensure they spend the appropriate amount.

Condition and Cause

Based on our review, we determined that the department did not properly determine the amounts that LEAs spent using Title I funds—intended as the key internal control—rendering the key control ineffective to ensure the department complied with Title I carryover requirements. As a result, we found that 2 of 145 LEAs inappropriately carried over excess funds, totaling \$23,755 in federal questioned costs.

Testwork Results

We tested the population of 145 LEAs that received Title I funds and identified 2 LEAs that did not expend 85% of their awards in the required timeframe; only 1 LEA, however, was eligible to, but did not, submit a waiver to the department for approval.¹² When we discussed this issue with the Executive Director of Local Finance, she was not aware that these LEAs had not met the 85% expenditure requirement; therefore, these LEAs were allowed to carry over the excess funds to the remaining 12 months of the grant. One LEA inappropriately carried over \$11,688. Once we made management aware of this issue, the Executive Director of Local Finance stated that the department would reduce the LEA's fiscal year 2019 grant by the excess amount. We subsequently verified that management made the appropriate grant reduction.

For the second LEA, the Executive Director of Local Finance stated that a fiscal consultant reviewed this LEA's expenditures after we made her aware of this issue. The fiscal consultant determined that although the LEA submitted 5 expenditures for reimbursement after the 15-month window, the LEA incurred these expenditures during the 15-month window; therefore, the

¹¹ One of the two LEAs reported as a condition is a state special school, which is an organizational unit of the department; however, it operates like an LEA.

¹² One of the LEAs was not eligible because the department had approved a waiver for that LEA within the last three years.

expenditures should have been included in the 85% threshold calculation. Based on our review of the fiscal consultant's work, we found that

- 2 of the 5 expenditures were already included in the calculation, and
- the remaining 3 expenditures should have been included in the calculation.

We recalculated the LEA's threshold by including the excluded expenditures and found that the LEA still did not meet the 85% threshold, resulting in \$12,067 in federal questioned costs.

Analysis of Internal Control Effectiveness

While researching testwork errors, we found that the department's procedures to ensure compliance over Title I carryover requirements were not effective. Specifically, we determined that the ePlan expenditure report used to calculate the carryover threshold only includes the amounts the department reimbursed to LEAs. The calculation should include expenditures incurred by the LEA, regardless of whether the LEA had requested reimbursement for those from the department. In some cases, an LEA could incur expenditures but would request reimbursement after September 30; therefore, these expenditures would not appear on the ePlan expenditure report that the department generated on or about September 30, the close of the federal fiscal year and the initial 15-month period.

Although the department partially mitigates this issue by continuing to run the ePlan expenditure report through December 31, this mitigating control could lead to other issues. For example, an LEA could incur expenditures after September 30 and request reimbursement for these expenditures in ePlan before December 31. Based on the department's current procedures, management could incorrectly include these ineligible expenditures in their 85% calculation, since the department's report includes the amounts reimbursed to LEAs through December 31.

Because of these limitations, we found the department's ePlan report was not properly designed to capture the correct expenditure amounts needed for the 85% carryover threshold calculation. In summary, we found that not only did the ePlan report process not capture all eligible expenditure transactions, but it also included some ineligible expenditures transactions, rendering the process ineffective.

As a result of our testwork and subsequent follow-up, without an effective key control in place, neither the department nor we could determine the department's compliance with this requirement. As such, we did not expand our follow-up procedures to determine if any additional LEAs failed to comply with Title I's carryover requirements. Also, as noted in Finding 2018-005 regarding period of performance requirements for federal programs and Finding 2018-007 regarding LEAs' unallowable expenditures, the department's lack of review of LEA expenditures impacts many areas of federal compliance. Furthermore, as noted in Finding 2018-007, department monitoring staff did not have sufficient documentation of their review of subrecipients' compliance with period of performance requirements, including Title I carryover requirements or subrecipient expenditure requirements, such as allowable costs, to demonstrate that their subrecipient monitoring efforts are adequate to detect noncompliance.

Criteria

According to the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, Principle 10.03, "Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system."

According to Title 20, *United States Code*, Chapter 6339, "(a) . . . not more than 15 percent of the funds allocated to a local educational agency for any fiscal year under this subpart . . . may remain available for obligation by such agency for one additional fiscal year. (b) A State educational agency may, once every 3 years, waive the percentage limitation in subsection (a) of this section if -- (1) the agency determines that the request of a local educational agency is reasonable and necessary; or (2) supplemental appropriations for this subsection become available."

Risk Assessment

In the department's 2017 annual risk assessment, management did not identify a risk relating to compliance with Title I carryover requirements.

Effect

As evidenced by our control and compliance tests, when the department does not have proper internal controls in place to determine when LEAs expended funds, the department cannot prevent or detect subrecipients that have expended funds beyond the initial 15 months of the grant period, thus impacting the eligibility to carry forward award funds. Noncompliance with the federal program requirements may require the state to return funds that were improperly carried over to the U.S. Department of Education.

Furthermore, the objective of the Title I program is to improve educational outcomes for children residing in low-income areas who are at risk of not meeting challenging academic standards. Because Title I funds are allocated each year based on the number of qualifying students within an LEA, the carryover requirements exist to ensure that the Title I funds are expended to benefit the students that are currently enrolled and receiving instruction. When LEAs carry over more than 15% of funds beyond the initial 15 months of availability, the benefits of those Title I funds may not go to the intended students.

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

Recommendation

The Commissioner should work with the staff of the Office of Local Finance to develop a process to accurately calculate the amount of Title I funds that LEAs have incurred at the end of the initial 15 months of the grant period. The Commissioner should also ensure that the carryover calculation is performed accurately. Management should update the department's risk assessment to reflect any procedures that it develops or revises.

Management's Comment

We concur. The department will review, update, and disseminate its written procedures for reviewing the amount of Title I funds eligible for carryover. Any LEA that has not met the federal requirements will have their allocation reduced by an amount equal to the excess carryover. Documentation will be maintained in the department's grant system.

Finding Number 2018-007
CFDA Number 84.010, 84.027, 84.173, 84.048, and 84.367
Program Name Title I Grants to Local Educational Agencies
 Special Education Cluster (IDEA)
 Career and Technical Education – Basic Grants to States
 Supporting Effective Instruction State Grants
Federal Agency Department of Education
State Agency Department of Education
Federal Award Identification Number S010A150042, S010A160042, S010A170042, H027A150052, H027A160052, H027A170052, H173A160095, H173A170095, V048A150042, V048A160042, V048A170042, S367A160040, and S367A170040
Federal Award Year 2015 through 2017
Finding Type Material Weakness and Noncompliance
Compliance Requirement Allowable Costs/Cost Principles
 Cash Management
 Subrecipient Monitoring
Repeat Finding N/A
Pass-Through Entity N/A
Questioned Costs

CFDA	Federal Award Identification Number	Amount
84.010	S010A160042	\$74,774
84.010	S010A170042	\$11,362
84.027	H027A160052	\$182,708
84.027	H027A170052	\$54,608
84.048	V048A160042	\$82,404
84.048	V048A170042	\$25,574
84.367	S367A150040	\$19,755
84.367	S367A170040	\$2,361

The department did not have an effective key internal control for reimbursing and monitoring subrecipients for costs charged to four federal education programs; as a result, management reimbursed subrecipients for costs that were unallowable or not adequately supported, resulting in \$453,546 in federal questioned costs

Background

Department's Process for Reimbursing Subrecipients

The Department of Education is the pass-through entity for the following programs administered by the U.S. Department of Education:

- Title I Grants to Local Educational Agencies;¹³
- Special Education Cluster;¹⁴
- Career and Technical Education – Basic Grants to States;¹⁵ and
- Supporting Effective Instruction State Grants.¹⁶

The department awards federal funds to subrecipients, including local educational agencies (LEAs). LEAs incur education related costs, such as teacher salaries and benefits, and submit reimbursement requests to the department, using ePlan, the department's grants management system. ePlan has edit checks that automatically compare an LEA's reimbursement request line items to the LEA's approved budget and reject any amounts exceeding the line items' budget by 10% or more. Additionally, after the LEA submits its reimbursement request, the Director of Local Disbursement or the Executive Director of Local Finance reviews the reimbursement request to ensure that ePlan correctly calculated the amounts on the reimbursement request. Once the department approves the reimbursement request, it is processed for payment.

Department of Education's Relationship With the Tennessee Board of Regents

In accordance with the Carl D. Perkins Vocational and Technical Education Act of 2006, the Department of Education and the Tennessee Board of Regents (TBR) entered into a memorandum of understanding that outlines the department's delegation of certain program responsibilities to TBR. Under the relationship defined in this memorandum, in fiscal year 2018, the department transferred Career and Technical Education – Basic Grants to States (CTE) funds and responsibilities for administering those funds to TBR. TBR, under the terms of the memorandum, awarded CTE funds to eligible community colleges and colleges of applied technology¹⁷ to meet the program objectives for postsecondary students. TBR is responsible for administering the portions of CTE funds it receives and ensuring that the federal funds are used in accordance with federal requirements.

¹³ Title I Grants to Local Educational Agencies (Title I) is a federal program to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

¹⁴ Pursuant to the federal Individuals with Disabilities Education Act (IDEA), Special Education Cluster grants ensure that all children with disabilities are provided a free, appropriate public education that emphasizes special education and related services designed to meet their unique needs; ensure that the rights of children with disabilities and their parents or guardians are protected; assist states, localities, educational service agencies, and federal agencies to provide for the education of all children with disabilities; and assess and ensure the effectiveness of efforts to educate children with disabilities.

¹⁵ The Career and Technical Education – Basic Grants to States (CTE) is a federal program for states and outlying areas to develop the career, technical, and academic skills of secondary and postsecondary students.

¹⁶ Supporting Effective Instruction State Grants (SEI) is a federal program to provide funds to state and local educational agencies to increase student achievement consistent with the state's challenging academic standards; improve the quality and effectiveness of teachers, principals, and other school leaders; increase the number of teachers, principals, and other school leaders who are effective in improving student academic achievement in schools; and provide low-income and minority students greater access to effective teachers, principals, and other school leaders.

¹⁷ In fiscal year 2018, TBR awarded funds to 13 community colleges and 27 colleges of applied technology.

Cash Management

The Department of Finance and Administration is responsible for adequate cash management for all of the Department of Education's 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. The Department of Finance and Administration operates all of the department'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 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.¹⁸ 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.

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 receive reimbursement payments for expenditures that are fully compliant with program requirements and guidelines; and
- monitoring subrecipients' activities to provide reasonable assurance that the subrecipients administer these federal awards in compliance with federal requirements and guidelines.

¹⁸ Title I and the Special Education Cluster are covered by the Treasury State Agreement; CTE and SEI are covered by 31 CFR 205.B.

According to the Executive Director of Local Finance, in order to meet these responsibilities, for the Special Education Cluster,¹⁹ Title I,²⁰ and Supporting Effective Instruction²¹ programs, the Division of Local Finance conducts risk-based joint fiscal monitoring²² of subrecipients, including LEAs. As part of this joint fiscal monitoring, the monitors review LEAs' compliance with all three federal program requirements, including allowable costs, period of performance, and cash management.

Additionally, based on our discussions with management at the Department of Education and Tennessee Board of Regents (TBR) for the Career and Technical Education program, the department and TBR conduct the subrecipient monitoring. The department's Office of Career and Technical Education and the CTE consultants located at the Centers of Regional Excellence offices perform risk-based monitoring of LEAs, including review of LEAs' compliance with federal requirements for program expenditures. Additionally, TBR performs risk-based monitoring of the postsecondary institutions. The monitoring includes review of federal program expenditures to determine compliance with federal requirements.

Audit Results

To determine compliance with federal requirements related to expenditures, including allowable costs/cost principles and cash management, we tested nonstatistical random samples of reimbursements to LEAs as well as post-secondary institutions²³ under the purview of TBR. The details of these populations and samples can be found in Table 1.

Condition and Cause – Unallowable Costs

Based on testwork performed, we determined that department management did not sufficiently review supporting documentation for LEA reimbursement requests to ensure that the department only paid LEAs for allowable costs. As a result, management reimbursed LEAs for unallowable and inadequately supported costs, totaling \$453,546, with funds from four federal programs, which represent federal questioned costs. See Table 1 for a summary of questioned costs.

¹⁹ The Special Education Cluster (IDEA) is a federal program to ensure that all children with disabilities have available to them a free appropriate public education which emphasizes special education and related services designed to meet their unique needs; ensure that the rights of children with disabilities and their parents or guardians are protected; assist states, localities, educational service agencies and federal agencies to provide for the education of all children with disabilities; and assess and ensure the effectiveness of efforts to educate children with disabilities.

²⁰ Title I Grants to Local Educational Agencies (Title I) is a federal program to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

²¹ Supporting Effective Instruction State Grants (SEI) is a federal program to provide funds to state educational agencies, and local educational agencies, to increase student achievement consistent with the challenging state academic standards, improve the quality and effectiveness of teachers, principals, and other school leaders, increase the number of teachers, principals, and other school leaders who are effective in improving student academic achievement in schools, and provide low-income and minority students greater access to effective teachers, principals, and other school leaders.

²² The department also conducts programmatic monitoring of these programs and that monitoring is carried out by the Division of Consolidated Planning and Monitoring.

²³ Postsecondary institutions are the CTE-funded community colleges and colleges of applied technology that TBR reimburses.

Table 1
Federal Program Population, Sample and Questioned Cost Information

Program	Population Items	Population Amount	Sample Items	Sample Amount	Questioned Costs
Title I	4,424	\$317,144,157	46	\$24,727,058	\$86,136
SEI	3,285	\$36,329,710	45	\$4,583,024	\$22,116
Special Education Cluster	5,411	\$241,407,820	50	\$36,809,996	\$237,317
CTE –	2,127	\$13,876,909	45	\$2,604,270	\$93,810
Education					
CTE – TBR	14	\$2,676,616	3	\$1,911,322	\$14,167
Total		\$611,435,212		\$70,635,670	\$453,546

Source: Information obtained from Edison, ePlan, and subrecipient records.

The questioned costs in Table 1 were unallowable for two reasons:

- the LEAs’ or postsecondary institutions’ expenditures charged to the federal program were specifically unallowable under federal regulations or program guidance; or
- the LEA or postsecondary institution did not provide complete supporting documentation to demonstrate that the costs were allowable and were appropriately charged to federal programs.

Tables 2a and 3a exhibit the department’s questioned costs from Table 1 by LEA and include additional detail about the unallowable expenditures we found.

Tables 2b and 3b exhibit TBR’s questioned costs from Table 1 by postsecondary institution and include additional detail about the unallowable expenditures we found. Because the department has delegated authority for CTE funds awarded to postsecondary institutions to TBR, TBR is responsible for ensuring that only allowable and properly supported expenditures are reimbursed to the postsecondary institutions.

Unallowable LEA and Postsecondary Expenditures

Of the questioned costs noted in Table 1, we identified instances of expenditures that were specifically unallowable under federal regulations or program-specific guidance from either the U.S. Department of Education or the Tennessee Department of Education. Details of these expenditures, including the unallowable cost description, can be found in Table 3a for LEAs and 3b for postsecondary institutions.

Table 2a
Department of Education
Unallowable Costs the Department Reimbursed to LEAs

Federal Program	Reimbursement Amount	LEA	Questioned Costs	Unallowable Cost Description
Title I	\$16,229,973	MNPS ²⁴	\$26,445	Food and catering for parent engagement activities
Title I	\$5,846,957	MNPS	\$7,918	Food and catering for parent engagement activities
Title I – Con Admin ²⁵	\$1,048,514	MNPS	\$21,114	Construction – Office Renovation
SEI – Con Admin	\$1,048,514	MNPS	\$2,348	Construction – Office Renovation
Special Education Cluster	\$3,039,761	Knox County	\$2,121	Disposable face shields, tactical gloves, ponchos, knee pads
Special Education Cluster	\$3,770,248	Knox County	\$265	Books - Julius Caesar and Life of Pi
Special Education Cluster	\$6,253,144	MNPS	26,426	Contracted services for Title I
Special Education Cluster	\$3,555,204	Shelby County	\$19,260	Books – professional development
CTE	\$1,545	Hawkins County	\$186	Consumable items – paper
CTE	\$57,279	Putnam County	\$2,268	Consumable items – paper, stamps, pens, printer ink, and tape
CTE	\$9,265	Haywood County	\$627	Consumable items – printer ink
CTE	\$14,347	Bedford County	\$1,280	Consumable items – printer ink
CTE	\$241,782	MNPS	\$882	Consumable items – office supplies and robot kits
CTE	\$253,602	MNPS	\$5,397	Consumable items – tape, drug impairment goggles, robot kits, transmission service kits, science dissection kits
CTE	\$1,090,085	Shelby County	\$748	Consumable items – bus for field trips to Mud Island and Southwest Tennessee Community College
Total	\$42,460,220		\$117,285	

Source: Information obtained from Edison and ePlan as well as subrecipient records

²⁴ MNPS stands for Metro Nashville Public Schools.

²⁵ Consolidated administration (Con Admin) funds are federal funds that are received for administration purposes under many education programs that a state may consolidate to eliminate the need to account for these funds on a program-by-program basis. In this finding, Con Admin applies to the Title I and SEI programs.

Table 2b
Tennessee Board of Regents
Unallowable Costs TBR Reimbursed to Postsecondary Institutions

Federal Program	Reimbursement Amount	Postsecondary Institution	Questioned Costs	Unallowable Cost Description
CTE	\$613,460	Chattanooga State Community College; Cleveland State Community College; Columbia State Community College; Dyersburg State Community College; Northeast State Community College; Roane State Community College; Southwest Tennessee Community College	\$2,315	Consumable items like paper, toner, ink cartridges, envelopes, post-it notes and a food purchase for pizza
CTE	\$729,339	Chattanooga State Community College; Dyersburg State Community College; Northeast State Community College; Roane State Community College; Southwest Tennessee Community College	\$4,060	Consumable items like toner, paper, envelopes, tape, glue, and fuses and a food purchase for sandwiches
CTE	\$568,522	Chattanooga State Community College; Dyersburg State Community College; Roane State Community College	\$1,391	Consumable items like printing and tape, petty cash, and a food purchase for Christmas lunch
Total	\$1,911,321		\$7,766	

Source: Information obtained from Edison and ePlan as well as subrecipient records.

Unsupported LEA and Postsecondary Institution Amounts

Based on our review of the underlying expenditures for the reimbursements tested, we found that LEAs and postsecondary institutions did not always have supporting documentation for the expenditures. In these cases, the LEA or postsecondary institution

- did not provide support for some or all of the expenditures;
- provided support that did not equal the amount included in the reimbursement; or
- duplicated the same expenditure on the reimbursement, based on the support provided.

The details of these errors can be found in Table 2a for LEAs and Table 2b for postsecondary institutions.

Table 3a

Department of Education

Unsupported Amounts Reimbursed to LEAs

Federal Program	Reimbursement Amount	LEA	Questioned Costs
Title I	\$241,300	Campbell County	\$1,176
Title I	\$16,229,973	MNPS	\$25,819
Title I	\$5,846,957	MNPS	\$3,264
Con Admin ²⁶	\$224.32	Cannon County	\$224
Con Admin	\$1,179,803	MNPS	\$83
Con Admin	\$3,290	Crockett County	\$96
Con Admin	\$10,338	Weakley County	\$22
SEI	\$1,420,342	MNPS	\$3,396
SEI	\$1,452,955	MNPS	\$16,347
Special Education Cluster	\$3,039,761	Knox County	\$1,026
Special Education Cluster	\$3,303,375	Shelby County	\$12,600
Special Education Cluster	\$3,382,696	MNPS	\$8,237
Special Education Cluster	\$3,402,808	Shelby County	\$2,470
Special Education Cluster	\$3,555,204	Shelby County	\$108,367
Special Education Cluster	\$3,770,248	Knox County	\$1,539
Special Education Cluster	\$3,914,625	MNPS	\$84
Special Education Cluster	\$4,797,303	MNPS	\$31,583
Special Education Cluster	\$6,253,144	MNPS	\$15,350
Special Education Cluster	\$44,003	Hardeman County	\$5,068
Special Education Cluster	\$154,203	Hawkins County	\$1,396
Special Education Cluster	\$4,572	Stewart County	\$1,525
CTE	\$241,782	MNPS	\$36

²⁶ Con Admin questioned costs include questioned costs for Title I and SEI.

Federal Program	Reimbursement Amount	LEA	Questioned Costs
CTE	\$784,478	MNPS	\$1,017
CTE	\$253,602	MNPS	\$14,529
CTE	\$1,090,085	Shelby County	\$66,840
Total	\$65,846,805		\$322,094

Source: Information obtained from Edison, ePlan, and subrecipient records.

Table 3b

Tennessee Board of Regents

Unsupported Amounts Reimbursed to Postsecondary Institutions

Federal Program	Reimbursement Amount	Postsecondary Institution	Questioned Costs
CTE	\$613,460	Dyersburg State Community College	\$843
CTE	\$568,522	Southwest Tennessee Community College	\$3,393
CTE	\$729,339	Dyersburg State Community College	\$2,165
Total	\$1,911,321		\$6,401

Source: Information obtained from Edison, ePlan, and subrecipient records.

Cause – Title I, SEI, IDEA, and CTE

The department does not require LEAs to submit documentation of expenditures when they request reimbursement. Additionally, TBR does not require postsecondary institutions to submit documentation of expenditures to them as support for the reimbursement requests TBR submits to the department. As a result, department management does not review LEAs' underlying expenditures before management approves the requests. The department's Executive Directors of Consolidated Planning and Monitoring, Office of Career and Technical Education management, and TBR's Vice Chancellor for Student Success all stated that the department and TBR do not have sufficient resources to review all of the documentation for each reimbursement before reimbursing LEAs. Additionally, if LEAs and post-secondary institutions are required to wait for the department and TBR to review documentation of expenditures, it could have negative ramifications for their fiscal positions and cause cash flow issues.

According to management of both the department and TBR, subrecipient monitoring activities should include a review of LEAs' and postsecondary intuitions' expenditures to ensure they are

allowable and properly supported; however, as we identified in a separate condition in this finding, had the monitors performed sufficient monitoring activities, we would reasonably expect the monitors to have found the same conditions we identified.

Criteria – Unallowable Costs

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."

Additionally, 2 CFR 200.403 states that "costs must meet the following general criteria in order be allowable under Federal awards: Be necessary and reasonable for the performance of the Federal award . . . [and] be adequately documented."

The Tennessee Department of Education's guidance "Using Federal Education Funds to Pay for Food" states, "Full meals for families/parents or students are not allowable...under any circumstances. The IRS defines a meal as, 'A quantity of food that equals a full serving of breakfast, lunch or dinner.'"

The department provides subrecipients with guidance on allowable and unallowable uses of CTE funds, which includes a list of specifically unallowable expenditures. The guidance states, "General, exploratory college tours/visits are unallowable . . . Not allowable: Any item that is considered consumable [usable life of less than one year]. This includes but is not limited to: . . . Toner, ink, paper . . . Promotional materials." The listing of Unallowable Expenditures also states that the following items are unallowable, "Contingency or 'petty cash' funds . . . Equipment or supplies not used directly to teach skills to students . . . Food/drink."

Furthermore, 2 CFR 200.439 states, "Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior written approval of the Federal awarding agency, or pass-through entity." MNPS did not obtain prior written approval from the U.S. Department of Education or the Tennessee Department of Education.

Condition and Cause – Cash Management

During our review of expenditures, we found instances of LEAs requesting reimbursement prior to incurring expenditures and/or basing reimbursement requests on estimates or encumbrances²⁷ rather than actual expenditures.

²⁷ An encumbrance is an obligation that an entity has incurred. This is generally designated by opening a purchase order, where no purchases have yet been made against the purchase order.

Metro Nashville Public Schools – Encumbrances

While reviewing expenditures for Metro Nashville Public Schools (MNPS), we found that MNPS requested reimbursement from all four federal programs noted in this finding, based on encumbrances that MNPS had incurred instead of actual expenditures incurred. This resulted in MNPS requesting reimbursements in excess of actual costs at the time of reimbursement.

While reviewing the listing that MNPS used to determine the amount to request, we found that MNPS prepared its reimbursement request based on the total funds available to spend, which staff track through open purchase orders.²⁸ As MNPS incurs expenditures against the purchase orders, the total funds available for spending are reduced. We found that MNPS requested reimbursement for the total available for spending under an open purchase order rather than correctly identifying the actual expenditures charged against the purchase order. In some cases, MNPS would request reimbursement for the total purchase order limit even though there were no purchases made against the purchase order.

MNPS fiscal staff stated that, in all circumstances, if the full amount of the purchase order is not used, they would reduce the purchase order to the expenditure amount, which would result in MNPS receiving the correct amount for reimbursement. However, staff would make this reduction much later than the date MNPS submits its reimbursement request to the department. We could not verify if MNPS staff reduced purchase orders to actual expenditure amounts in every purchase order with an outstanding balance. The overpayment of funds, due to MNPS requesting reimbursement based on open purchase orders rather than actual expenditures, is included in the questioned cost amounts noted for the four federal program areas.

Shelby County Schools – Encumbrances

While reviewing expenditures for Shelby County Schools (SCS), we found that SCS requested reimbursements for funds from the CTE federal program based on encumbrances rather than actual expenditures. This resulted in SCS requesting reimbursements in excess of expenditures it had incurred at the time of reimbursement, which may have caused SCS to request (and ultimately receive) reimbursement for the same expenditure twice. We have questioned the duplicate reimbursement costs in Table 3a.

LEA Estimates/Advances – Supporting Effective Instruction Program

While reviewing documentation for Supporting Effective Instruction expenditures, we found that the following eight LEAs requested reimbursements based on estimates of expenditures that they had not yet incurred:

- Cannon County
- Crockett County
- Fayetteville City Schools

²⁸ A purchase order is a contract between a buyer, such as MNPS, and a seller, which details the items the buyer agrees to purchase at a certain price. A purchase order may cover the buyer's needs for a set period of time, such as a fiscal year, and purchases are applied to and reduce the available amount of the purchase order.

- Grainger County
- Greeneville City Schools
- Stewart County
- Warren County
- Weakley County

The LEAs adjusted their subsequent reimbursement requests to account for the differences in their estimates and actual expenditures; however, this estimating and adjusting made it difficult for the department and for us to determine exactly what expenditures were paid from each reimbursement, even when analyzing the entire fiscal year's reimbursements. As such, we could not determine that department management properly charged only actual expenditures to the applicable grant.

LEA Estimates/Advances – Special Education Cluster

While reviewing documentation for Special Education Cluster expenditures, we found that Dickson County requested reimbursement based on estimates rather than actual expenditures. The Dickson County School Business Manager explained that they estimate payroll expenditures based on the prior month's expenditures and then at the end of the year make any adjustments based on final year totals; however, management did not keep sufficient documentation of the end-of-year adjustments. Therefore, we were unable to determine exactly which expenditures applied to each reimbursement and that the grant was properly charged for actual expenditures. We also found that Stewart County rounded up its reimbursement to the nearest whole dollar causing the LEA to be reimbursed for a higher amount than actual costs. We have questioned the unsupported reimbursement costs in Table 3a.

Cause

As noted above for unallowable cost, the department does not require LEAs to submit documentation of expenditures when they request reimbursement. Additionally, as noted above and reported later in this finding, if the department's monitors had performed sufficient subrecipient monitoring activities, which should include a review of LEA cash management, we would reasonably expect the monitors to have found the same conditions we identified.

Criteria – Cash Management

According to Tennessee's 2018 Treasury-State Agreement, all federal costs requested from the federal government must have been incurred at the time request for reimbursement is made.

Condition and Cause – Subrecipient Monitoring

Condition

Department of Education – Joint Fiscal Monitoring and CTE Monitoring

While we determined that the department performed risk-based monitoring for Title I, Supporting Effective Instruction, Special Education, and CTE, based on the conditions reported in this finding,

we questioned the sufficiency of the department's monitoring process. When we requested documentation of the monitoring performed by the department's divisions, we found that the monitors do not document the methods used to select expenditure items for review, and they do not maintain working papers or copies of other evidence to document the work performed or support the monitoring reports issued. As a result, we were unable to determine if the department's monitoring efforts were sufficient.

Although the monitors indicated they examined expenditures during monitoring activities, we would reasonably expect the monitors to have found the same conditions. Of the 145 LEAs that received Title I, Supporting Effective Instruction, and Special Education funds, the department performed joint fiscal monitoring²⁹ of 21 LEAs. Five of the LEAs reported for noncompliance in this finding were included in the 21 LEAs monitored; however, the department's monitors in these 5 LEAs did not identify similar issues during their monitoring:

- Metro Nashville Public Schools
- Shelby County
- Knox County
- Smith County
- Warren County

Of the 122 LEAs that received CTE funding, the department performed monitoring of 19 LEAs. Three of the LEAs reported for noncompliance in this finding were included in the 19 LEAs monitored; however, the department's monitors only identified similar problems at 2 of the 3 LEAs. The monitors did not identify noncompliance during their monitoring of Metro Nashville Public Schools.

TBR – CTE Monitoring

Based on discussion with TBR's Assistant Vice Chancellor for Student Success, TBR's monitoring procedures include performing various types of monitoring, depending on the level of risk assigned to each postsecondary institution. These monitoring activities include the following:

- Self-assessment monitoring – For postsecondary institutions identified as lowest-risk, school management completes TBR's monitoring document and submits it to TBR.
- Telephone/virtual monitoring – For postsecondary institutions identified as lower-risk, TBR staff will call the school and discuss and complete the monitoring document with school staff.
- Desktop monitoring – For postsecondary institutions identified as moderate-risk, TBR staff review school documentation at TBR's central office.

²⁹ As noted in the background section, joint fiscal monitoring includes monitoring for Title I, Supporting Effective Instruction, and Special Education.

- On-site monitoring – For postsecondary institutions identified as high-risk, TBR staff conduct on-site reviews, including review of school documentation.

When TBR performed its risk analysis for fiscal year 2018 monitoring activities, all 39 postsecondary institutions receiving CTE funds were identified as lowest-risk; therefore, each institution completed self-assessment monitoring. TBR staff did not perform any on-site monitoring.

Cause

Based on discussion with department and TBR management, their limited resources available for monitoring limit the number of on-site visits they can conduct. Additionally, based on discussion with the department's Executive Director of Local Finance and the Executive Director of the Office of Career and Technical Education, the monitors documented on-site monitoring by checking off items on a monitoring checklist; they did not maintain any further documentation because they did not think it was necessary.

Risk Assessment

In the department's annual risk assessment, management addressed the risk that federal funds charged to a federal grant are not allowable under program regulations. The 2017 Tennessee Department of Education Financial Integrity Act Risk Assessment identified a number of control activities for different program areas, including department-provided training, resources, and technical assistance for LEAs; however, we do not believe that management's established control activities are adequate to mitigate its risk of noncompliance given the conditions noted in this finding.

While management did address the risk that the department would not conduct subrecipient monitoring visits and the risk that the department would not follow up on noncompliance found during monitoring; the risk assessment does not address the risk that its monitoring process may not be sufficiently designed to reasonably ensure monitors will detect noncompliance.

Effect

When the department does not have proper preventative or detective internal controls in place to determine if costs reimbursed to subrecipients are allowable and properly supported, the department increases the risk that funds will be reimbursed for unallowable costs. This could result in state refunds/reimbursements to the U.S. Department of Education for expenditures that were unallowable.

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 corrective action 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

Given the department's limited resources and number of LEAs it reimburses from federal programs, the Commissioner should work with various programs' staff as well as monitoring staff to develop a multi-faceted approach to ensuring that LEAs comply with all federal requirements. This approach should encompass review of reimbursement documentation as well as sufficient subrecipient monitoring. Program management should consider implementing procedures to assess risk for subrecipients, including LEAs, and based on that risk, performing additional review of supporting documentation prior to reimbursing those high-risk LEAs.

Management should also consider requiring subrecipients, including LEAs, to submit reimbursement requests monthly and upload all supporting documentation for each reimbursement request in ePlan. If the documentation is readily available, monitoring staff can easily perform periodic, randomly selected reviews of the documentation to ensure that all reimbursements are properly supported and federal funds are spent on allowable costs. Additionally, the methodology

for and results of these reviews as well as expenditure reviews conducted during onsite subrecipient monitoring activities should be documented.

Management should also update the department's annual risk assessment to reflect any new controls the department adds to the process for ensuring costs are allowable when expending federal funds.

Management's Comment

Department of Education

We concur. The department will review and revise its fiscal monitoring instrument and practice to standardize it across more grants and address the specific issues of allowability and support. Allowability will also be determined during the grant application approval process, and the monitoring will validate that only the approved activities and purchases are included in the related reimbursement requests. Supporting documentation will be reviewed as part of either the desktop or on-site monitoring.

Tennessee Board of Regents

We concur. As a result of the finding, the Tennessee Board of Regents will make appropriate adjustments. We will immediately modify the campus Perkins Quarterly Reimbursement Invoice to distinguish between programmatic and administration costs. By April 1, 2019, TBR will review and make necessary modifications to the risk assessment process and the criteria for monitoring program expenses. By May 31, 2019, TBR will conduct technical assistance training with campuses covering each of the above.

Finding Number	2018-008
CFDA Number	10.553, 10.555, 10.556, 84.010, 84.027, 84.048, and 84.173
Program Name	Child Nutrition Cluster Title I Grants to Local Educational Agencies Special Education Cluster Career and Technical Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Education
Federal Award Identification Number	201616(15)N109945, 201717N109945, 201818(17)N109945, 201616(15)N109945, 201717N109945, 201818(17)N109945, 201717N109945, S010A120042, S010A130042, S010A140042, S010A150042, S010A160042, S010A170042, H027A100052, H027A130167, H027A150052, H027A150052, H027A160052, H027A170052, V048A130042, V048A140042, V048A150042, V048A160042, V048A170042, H173A150095, H173A160095, H173A170095
Federal Award Year	2015 through 2018
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	2017-002
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Education did not provide adequate internal controls in five areas, including four that were noted in previous audits, increasing the risk of errors, data loss, and the inability to continue operations

Condition, Criteria, Cause, Effect

The Department of Education did not design and monitor internal controls that were related to four of the department's systems. We are reporting internal control deficiencies in five areas, including four that were repeated from prior audits because department management did not implement sufficient corrective action. One condition is repeated from the prior-year audit, and three conditions are repeated from the 2016 and 2015 audits. These conditions were in violation of state policies and industry-accepted best practices. In its response to the prior findings, 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, inappropriate access, and the 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 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. Corrective actions 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 2018-009
CFDA Number 10.557
Program Name WIC Special Supplemental Nutrition Program for Women, Infants, and Children
Federal Agency Department of Agriculture
State Agency Department of Health
Federal Award Identification Number 2017IW100345, 2017IW100345, 201818W100345, 201818W100345, 2016IW100345, 2016IW100345, 201717W100345, 201717W100345, 2017IW100645, 2017IW100645, 201818W100645, 201818W100645, 201616W500345, 201616W500345, 201717W500345, 201717W500345
Federal Award Year 2016 through 2018
Finding Type Significant Deficiency and Noncompliance
Compliance Requirement Subrecipient Monitoring
Repeat Finding N/A
Pass-Through Entity N/A
Questioned Costs N/A

The department does not have written procedures to ensure compliance with subrecipient monitoring requirements for the WIC program

Condition

The fiscal reviewer in the Division of Administrative Services reviewed the six WIC subrecipients' audit reports every other year instead of every year. As a consequence, the fiscal reviewer did not review any subrecipient audit reports for the year ended June 30, 2016. Also, as shown below, the fiscal reviewer did not perform a timely review of any of the six subrecipient audit reports for the year ended June 30, 2017.

Subrecipient	Federal Audit Clearinghouse Audit Acceptance Date	Date of Review of the Audit Report	Months Between Acceptance and Review
Davidson County	3/28/18	7/20/18	3.7
Hamilton County	1/4/18	1/7/19	12
Knox County	2/1/18	1/7/19	11.2
Madison County	2/22/18	5/23/18	3
Shelby County	11/21/17	6/15/18	6.8
Sullivan County	3/5/18	1/7/19	10.1

One subrecipient, Hamilton County, had a finding pertaining to WIC in the June 30, 2017, audit. The audit was accepted at the Federal Audit Clearinghouse (FAC) on January 4, 2018. However, as of January 7, 2019, the department has not issued a management decision.

Criteria

Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 331(f), states the department must “[v]erify 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.” In addition, 2 CFR 200.501(a) states that 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, 2 CFR 200.512(a)(1) states that the audit must be completed within nine months of the end of the audit period.

When findings result from subrecipient single audits, 2 CFR 200.521(d) states that the “pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the FAC.”

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,

- not receive the required audit timely;
- use federal grant funds for unauthorized purposes; and/or
- fail to comply with federal statutes and regulations, as well as federal grant awards’ terms and conditions.

Reviewing audit reports in an untimely manner hinders the department’s ability to issue management decisions for audit findings within the six months of acceptance of the audit at the FAC. Not issuing management decisions increases the risk of subrecipients’ not correcting problems with internal controls or compliance with regulations.

Cause

The department did not have written procedures describing the steps to ensure subrecipient audits are completed as well as the process to issue management decisions. The fiscal reviewer stated that she was not aware the requirements in 2 CFR 200.331(f) had to be performed every year. According to the fiscal reviewer, the frequency of her reviews of audit reports every two years had been developed based on the requirements found in 7 CFR 246.19(b) pertaining to on-site reviews of clinics instead of the requirements in 2 CFR 200.331(f). The fiscal reviewer stated she was not aware of the requirement to issue the management decision within six months of acceptance of the report at the FAC.

Recommendation

The fiscal reviewer should work with the Assistant Commissioner of Compliance and Ethics to develop and implement written procedures to ensure that the department verifies that all subrecipient audits are completed every year. Procedures should be developed to ensure the

department issues management decisions for audit findings pertaining to federal assistance within six months of acceptance of the audit at the FAC.

Management's Comment

We concur. We acknowledge that audit reviews and subsequent management responses were not conducted in the manner set forth by 2 CFR 200.331(f), nor did we issue a management decision within the six month timeframe set forth in 2 CFR 200.521(d). While we did have a process in place to review subrecipient audits, no written guidance that aligned with the requirements of 2 CFR 200 with regard to the review of the subrecipient's audit and management decisions had been adopted.

The department is committed to meeting the federal Uniform Guidance set forth by the Office of Management and the Budget (OMB). The Assistant Commissioner of Compliance and Ethics will work with the department's contract administration division, as well as WIC program management, to develop a set of policies and procedures that will ensure that the department receives a copy of each subrecipient audit report concurrent with the subrecipient's submission of their report to the Federal Audit Clearing House.

Likewise, we will also establish a policy that program management will identify audit findings that require a management decision from the department as a pass through entity that will "clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action." (2 CFR 200.521(a)) and will issue a management decision to the subrecipient within six months from the acceptance of the audit report by the FAC.

Finding Number	2018-010
CFDA Number	93.917 and 93.994
Program Name	HIV Formula Care Grants Maternal and Child Health Services Block Grant to the States
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Federal Award Identification Number	2X09HA28331-03, 2X07HA00024-27, 2X07HA00024-26, 2X07HA00024-28, 1B04MC26697-01, 6B04MC29326-01, 1B04MC30643-01, 1B04MC31518-01
Federal Award Year	2016 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Health does not have written procedures to ensure compliance with subrecipient monitoring requirements for the HIV and MCH programs

Condition

As of January 30, 2019, the Department of Health has not reviewed any subrecipients' Single Audit reports for either the HIV Formula Care Grants (HIV) or Maternal and Child Health Services Block Grant to the States (MCH) programs that were due to the Federal Audit Clearinghouse (FAC) during year ended June 30, 2018. Also, one subrecipient's audit that was submitted to the FAC on March 27, 2018, had a finding pertaining to the HIV program. As of January 30, 2019 – over four months after the due date – the department had not issued a management decision.

Criteria

Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 331(f), states that the department must “[v]erify 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.” In addition, 2 CFR 200.501(a) states that 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, 2 CFR 200.512(a)(1) states that the audit must be completed within nine months of the end of the audit period.

When findings result from subrecipient single audits, 2 CFR 200.521(d) states that the “pass-through entity responsible for issuing a management decision must do so within six months of acceptance of the audit report by the FAC.”

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,

- not receive the required audit timely;
- use federal grant funds for unauthorized purposes; and/or
- fail to comply with federal statutes and regulations, as well as federal grant awards' terms and conditions.

Not reviewing audit reports or reviewing audit reports in an untimely manner hinders the department's ability to issue management decisions for audit findings within six months of the FAC accepting the audit. Not issuing management decisions increases the risk that subrecipients will not correct problems regarding internal controls or compliance with regulations.

Cause

The department did not have written procedures describing the steps to ensure subrecipient audits are completed and as well as the process to issue management decisions. Monitoring responsibilities for the HIV and MCH programs are divided between the Subrecipient Monitoring Team, program directors, and Quality Control. Since the department did not have procedures concerning the verification of subrecipient audits and the issuance of management decisions these duties were not clearly assigned.

Recommendation

The department should develop comprehensive policies describing how it will comply with all subrecipient monitoring requirements. These policies should assign responsibility of all required tasks to appropriate staff.

Management's Comment

We concur. We acknowledge that audit reviews and subsequent management responses were not conducted in the manner set forth by 2 CFR 200.331(f), nor did we issue a management decision within the six month timeframe set forth in 2 CFR 200.521(d). While we did have a process in place to review subrecipient audits, no written guidance that aligned with the requirements of 2 CFR 200 with regard to the review of the subrecipient's audit and management decisions had been adopted.

The department is committed to meeting the federal Uniform Guidance set forth by the Office of Management and the Budget (OMB). The Assistant Commissioner of Compliance and Ethics will work with the department's contract administration division, as well as HIV and MCH program management, to develop a set of policies and procedures that will ensure that the department receives a copy of each subrecipient audit report concurrent with the subrecipient's submission of their report to the Federal Audit Clearing House.

Likewise, we will also establish a policy that program management will identify audit findings that require a management decision from the department as a pass through entity that will "clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action." (2 CFR

200.521(a)) and will issue a management decision to the subrecipient within six months from the acceptance of the audit report by the FAC.

Finding Number 2018-011
CFDA Number 93.917 and 93.994
Program Name HIV Formula Care Grants
 Maternal and Child Health Services Block Grant to the States
Federal Agency Department of Health and Human Services
State Agency Department of Health
Federal Award Identification Number 2X07HA00024-27, 1B04MC30643-01
Federal Award Year 2017 and 2018
Finding Type Significant Deficiency and Noncompliance
Compliance Requirement Allowable Costs/Cost Principles
Repeat Finding N/A
Pass-Through Entity N/A
Questioned Costs

CFDA	Federal Award Identification Number	Amount
93.917	2X07HA00024-27	\$26,352
93.994	1B04MC30643-01	\$36

The Department of Health billed late payment service charges to the HIV and MCH programs

Condition

The Department of Health billed \$26,352 of late payment service charges to the HIV Formula Care Grants (HIV) program and \$36 to the Maternal and Child Health Services Block Grant to the States (MCH) program. All the payments were made to the same vendor. The charges were recorded in Edison, the state's accounting system, under account number 71402000, "Payment of Interest." The invoices describe costs as a "Service charge." All the invoices stated that there is a "1 1/2% Service Charge (18% Per Annum) on Past Due Accounts." We compared the payment dates to the due dates on the original billings and noted numerous occurrences of payments being made over a month after the due date.

Criteria

Late payment service charges are not a reasonable cost to the programs. Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 403(a) states that costs should be "necessary and reasonable for the performance of the Federal award."

Furthermore, 2 CFR 200.449(a) states that "Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the non-Federal entity's own funds, however represented, are unallowable."

Cause

Management attributed the primary cause of the late payments to the department relying on the distributor to send the invoices to the department to begin the payment process. The distributor did not always send the invoices timely causing a delay.

When management discovered the problem, they assigned a specific program staff member to visit the vendor's website daily and retrieve new invoices.

Effect

Incurring late payment service charges is a waste of taxpayer funds.

Recommendation

Program staff should continue to monitor the vendor's website daily for invoices to ensure the payment process starts in a timely manner. The department should not bill future late payment service charges to the federal government.

Since the distributor did not always send the invoices timely, the department should consider if recovering service charges from the distributor is legally possible and beneficial to the state; and if so, it should pursue recovery from the distributor.

Management's Comment

We concur. The misidentification of these costs was due to the fact that they were characterized as a service charge, which was understood to be a different cost than that of a late fee accrued as an interest charge.

Once the amount was identified as a late charge, the issue of late invoicing was noted and addressed to the distributor. Additionally, when the charges of \$26,352 and \$36 were identified as being improperly billed to the federal grants noted, these charges were reallocated to state appropriation dollars. The reallocation entries were recorded on October 19, 2018 and October 31, 2018.

Beginning November 1, 2018, the public health administrator for HIV has instructed program staff to regularly monitor the vendor website to ensure that invoices are received and paid in a timely manner. Additionally, the Controller for the Department of Health implemented monitoring procedures for account 71402000 so that no expenses recorded in this account are charged to federal grants.

With regard to recovery of service charges, management believes that the inadvertent accumulation of late charges from this vendor was a shared responsibility between the two parties. Since the agency expresses some culpability in this issue, we believe that it would be difficult, if not impractical, to properly ascertain the appropriate amount for recovery.

Finding Number	2018-012
CFDA Number	10.558, 10.559, 93.575, and 93.596
Program Name	Child and Adult Care Food Program Child Nutrition Cluster 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	175TN331N1099, 175TN331N2020, 175TN340N1050, 185TN331N1099, 185TN331N2020, 185TN340N1050, 185TN332L4003, 1501TNCCDF, 1701TNCCDF, and 1801TNCCDF
Federal Award Year	2015 and 2017 through 2018
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	2017-009
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 two areas, including one area noted in the two prior audits

Condition, Criteria, Cause, Effect

The Department of Human Services did not design and monitor internal controls in two specific areas, including one area that we noted in the two 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.

Ineffective implementation of internal controls increases the likelihood of errors, inappropriate access, and the 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

Concur.

The department delivered a confidential response.

Finding Number	2018-013
CFDA Number	10.560, 10.561, 84.126, 84.177, 93.464, 93.558, 93.563, 93.569, 93.575, 93.667, 93.778, and 96.001
Program Name	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 Child Care and Development Fund Cluster Social Services Block Grant Medicaid Cluster Disability Insurance/Supplement 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	175TN915N2533, 175TN408S2514, H126A170063, H177B170042, 1701TNSGAT, 1601TNTANF, 1704TNCSES, 1804TNCSES, 17B1TNCOSR, 1701TNCCDF, 1601TNSOSR, 05-1705TN5ADM, and 04-17-04TNDI00
Federal Award Year	2016 through 2018
Finding Type	Significant Deficiency (10.561, 84.126, 93.558, 93.575, and 93.778) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2017-010 2017-011 2017-015
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
10.560	175TN915N2533	\$127
84.126	H126A170063	\$4,909
84.177	H177B170042	\$393
93.464	1701TNSGAT	\$15
93.558	1601TNTANF	\$1,386
93.563	1704TNCSES	\$11,434
93.563	1804TNCSES	\$31,880
93.569	17B1TNCOSR	\$63
93.667	G1601TNSOSR	\$1,164

93.778	05-1705TN5ADM	\$670
96.001	04-17-04TNDI00	\$5,480

Fiscal staff have initiated corrective action to address cost allocation control deficiencies noted in the prior audit; however, staff still need to address repeated deficiencies involving the use of incomplete, inaccurate information to create cost allocation tables and charging the Child Support Enforcement grant for unallowable activities, resulting in federal questioned costs of \$57,521

Background

The Department of Human Services (DHS) is responsible for administering many public assistance programs which are funded by different federal grantors. As such, federal regulations require DHS to submit a cost allocation plan that outlines the procedures used to identify, measure, and allocate administrative and indirect costs to all programs administered by the department. In accordance with its federally approved cost allocation plan, fiscal staff allocate administrative costs that cannot be directly charged to a specific federal program to all benefitting federal programs. The Department of Finance and Administration's Division of Accounts assists DHS by assuming responsibility for accounting and reporting for DHS, including creating and submitting the cost allocation plan on behalf of DHS, as well as allocating costs to federal grant awards in accordance with the cost allocation plan.

During the prior audit, we found that

- fiscal staff used prior-period statistics to allocate current quarter costs;
- the department's Random Moment Sampling universe³⁰ did not contain all required staff;
- staff did not calculate allocation percentages correctly for costs that benefitted the entire department; and
- fiscal staff allocated unallowable costs to the Child Support Enforcement program.

During the current audit period, July 1, 2017, through June 30, 2018, DHS management used four cost allocation plans, each effective for a single quarter, to allocate a total of \$384,033,813 of expenditures during the audit period. According to Title 45, *Code of Federal Regulations* (CFR), Part 95, Section 507(a), a cost allocation plan for a state agency should "describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the state agency." To accomplish accurate cost allocation, fiscal staff prepare cost allocation tables to assist fiscal staff with identifying the federal programs impacted, the federal activities performed, and the percentage of costs to be charged to each program.

³⁰ Random Moment Sampling (RMS) is a sampling technique used to determine the amount of effort used by a group of employees on various activities. DHS uses RMSPlus, a web-based system, to manage its RMS universe and sampling. Each quarter, the system randomly selects employees included in the universe and sends them a request to report which activity they were working on at the time selected. DHS uses the employee responses to determine how to allocate costs.

Audit Results

During the current audit, management took the following corrective action to improve the cost allocation procedures:

- fiscal staff updated the cost allocation plan every quarter to reflect changes in allocation methodology;
- fiscal staff used current quarter statistics to allocate current quarter costs (except where noted in Condition A);
- fiscal staff implemented a new computer application, *CapPlus*, to calculate cost allocation adjustment entries and reduce the risk of human error in manually calculating cost allocation adjustments;
- the Random Moment Sampling universe now contains all required employees; and
- fiscal staff redesigned many cost allocation tables to ensure accuracy.

However, we still noted continuing noncompliance in the following conditions:

- fiscal staff did not always use complete or current-period data to create cost allocation tables (Condition A); and
- fiscal staff continued to allocate unallowable costs to the Child Support Enforcement program (Condition B).

As a result of the errors identified during the audit, we questioned a net³¹ total of \$57,521 in federal costs and \$28,900 in state matching costs.

Condition and Cause A. Fiscal Staff Did Not Always Create Cost Allocation Tables Using Complete or Current-period Data

Fiscal staff improperly excluded employees working in one division of the department

We compared the information used to prepare the cost allocation table “Table 1,” which fiscal staff use to allocate costs that benefit the whole department such as the Commissioner’s salary, to the methodology described in the department’s cost allocation plan to ensure fiscal staff included all relevant information. Based on our review, we found that fiscal staff did not include 61 staff members working in the Investigations Division in their calculations to prepare “Table 1” for the period July 1, 2017, through September 30, 2017. Fiscal staff stated they were not aware that the Investigations Division was omitted in the first quarter, but once we told them during the course of the prior audit, they corrected the problem as of October 1, 2017, for quarters going forward, but did not correct the error for the period of July 1, 2017, through September 30, 2017.

To determine questioned costs, we recalculated “Table 1” to include these 61 staff members and compared the allocation of costs through the corrected table with the same costs allocated through

³¹ 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 incorrect table. We questioned the differences between the department's table and our corrected version. See Table A.

Table A
Differences Caused by Exclusion of Investigations Division Staff in Table 1

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
Assistive Technology	\$15	\$ -	\$15
Child Care and Development Block Grant	-	3,979	3,979
Community Services Block Grant	63	-	63
Child Support Enforcement	1,592	-	1,592
Independent Living for Older and Blind Persons	393	44	437
Medical Assistance Program	670	670	1,340
State Administrative Expenses for Child Nutrition	127	-	127
Social Security Disability Insurance	5,480	-	5,480
Social Services Block Grant	1,164	-	1,164
Temporary Assistance for Needy Families	1,386	1,386	2,772
Vocational Rehabilitation	4,909	1,328	6,237
Total	\$15,799	\$7,407	\$23,206
Amount Undercharged			
Supplemental Nutrition Assistance Program	\$(11,603)	\$(11,603)	\$(23,206)
Total	\$(11,603)	\$(11,603)	\$(23,206)

The questioned costs noted above are combined with the questioned costs from Condition B of this finding and are presented in Table B in the "Summary of Questioned Costs" section below.

Fiscal staff did not prepare tables using the filled positions methodology³² to properly reflect the effect of employees who record their time using timesheets

We also analyzed the fiscal staff's preparation of "Table 1" for the quarter April 1, 2018, through June 30, 2018, to determine if fiscal staff appropriately considered individual employees who reported their time using timesheets when developing cost allocation tables. Based on our review, fiscal staff's records indicated that there were 126 employees who recorded their time worked on different federal programs using timesheets; however, fiscal staff excluded these employees' time from any cost allocation calculations when developing the cost allocation tables. We also found that the department did not include any information about the decision to exclude these employees when determining allocation bases in any of the approved cost allocation plans effective during

³² "Filled Positions" is a methodology the department uses to create cost allocation tables based on the number of staff members who are assigned to each federal program. For example, if 50 staff members worked on SNAP and 50 worked on TANF, then a cost allocation table created using these staff would allocate 50% of applicable expenditures to SNAP, and 50% to TANF.

the year. The current Controller³³ and fiscal staff stated they did not include these staff because the cost of including these employees is not worth the benefit.

Fiscal staff prepared one cost allocation table using prior-period statistical information

Fiscal staff prepared “Table 4” to allocate costs for the Office of General Counsel’s Field Staff. Fiscal staff created this table using the total number of hours worked by members of field staff per federal program. Based on our review, we determined that fiscal staff created this table using statistical data from the third month of the previous quarter and then the first two months of the current quarter instead of statistics from the three months of the current quarter, and they did not adjust the table with current quarter information when the data became available for the quarter’s third month. Fiscal staff stated that they usually receive the data required to create the cost allocation table one month in arrears, so prior-period data was what was available at the time they had to create the table.

For example, for the period October 1, 2017, through December 31, 2017, fiscal staff prepared this table using statistical data from September 1, 2017, through November 30, 2017. September is the third month of the prior quarter, while October and November are the first two months of the current quarter. The department did not adjust the table once the December data was available. We could not calculate questioned costs related to this issue because the data needed to calculate questioned costs was not readily available in the department’s accounting system.

Criteria for Condition A

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.

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)]

³³ The former Controller left his position in October 2018. The current Controller took over operations in November 2018. As this finding addresses repeated issues and we refer to both Controllers, we refer to them as “former” and “current” in the finding in order to specify who provided what information to us.

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.”

Condition and Cause B. Fiscal Staff Allocated Unallowable General Administrative Training Costs to the Child Support Enforcement Program

The former Controller did not ensure that charges to the Child Support Enforcement (CSE) program were for allowable activities. Specifically, fiscal staff charged to the CSE program \$63,215 in costs for general administrative training provided through the Office of Learning and Professional Development. Fiscal staff allocated these training costs to various programs as indirect costs; however, general administrative training costs are not allowable under the CSE program.

The opinion of the former Department Controller and current fiscal staff and management was that this regulation did not apply, as general administrative training costs were essential to run the Child Support Enforcement program, so the department purposefully allocated these costs to the program. We are unaware of any regulation or law that allows unallowable costs to become allowable if fiscal staff deems them to be essential. Furthermore, the department could not provide documentation from the federal grantor that general administrative training costs would be allowed.

Criteria for Condition B

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].

Questioned Costs for Condition B

We questioned \$41,722 of unallowable federal costs charged to the CSE program and \$21,493 in state matching costs, for a total of \$63,215. These amounts are included in Table B in the section below.

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 improperly 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.

Summary of Questioned Costs

We questioned a total of \$86,421 of overcharges to federal programs, consisting of federal questioned costs of \$57,521 and \$28,900 in questioned costs related to state matching funds for federal grant awards. See Table B for details regarding all overcharges and undercharges.

Table B
Total Questioned Costs by Federal Program

Program	Federal Expenditures	State Expenditures	Total Expenditures
Amount Overcharged			
Assistive Technology	\$15	\$ -	\$15
Child Care and Development Block Grant	-	3,979	3,979
Community Services Block Grant	63	-	63
Child Support Enforcement	43,314	21,493	64,807
Independent Living for Older and Blind Persons	393	44	437
Medical Assistance Program	670	670	1,340
State Administrative Expenses for Child Nutrition	127	-	127
Social Security Disability Insurance	5,480	-	5,480
Social Services Block Grant	1,164	-	1,164
Temporary Assistance for Needy Families	1,386	1,386	2,772
Vocational Rehabilitation	4,909	1,328	6,237
Total	\$57,521	\$28,900	\$86,421
Amount Undercharged			
Supplemental Nutrition Assistance Program	\$(11,603)	\$(11,603)	\$(23,206)
State-Only Funds*	-	(63,215)	(63,215)
Total	\$(11,603)	\$(74,818)	\$(86,421)

*This amount represents the amount of unallowable costs charged to the child support enforcement program. Since these are unallowable costs, state funds should have been used on these expenditures instead.

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 DHS Department Controller should ensure that fiscal staff

- create all cost allocation tables in accordance with the approved cost allocation plan and that the approved plan accurately reflects the methodologies fiscal staff use to prepare cost allocation tables;
- use current-period statistical data to create all cost allocation tables; and
- do not use CSE funds for general administrative training costs.

Management's Comment

Condition A: *Fiscal Staff Did Not Always Create Cost Allocation Tables Using Complete or Current-period Data*

Concur.

The Department of Finance and Administration (F&A) accounting office, which staffs the Department of Human Services (DHS), has initiated work with an anticipated completion date of March 31, 2019 for the following:

- 1) Analyze the most cost beneficial approach to handle the individual employees who report time using timesheets when developing cost allocation tables. If it is determined that the current approach of excluding these employees' time from any cost allocation calculations when developing the cost allocation tables should be continued, the cost allocation plan will be amended to disclose the utilization of this approach.
- 2) Determine through collaborative consultation and discussion if it is feasible for the Office of the General Counsel's field staff to submit their records of the number of hours worked per federal program using an accelerated timeline (that allows for the accounting staff to create the cost allocation "Table 4" using actual statistics for the three months of the quarter for which such table is being prepared). If it is determined that the timeline currently utilized by the Office of General Counsel's field staff cannot be cost effectively accelerated, the accounting office will begin adjusting the table with current quarter information when the data becomes available.

Condition B: *Fiscal Staff Allocated Unallowed General Administrative Training Cost to the Child Support Enforcement Program*

Concur.

The Department of F&A accounting office, which staffs DHS, has initiated work to assess and amend the Cost Allocation Plan to comply with the training expenditure requirements of the Child Support Enforcement Program (CSE). In addition, identified control activities will be documented in the ERM activities and monitoring activities will be established to ensure Child Support Enforcement funds are no longer used to fund general and administrative training expenditures. The F&A accounting office will also take the necessary steps to correct the Edison accounting records for the questioned costs identified in the auditors' test work. The above corrective action is expected to be completed on or before June 30, 2019.

Finding Number	2018-014
CFDA Number	10.560, 10.561, 84.126, 93.558, 93.575, and 93.778
Program Name	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 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	185TN915N2533, 185TN408S2514, H126A180063, 1601TNTANF, 1701TNTANF, 1801TNCCDF, and 05-1805TN5MAP
Federal Award Year	2016 through 2018
Finding Type	Significant Deficiency (10.561, 84.126, 93.558, 93.575, and 93.778) Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2017-015
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award Identification Number	Amount
CFDA		
10.560	185TN915N2533	\$57,685
10.561	185TN408S2514	\$1,384

As noted in the prior audit, fiscal staff for the Department of Human Services did not reconcile key data sources for personnel costs, resulting in federal questioned costs of \$59,069

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 four different cost allocation plans effective during the audit period, July 1, 2017, through June 30, 2018. Each cost allocation plan was effective for one quarter.

F&A's method for allocating personnel costs to federal and state programs varies depending on whether the approved cost allocation plan identifies the personnel costs as direct or indirect costs. Direct costs are costs easily identifiable with a particular final cost objective.³⁴ Indirect costs are

³⁴ 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.

costs that are incurred for a common or joint purpose benefiting more than one cost objective and that are not directly assigned to specific federal or state programs without undue effort. Generally, the amount of resources needed to directly assign indirect costs is greater than any benefit that would be gained by assigning them directly.

Federal Documentation Requirements

Federal grant awards are subject to “Uniform Administrative Guidance,” Title 2, *Code of Federal Regulations* (CFR), Part 200. Specifically, 2 CFR 200.430, “Compensation – Personnel Services,” 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 accurately reflect the work performed and must be based on records 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, 45 CFR 98.67(c) requires 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 were not used in violation of program requirements.

In the prior audit, we noted that management

- did not ensure personnel costs were supported by adequate documentation,
- did not implement the new electronic timesheet system with adequate controls in place to ensure the correct allocation of personnel costs, and
- did not ensure staff reconciled key data sources to verify they allocated personnel costs correctly.

Management concurred in part with the prior-year finding, stating that management had already implemented procedures to correct leave charged incorrectly and that they would implement new procedures to reconcile key data sources by June 30, 2018. Although management corrected many of the issues from the prior audit, we found that fiscal staff still did not reconcile key data sources used to allocate personnel costs during our audit period.

Condition and Cause

Since management had not implemented a payroll reconciliation process during our audit period, we randomly selected the third and fourth quarters of the audit period, January 1, 2018, through June 30, 2018, and we reconciled the two key data sources that DHS uses to allocate payroll costs to ensure fiscal staff appropriately allocated and charged personnel costs to federal programs. The first data source is DHS' staffing query data, which shows an employee's job title and assigned department ID.³⁵ The second data source is the Edison expenditure records, which show how the staff charged an employee's personnel costs to federal programs.

During this period, DHS allocated payroll costs totaling \$108,595,752 for 3,798 unique employees. For each employee listed in the staffing query, we compared the employee's department ID listed in the staffing query to the employee's department ID associated with his or her payroll costs. We identified instances where expenditure records did not match the staffing query, and we further analyzed the differences to determine if the differences were reasonable.

Based on testwork performed, fiscal staff did not correctly charge two employees' payroll costs during the period January 1, 2018, through June 30, 2018. The total amount of payroll costs charged for these individuals was \$98,573 during the period January 1, 2018, through June 30, 2018. We calculated the correct allocation of costs for these two employees, compared this allocation to the actual costs charged to federal programs, and questioned the overcharged payroll costs. This resulted in questioned costs of \$59,069 in federal funds and \$3,504 in state matching funds. See the Questioned Costs section below for more details and a breakdown of questioned costs by federal program.

After we brought this matter to the attention of fiscal staff, they corrected the payroll charges in the accounting records for the two employees. Additionally, fiscal staff created a process to reconcile staffing assignment records with actual charges in Edison and implemented this process after the end of the audit period. We will test the impact of this change during the next audit.

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. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; [and]
- (ii) 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

³⁵ A department ID is a classification within Edison, the state's accounting system. DHS allocates costs based on which department ID the costs are assigned to. This means that if a cost is assigned to the wrong department ID, it could be allocated to inappropriate federal programs.

support the distribution of the employee's salary or wages among specific activities or cost objectives.

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.

Questioned Costs

We questioned \$59,069 in federal costs and \$3,504 in state matching funds. See **Table 1** below for total questioned costs by program. While we are not questioning undercharges to federal programs, we also presented the undercharges that resulted from the errors in **Table 1** to show where DHS could have and should have charged the costs to maximize the federal resources and conserve state resources.

Table 1
Questioned Costs by Federal Program

Federal Program	Federal Expenditures	State Matching Expenditures	Total Expenditures
Amount Overcharged			
Child Care and Development Block Grant	\$ -	\$ 106	\$ 106
State Administrative Expenses for Child Nutrition	57,685	-	57,685
Supplemental Nutrition Assistance Program	1,384	1,370	2,754
Temporary Assistance for Needy Families	-	2,028	2,028
Total	\$59,069	\$3,504	\$62,573
Amount Undercharged			
Child Support Enforcement	\$ (56)	\$ (29)	\$ (85)
Medical Assistance Program	(14,813)	(14,813)	(29,626)
Social Services Block Grant	(32,148)	-	(32,148)
Temporary Assistance for Needy Families	(714)	-	(714)
Vocational Rehabilitation	(1)	-	(1)
Total	\$(47,731)	\$(14,842)	\$(62,573)

This finding results in total known federal questioned costs exceeding \$25,000 for the State Administrative Expenses for Child Nutrition program, which is not audited as 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.

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

Effect

By not reconciling key data sources to ensure fiscal staff charge payroll correctly, management increases the risk that DHS will improperly charge payroll costs to federal awards, resulting in noncompliance with federal requirements and the possibility that federal agencies will seek to recover disallowed and/or unsupported costs.

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 Commissioners for the Department of Finance and Administration and the Department of Human Services should ensure fiscal management and staff perform adequate reconciliations to ensure that all personnel costs are allocated correctly.

Management's Comment

Concur.

The Department of Finance and Administration (F&A) accounting office, which staffs the Department of Human Services (DHS), has already implemented a business process that reconciles the key data sources (i.e. DHS staffing query data and Edison expenditure records) used to allocate personnel costs.

On or before September 30, 2019, this transactional control activity will be included in the documentation of the Enterprise Risk Management (ERM) activities of the accounting office. In addition, monitoring activities will be established as needed to ensure that it is operating effectively and does not deteriorate over time.

Note: In November 2018, DHS accounting office staff corrected the payroll charges for the two employees noted by the state auditors' testwork as not having been correctly charged during the audit period, thereby effectively adjusting the over (questioned) and under charges of federal and state resources as identified in Table 1.

Finding Number	2018-015
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	165TN331N1099, 165TN331N2020, 165TN340N1050, 175TN331N1099, 175TN331N2020, 175TN340N1050, 185TN331N1099, 185TN331N2020, 185TN340N1050, and 185TN332L4003
Federal Award Year	2016 through 2018
Finding Type	Significant Deficiency (10.559) Material Weakness (10.558)
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring Other
Repeat Finding	2017-017 2017-027
Pass-Through Entity	N/A

CFDA	Federal Award Identification Number	Amount
10.558	165TN331N1099, 165TN331N2020, 165TN340N1050, 175TN331N1099, 175TN331N2020, 175TN340N1050, 185TN331N1099, 185TN331N2020, and 185TN340N1050	FY2017: \$11,199 FY2018: \$265,504
10.559	175TN331N1099, 185TN331N1099, and 185TN332L4003	FY2017: \$16,601 FY2018: \$50,352 FY2019: \$40,898

The Department of Human Services’ oversight activities continue to lack sufficient follow-up actions to address repeated sponsors’ noncompliance and fraud risk factors, allowing sponsors to repeatedly violate federal requirements and resulting in \$384,554 of improper payments

Background

The Department of Human Services (DHS), in partnership with the U.S. Department of Agriculture and local organizations, operates the Child and Adult Care Food Program (CACFP)

and the Summer Food Service Program for Children (SFSP) 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. DHS contracts with subrecipients, who administer the programs and deliver the meals to eligible participants. DHS reimburses the subrecipients to cover the administrative costs and the costs of meals served.

DHS' Responsibilities as a Grant Administrator

As a pass-through entity for federal funds, DHS 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 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' 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 Single Audit Report Results for Food Programs

Since 2014, we have reported to management the inadequacy of the food programs' administration and recommended the need for a robust program overhaul, with an emphasis on strengthening controls within the monitoring and oversight activities. In the prior four audits, we have reported the following number of findings, outlined in **Table 1**, both for CACFP and SFSP, with corresponding questioned costs:

Table 1
CACFP and SFSP Findings – Overall Perspective

Single Audit Year	Number of New Findings	Number of Repeat Findings	Number of Total 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
2018	1	7	8	\$1,918,307

History of Repeated Noncompliance/Fraud Indicators in the Food Programs

From our site reviews of subrecipients, we found fraud indicators and questionable practices at subrecipients and their feeding sites. We have repeatedly communicated to management that until DHS enhances its efforts to identify sponsors with high fraud risk factors and take aggressive action to ensure sponsors comply or are terminated from the programs, management will continue to allow the repeat offenders to steal from the state through these federally funded programs.

We have reported in the annual *Single Audit Report* the following number of findings (listed in **Table 2**) that included subrecipients with fraud indicators and the corresponding questioned costs:

Table 2
CACFP and SFSP Findings – Perspective on Reporting Actual Fraud and Fraud Indicators

Single Audit Year	Findings Where We Reported Actual Fraud or Fraud Indicators	Number of Subrecipients Reported in the Findings	Questioned Costs Reported in the Findings
2014	2	3	\$576,630
2015	2	2	\$98,407
2016	5	15	\$3,059,152
2017	2	5	\$837,313
2018	3	10	\$547,774

It is important to note that in a majority of instances, we identified improper payments resulting from fraud risk indicators based on samples of transactions we randomly selected for our testwork, suggesting that fraud and corresponding questioned costs are likely higher than reported in our current and prior years' *Single Audit Reports*.

Management's Steps to Address Prior-year Findings

In response to our prior-year findings, management took the following steps to improve management's oversight of the programs:

- 1) In 2016, DHS 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 administrative costs and the costs of 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 need for management to retain hard copies of applications and various program records.
- 2) To improve processes within the Audit Services section during monitoring reviews, in May 2017 DHS implemented the ACL software, which replaced the previous pen-and-paper review system. The new system provides electronic access to the working papers from any location and allows staff to retain program records electronically.

- 3) During fiscal year 2018, management had filled vacant positions of auditors, monitors, and investigators assigned to the food programs so that staffing levels remained reasonably consistent. In addition, we found that the retention levels for key management positions directly responsible for overseeing the administration of the food programs were consistent with no significant turnover.

Despite these improvements, management has not yet sufficiently improved its internal control processes to identify and follow up on sponsors with fraud risk factors so that management can gain sponsor compliance or promptly remove sponsors that are unable or unwilling to comply with program requirements.

United States Department of Agriculture's Office of Inspector General Releases Audit Report on Controls over the Food Nutrition Services' Summer Food Service Program for Children³⁶

The U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG) recently released a report on the Food Nutrition Service's (FNS) controls over SFSP. FNS is a division of USDA that is responsible for administering the food programs at the national and regional levels. The audit contained three findings. One finding specifically addressed the fact that SFSP is at risk for significant improper payments and susceptible to fraudulent activities, the very same vulnerabilities we have continued to report to DHS management since 2014 and again in this *Single Audit Report*. As OIG describes in the report, a lax regulatory environment, perplexed program guidance, and a self-reporting system for reimbursement requests makes it especially easy for questionable subrecipients to repeatedly commit fraud and continue participating in the program.

As highlighted in the 2018 OIG audit report and in our *Single Audit Reports* since 2014, both OIG and our office have emphasized the need for enhanced follow-up to maintain program integrity when repeat offenders refuse to comply with program requirements. DHS management; however, has not yet focused on developing sufficient follow-up actions to address repeat offenders and questionable sponsors in the food programs. DHS management has repeatedly stated that it meets the minimum federal requirements. We have continued to recommend that management do more than the minimum requirements to address program vulnerabilities when either our audits or its own monitors identify repeat offenders and questionable billing practices. Until management takes necessary actions to maintain the programs' integrity by implementing sufficient follow-up actions to detect and prevent sponsors from stealing from or abusing the programs, DHS continues to make it easy for sponsors to take advantage of the programs' vulnerabilities.

We describe the repeated conditions below.

Condition A: *DHS Did Not Adequately Address the Continuous Noncompliance and Repeat Weaknesses in Internal Controls*

Our current audit results include 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 3**). These findings, when considered both individually and collectively, indicate that, despite DHS' continuous efforts to address deficiencies, management

³⁶ See USDA's OIG audit report 27601-0004-41, titled *FNS Controls Over Summer Food Service Program*, dated March 2018. Obtained from <https://www.usda.gov/oig/webdocs/27601-0004-41.pdf>.

still has work to do to establish the oversight necessary to identify sponsors that continue to exhibit an unwillingness to comply with the requirements, as evidenced by our audit results and DHS' routine monitoring reviews.

Of the eight food program findings reported in the current audit report, seven are repeat findings and one is a new finding. Management's corrective action was not sufficient to significantly reduce sponsor noncompliance or to correct control deficiencies at both the department and the subrecipient levels. During our discussions with management, we asked why management has been unable to correct the conditions noted, but management did not provide any comments for the majority of the findings by the time we finalized our audit. For the rest of the findings, management comments suggest that DHS had no or ineffective control processes in place to prevent the noncompliance from occurring.

Table 3
Summary of CACFP and SFSP Repeated Findings Reported in the *Single Audit Report* for Fiscal Year 2018

Program	Finding	Finding Number	Questioned Costs
CACFP	Repeat - For the sixth 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 documentation as required by federal regulations	2018-019	\$13,203
CACFP	Repeat - For the fourth year, the Department of Human Services did not ensure that the Child and Adult Care Food Program subrecipients maintained accurate and complete supporting documentation for meal reimbursement claims and that subrecipients received reimbursements in accordance with federal guidelines	2018-018	\$1,005,423
CACFP	Repeat - As noted in the two prior audits, the Department of Human Services has not developed effective internal controls over commodities and did not ensure that subrecipients were properly reimbursed for commodities	2018-020	\$0
SFSP	Repeat - For the fifth 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	2018-022	\$7,152

Program	Finding	Finding Number	Questioned Costs
SFSP	Repeat - As noted in the prior four audits, 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	2018-021	\$507,975
CACFP/SFSP	New - The Department of Human Services has inadequate internal controls over subrecipient monitoring and did not perform monitoring reviews in accordance with program requirements	2018-016	\$0
CACFP/SFSP	Repeat - As noted in the prior two audits, the Department of Human Services did not comply with federal billing requirements to recoup disallowed costs and had inadequate internal controls over the collection process	2018-017	\$0
CACFP/SFSP	Repeat - The Department of Human Services' oversight activities continue to lack sufficient follow-up actions to address repeated sponsors' noncompliance and fraud risk factors, allowing sponsors to repeatedly violate federal requirements (see Condition B below)	2018-015	\$384,554
Total			\$1,918,307

Condition B – Repeat Offenders Continue to Participate in the Food Programs and Submit False Claims

Despite our numerous prior findings on repeat offenders and fraud indicators, DHS has not yet developed and implemented effective preventive and detective controls to prevent ill-intended subrecipients from participating in the food programs and submitting false claims. During our current audit, we identified numerous subrecipients who continued to submit false claims by inflating meals on reimbursement requests or claiming meals at fake sites and receiving reimbursement payments for meals not served to children. Since these subrecipients are subjects in ongoing investigations, we cannot provide any specific details on these entities.

Risk Assessment

We reviewed DHS' December 2017 Financial Integrity Act Risk Assessment and determined that management listed the risk of subrecipients submitting claims without supporting documentation; however, DHS did not mitigate its risk by establishing proper oversight and preventive controls—specifically, establishing an effective process to identify and expeditiously follow up on improper payments and fraud risk indicators.

Cause

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

Management's Opinion That Meeting Minimum Federal Requirements is Sufficient

Since 2014, we have communicated to DHS that the food programs need a robust overhaul of oversight to address continuous weaknesses. Despite management's attempts to strengthen the oversight for subrecipients who are unwilling or unable to correct repeat program noncompliance, management has still not improved the process to identify sponsors exhibiting fraud risks or to increase scrutiny of subrecipients that are identified as risky. Management has the responsibility to maintain program integrity and therefore should pursue and follow up on the subrecipients until corrective action is achieved and compliance is consistent. Until these processes are in place and operating effectively, management allows habitual "repeat offenders" to undermine the food programs' integrity and jeopardize federal funding.

Management continues to justify its current level of oversight efforts by claiming DHS meets or exceeds minimum requirements established by the federal program. However, merely meeting or even exceeding certain federal requirements is not sufficient management oversight action to actively seek out subrecipients who are intentionally designing overbilling schemes to defraud the state and federal government. As the grantor and the pass-through entity of the federal funds, it is ultimately management's responsibility, under the programs' authority, to ensure that only sponsors who are willing and capable to comply with program rules and regulations participate in the programs.

Management's Narrow Focus and Inability to Design and Implement Effective Enhanced Controls Within the Programs' Riskiest Areas

We have reported subrecipients with fraud indicators in our findings for five consecutive years, and management continually fails to examine and scrutinize questionable reporting practices that we consider to be the riskiest and the most vulnerable to fraud. As a result, repeat offenders continue submitting false claims, year after year, by one or a combination of the following methods:

- tampering with program documentation,
- incorrectly reporting meals,
- billing for meals never served, and
- misusing program funds for unauthorized purchases.

Even though DHS monitors have observed similar inconsistencies during their monitoring reviews, management has not implemented enhanced processes to follow up on unreasonable patterns occurring in the food programs. Management's narrow focus is based on a checklist of procedures rather than on gathering evidence of improper billings so that these subrecipients can be removed from the programs. Management apparently believes that effective monitoring is measured by the number of site visits performed or the number of questions answered on its

monitoring checklists, instead of results-based reviews that ensure subrecipients comply or are promptly removed from program participation. Management continues to rely heavily on subrecipients' integrity for accurate self-reporting of meals and does not adequately follow up on inconsistencies, such as questionable meal reporting patterns, based on its own monitoring results or audit results shared through our findings.

Management Has Yet to Achieve and Sustain Program Integrity and Standards

Management stated in its comments to the prior audit finding that program integrity is imperative but, at the same time, it must be balanced within the context of the practical operation of the programs, including inherent challenges of the programs' design. We believe, however, management's assertion that oversight for the food programs is operating at the acceptable level is mistaken, as evidenced by continuous and repeat findings noted during our current audit.

Training Concerns

Despite all available tools to train subrecipients and strengthen their knowledge on program requirements, both we and DHS monitors continue to observe violations in operations of the food programs, year after year, in some cases for the same subrecipients. These entities have received endless hours of training and technical assistance and were required to submit numerous corrective action plans from prior-year monitoring noncompliance, yet their violations continue. Although management continues to offer training, either the training is ineffective or the subrecipients' intent is to steal or not to comply, and in either case, the sponsors who repeatedly violate the program rules should be closely watched or removed from the program. Without stiffer penalties for repeat offenders, management continues to foster an environment characterized by sub-standard performance and dishonest behaviors.

Continuous Information Systems Design Deficiencies, Under-utilized Technology, and Lack of Basic Analytical Procedures

Even after implementing TIPS and ACL, which management believed would help resolve these long-standing findings, we continue to identify similar conditions of noncompliance and control deficiencies in both SFSP and CACFP. While TIPS' edit checks detect when sponsors overclaim meals over the maximum approved numbers, the subrecipients' failure to accurately calculate meals and maintain accurate and complete documentation to support the reimbursement claims continues to be an issue for the subrecipients and DHS.

In addition, management does not use TIPS to its full potential. Despite TIPS having the capability of retaining meal count documentation electronically, during our current audit we have noted instances of missing or lost meal count documentation, resulting in a high amount of questioned costs. Furthermore, DHS does not consistently perform analytical procedures to analyze the meal claims for reasonableness prior to approving all sponsors' claims for reimbursements, stating that such tasks would be too time-consuming to implement and sustain. Management has not yet developed historical data and systematic procedures using the available technology, institutional knowledge, and experience with the programs, which could help detect questionable patterns and/or identify irregularities.

Criteria

Condition A

According to “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 331, the pass-through entity’s monitoring of subrecipients must include

Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.

In addition, 2 CFR 200.62 states,

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

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

Condition B

According to 7 CFR 225.15(c),

Sponsors shall maintain accurate records justifying all 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.

Effect

Because DHS 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 implementing sufficient follow-up processes to address repeat offenders in the future, DHS 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 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 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

See **Table 4** for details of questioned costs associated with Condition B.

Table 4
Questioned Costs for Condition B – Repeat Offenders in the Food Programs

Applicable Fiscal Years*	Known Questioned Costs[†]		Total Payments to Subrecipients (Repeat Offenders)[‡]	
	CACFP	SFSP	CACFP	SFSP
2017	\$11,199	\$16,601	\$904,439	\$67,905
2018	\$265,504	\$50,352	\$2,589,079	\$245,005
2019	-	\$40,898	-	\$744,590
Totals	\$276,703	\$107,851	\$3,493,518	\$1,057,500
	\$384,554		\$4,551,018	

*Our discovery and follow-up on false claims and improper payments in the food programs spanned a period of three fiscal years, either due to the timing of when we initially noted questionable practices and the timing of our investigations, or due to the nature of the food program operations. Meal services and corresponding payments for those meals do not always occur in the same fiscal period.

[†]These are the questioned costs we determined based on our review of *samples* of transactions, which represent only a small fraction of the actual food program operations for the subrecipients in questions. Actual questioned costs could and most likely are significantly higher.

[‡]These are the overall reimbursement amounts the subrecipients in question received for applicable review periods associated with fraud risk. These amounts could potentially be at risk.

Recommendation

The Commissioner should pursue actions afforded to DHS as the pass-through agency to ensure subrecipients, and DHS, comply with the federal requirements. The Commissioner, the Director of Child and Adult Care Food Program and Summer Food Service Program, and the Director of Audit Services should ensure that staff implement stronger controls that address all deficiencies and should recover overpayments to subrecipients. The Commissioner should analyze and improve control processes affecting DHS and its subrecipients to ensure compliance with all federal requirements. The Commissioner should seek to establish better oversight to identify high-risk subrecipients and to follow up when billing schemes are found. With proper oversight, management is more likely to have reasonable assurance that both staff and subrecipients have reasonably complied with federal regulations.

If subrecipients continue to not comply with federal guidelines, management should impose additional conditions upon the subrecipients or take other action, as described in 2 CFR 200.207 and 200.338.

The Commissioner should assess all significant risks, including the risks noted in this finding and other findings, in DHS' documented risk assessment. The risk assessment and the mitigating controls should be adequately documented. The Commissioner should implement effective controls to ensure compliance with applicable requirements; assign employees to be responsible

for ongoing monitoring of the risks and any mitigating controls; and take prompt action if deficiencies occur.

Management's Comment

This finding is a subjective executive summary of other findings throughout this audit period as well as historical information of the food programs' findings that have been included in the previous *Single Audit Reports*. The Department provided comment to each finding noted herein and thus, will not repeat the management responses that are found in this report. However, certain and serious items reported within this finding require specific response.

Since 2017, the Department has remained committed and focused on program integrity. Through this process, the Department recognized that collaboration is tantamount to success and has worked with each of the federal partners to build relationships that allow regular guidance and communication, which, in turn, has led to tremendous gains in the efficacy of the Department's programs.

Repeat Offenders Continue to Participate in the Food Programs and Submit False Claims

Management has established and strengthened oversight and continued to implement improvements with administering and monitoring the food programs through continuous staff training, skills development, professional development, technology utilization, and increased monitoring. Currently, 18 of 50 audit services staff possess a professional certification such as Certified Fraud Examiner (CFE) and/or Certified Public Accountant (CPA).

The Department has communicated to and updated the state auditors of these efforts during their fieldwork, and they acknowledged the Department's ongoing improvements for protecting the food programs' integrity. Unfortunately, the ability to pursue false claim cases when the Department is unaware, and the Comptroller has knowledge, does not allow further strength in these cases. In fact, the Department requested from State Audit and was denied specific information pertaining to allegations of fraud. The Department, therefore, has partnered with the United States Department of Agriculture Office of Inspector General. This partnership will allow the Department to appropriately pursue true cases of fraud in these programs.

Management's Opinion That Meeting Minimum Federal Requirements is Sufficient

Contrary to the state auditors' assertions that management did not follow up and remove noncompliant subrecipients from participating in the food programs, management had and continues to identify noncompliant subrecipients, terminate them from participating in the food programs, and follow up on collection of disallowed costs identified in the monitoring reports.

The Department communicated this information to the state auditors during their fieldwork and in the response to the last year's *Single Audit Report*; however, the state auditors dismissed these efforts, incorrectly citing that between 2014 and 2017 only 17 SFSP sponsors were terminated. In fact, sponsors are terminated from the food programs for noncompliance with the food programs' requirements as part of the audit services subrecipient monitoring, whether the termination was due to high risk, fraud risk factors, being nonresponsive with corrective actions, or other factors.

The Department has terminated more than 50 sponsors since 2015. The reports for these terminations are publicly available on the TNDHS website within the CACFP and SFSP web pages.

The Director of Audit Services created a subdivision, within the Division of Audit Services, consisting of 20 staff assigned to monitor over 380 subrecipients participating in the food programs, representing over 4,000 feeding sites across the State. The monitors are supported by external program review auditors for financial reviews, and investigators, as needed. The Department has increased the number of feeding sites and subrecipient monitoring. In the summer of 2018, the Department conducted unannounced on-site monitoring visits to 30 SFSP subrecipients (52%) from the approved 58 subrecipients and conducted on-site visits to feeding sites, between 12% and 15% (depending on the size of the subrecipient) of each subrecipient. In addition, the Department conducted unannounced on-site visits to all new subrecipients representing over 80 feeding sites to determine whether the feeding sites are in operation during the summer. During FY 2018, the Department also monitored 113 CACFP subrecipients (36%) from the approved 310 subrecipients and conducted unannounced on-site monitoring visits to least 12% of those subrecipients' feeding sites. The monitoring reports are provided to the state auditors as they are released and demonstrate the Department's commitment to maintain integrity in these programs.

Auditor's Comment

Overall Misconception

To address Management's comment "Unfortunately, the ability to pursue false claim cases when the Department is unaware and the Comptroller has knowledge, does not allow further strength in these cases" we offer, as noted in our prior auditor comment, that management has a fundamental misconception of the most basic responsibility as a federal fund recipient: to take reasonable steps to ensure that the funds they are entrusted with are properly spent. We have recommended that management must develop a better process to actively follow up on red flag risks and false claims leading to improper payments. We have reported subrecipients with fraud indicators in our findings for five consecutive years, and management continually fails to examine and scrutinize questionable billing practices that we consider to be the riskiest and the most vulnerable to fraud.

Repeat Offenders Continue to Participate in the Food Programs and Submit False Claims

As we noted in the finding, the subrecipients are subjects in ongoing investigations and we cannot provide any specific details on these entities.

Management's Opinion That Meeting Minimum Federal Requirements is Sufficient

Management's comments appear to be in response to information they self-reported in the prior 2017 Single Audit report. In fact, in management's comments from that report, they stated they had terminated "17 SFSP sponsors." We did not include information about the number of subrecipients terminated from the program in this finding or in the prior audit finding.

In addition, we attempted to validate management's claim that the monitoring reports were publicly available on the TNDHS website within the CACFP and SFSP web pages. As of March

11, 2019, the web pages only included types of noncompliance found during monitoring, and was only available through fiscal year 2015 for CACFP and 2014 for SFSP.

Finding Number	2018-016
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	165TN331N1099, 165TN331N2020, 165TN340N1050, 175TN331N1099, 175TN331N2020, and 175TN340N1050
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency (10.559) Material Weakness (10.558) Noncompliance – Subrecipient Monitoring
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Eligibility Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services has inadequate internal controls over subrecipient monitoring and did not perform monitoring reviews in accordance with program requirements

Background

The Child and Adult Care Food Program (CACFP) and the Summer Food Service Program (SFSP) for children are funded by the U.S. Department of Agriculture and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP and SFSP funds, DHS is responsible for providing sufficient qualified consultative, technical, and managerial personnel to administer the program and monitor performance to ensure that subrecipients comply with program rules and regulations.

Subrecipients, through approved feeding sites where actual meal services take place, provide meals and supplements to eligible participants. To receive reimbursement payments for meals served to children, subrecipients submit reimbursement requests to DHS through the Tennessee Information Payment System (TIPS), an online platform DHS implemented in 2016 to improve the oversight of the food programs' administration. Subrecipients self-report the number of meals claimed on reimbursement requests based on daily meal count documentation prepared by site personnel during each meal service. Subrecipients are required to retain all program records for a period of at least three years and provide records to authorities performing monitoring reviews or audits.

DHS is required to monitor subrecipients' activities to obtain reasonable assurance that the subrecipients administer federal awards in compliance with federal and state requirements. Given that the department has no front-end control in place to prevent improper payments to subrecipients, the department has utilized the Audit Services Unit (ASU) to provide a detective

control through its monitoring process, which is the department's only control for determining the accuracy of the reimbursement claims.

Audit Services Unit Monitoring Process

Monitors document their reviews in Audit Command Language (ACL), an online platform the department implemented in May 2017 to improve and streamline the monitoring processes during monitoring reviews. ACL provides electronic access to the working papers from any location and allows management to maintain monitoring records in electronic formats.

Audit Services' monitors perform the following types of reviews during the monitoring:

- 1) Site Reviews. Monitors visit feeding sites where the actual meal services take place and perform meal service observations to assess whether feeding site personnel comply with applicable rules and regulations. Federal regulations for each program outline the minimum required number of site reviews that monitors must perform.
- 2) Sponsor Reviews. Subsequent to the site reviews, monitors perform an administrative review of the subrecipients to assess their compliance with the administrative requirements over the program operations. Monitors also review the subrecipients' meal count documentation to verify it matches the reimbursement requests submitted for meals served.
- 3) Vendor Reviews, applicable to SFSP only. If the subrecipients obtain meals to serve to children from a food vendor, instead of self-preparing meals, monitors visit the facilities of the food vendor to evaluate the vendor's compliance with applicable program rules.

In ACL, monitors document the results of the reviews on the applicable electronic site guide, sponsor guide, and vendor guide. Once the monitors complete the applicable reviews, they consult with program staff to discuss their monitoring results to determine how the noncompliance should be reported and addressed. This multi-level review also serves as management's quality assurance process to ensure monitoring activities are sufficient, documented, and support the final monitoring reports. During this multi-level review, management determines whether the identified noncompliance rises to the level of a Serious Deficiency or is reportable as a finding.

Upon the completion of the review, ASU releases the monitoring report, which includes details of the noncompliance; all corresponding disallowed meal costs, if any; and instructions for corrective action. The instructions specifically inform the subrecipient to submit a corrective action plan outlining steps to address and prevent the noncompliance from occurring in the future and how to submit payment for disallowed meal costs. Once the subrecipient submits the corrective action plan, the department's food program staff assess the plan for adequacy and track the recovery of disallowed meal costs.

Serious Deficiency Process

As outlined in the federal regulations, the department is required to identify and classify a subrecipient's more serious program violations as serious deficiencies. The Serious Deficiency process requires DHS to begin actions to terminate the sponsor from the program including denial

of the subrecipient's future applications and program participation unless the subrecipient takes appropriate corrective actions to address the serious deficiencies and repays all disallowed costs. Once a subrecipient is determined seriously deficient in the food program operations, the department must perform monitoring reviews during the subsequent program year if the subrecipient is permitted to participate.

Current Testwork

During our current testwork, we reviewed reports released by the Food Nutrition Services (FNS), the division of USDA responsible for administering the food programs on the national and regional levels, to ensure we focused our audit objectives on similar concerns reported by FNS. During the 2016 federal fiscal year, FNS performed the management evaluation to assess the department's compliance with its responsibility for the administration of CACFP. In the management evaluation report,³⁷ FNS reported 12 major findings, of which at least 5 are identified weaknesses in the subrecipient monitoring and follow-up processes. The management evaluation reported that

- the department was not in compliance with program review requirements of institutions;
- review instruments were inadequate to ensure that program requirements were being met by sponsoring organizations, institutions, and facilities;
- the department was not issuing review reports to institutions in a timely manner, nor ensuring that corrective actions were implemented timely for deficiencies cited;
- the department was not issuing notices of serious deficiencies timely, nor following the serious deficiency process in a timely manner; and
- the department was not ensuring that sponsoring organizations of family day care homes correctly implement the serious deficiency processes.

Based on our current testwork results, we noted the department has not sufficiently addressed the weaknesses noted in the USDA FNS 2016 management evaluation report, as evidenced by our results

- in conditions A and B below;
- in finding 2018-017 for inadequate billing follow-up processes; and
- in finding 2018-015, inadequate follow-up of fraud risk factors.

For our CACFP testwork, we selected a sample of 60 monitoring reports and the supporting monitoring files as follows:

- using our judgement and taking into consideration various risk factors associated with program operations, we identified and selected 10 high-risk subrecipients from the population of 183 monitoring reports issued during state fiscal year 2017; and

³⁷ Special Nutrition Program Management Evaluation Report Fiscal Year 2016 – *Tennessee Department of Human Services Child and Adult Care Food Program*, dated February 8, 2016.

- from the remaining 173 monitoring reports, we randomly selected 50 monitoring reports.

For our SFSP testwork, we reviewed all 18 monitoring reports issued during state fiscal year 2017 with supporting monitoring files.

In response to prior audit findings related to management's oversight of the food programs, the Audit Services section implemented the Audit Command Language (ACL) software in May 2017 to improve the documentation and retention of program records in electronic format. The Audit Services unit also improved in the retention of knowledgeable staff to complete the monitoring reviews. When we discussed the monitoring process and based on our review of their subrecipient monitoring reports, we found that during the monitoring reviews, monitors routinely find and report individual conditions of noncompliance; however, even though monitors find noncompliance, their monitoring activities and reports have not had the desired impact to bring subrecipients into compliance. As such, we conclude that the department's subrecipient monitoring process is not working well enough for department management to fulfill its responsibility to provide reasonable assurance of subrecipients' compliance with federal regulations. Instead, we continue to find the same noncompliance at the subrecipient level year after year. We believe that management's monitoring process must include additional/expanded monitoring activities and follow-up actions to address subrecipients who continue in noncompliance. In the conditions below, we provide details of insufficient monitoring activities and noncompliance resulting from monitors who did not follow the monitoring guides.

Condition A and Criteria: *Insufficient Subrecipient Monitoring*

Various program-specific guides in both CACFP and SFSP require the department to implement an adequate monitoring system with sufficient monitoring steps, effective follow-up processes, and adequate review practices to obtain reasonable assurance about subrecipients' performance and accountability of program funds. In addition, according to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 62,

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.

During the performance of our testwork, we noted several areas within the monitoring process that were not sufficient and that contributed to ongoing noncompliance.

Inadequate/Flawed Multi-Level Review Process – As described above, the ASU and program staff consult with each other after monitoring reviews are completed to discuss the status of a subrecipient's compliance with federal requirements. We found that the multi-level review (which also serves as the quality review process for monitoring activities, documentation, and reporting) did not meet our expectations of a system sufficiently designed to achieve quality monitoring and subrecipient compliance. Instead, we found that the multi-level reviews failed to detect monitoring deficiencies. The majority of the noncompliance noted in Condition B below stems from monitors' inadequate and inconsistent monitoring activities and insufficient documentation.

Lack of Consistent Procedures and Guidance During Monitoring Reviews – We noted that department management has not developed sufficient procedures and guidelines to ensure that monitors perform consistent and uniform reviews. Based on our review of the monitoring files, we found instances where monitors may have misunderstood and inadequately assessed compliance requirements they were responsible for verifying. The department's monitoring review guides include approximately 350 questions to assess subrecipients' compliance, without providing any explanation or reference to additional details of the underlying federal requirements. Taking into consideration the complexity, unique characteristics of both programs, and pre-established deadlines to complete the reviews, the monitors do not have information and adequate resources to perform quality reviews. Instead the monitors appeared to use the guides as a checklist without devoting time to expanded monitoring activities to address questionable billing practices or other fraud and compliance risks. Additionally, although department management stated that the monitoring guides were uniform and could only be altered by the Director of Audit Services, we noted inconsistencies in the guides we reviewed.

Manpower Levels with Demanding and Deadline-Driven Work Load – With approximately 400 subrecipients sponsoring thousands of meal feeding sites state-wide, it is difficult for the 20 ASU monitors to adequately perform reviews with due diligence to obtain reasonable assurance of subrecipients' compliance and/or to follow up on irregularities. To accomplish the activities they do, monitors have pre-established deadlines to submit monitoring files for further review, regardless of what they may find during the monitoring reviews. Even though management has been able to keep positions for food program monitors, auditors, and investigators primarily filled, we question whether the current number of positions is adequate given the continuing problems and risks associated with the food programs.

Inadequate Follow-up Procedures on Inconsistencies and Red Flags – Department management has not yet developed effective enhanced monitoring processes to follow up on questionable subrecipient billing practices and fraud schemes, such as claiming the same number of meals for long periods or claiming more meals on days that monitors were not present compared to days that monitors observed the meal service. See finding 2018-015 for additional details on fraud

indicators in the food programs which could have been detected had the department developed targeted follow-up and enhanced processes to address questionable subrecipient billing patterns. During our testwork, we found that monitors had identified clear questionable patterns in the monitoring files, yet the monitors did not perform additional procedures to analyze the questionable patterns. We also found that management responsible for the review of monitoring activities also did not react to the monitors' evidence of questionable subrecipient billing practices and risks of continued noncompliance.

Not Utilizing Serious Deficiency Process Effectively – The federal regulatory guidance on what constitutes a serious deficiency is not completely defined, and management has a certain degree of discretion to identify the subrecipient as seriously deficient in the food program administration. However, once the department identifies a subrecipient as seriously deficient, the department is required to provide stricter oversight and more frequent monitoring than for subrecipients that are not classified as seriously deficient. We found instances where the subrecipient's noncompliance met or could meet the regulatory definition of a serious deficiency; however, food program staff did not elevate the issue to the serious deficiency level, essentially allowing the subrecipient to continue participating without any increased scrutiny from monitors. In fact, based on the current monitoring process and schedule, monitors would not visit the subrecipients again until three years has passed.

We also found that the monitors did not always elevate evidence of health and safety concerns to the level of a serious deficiency. Based on our review of monitoring files, we found that monitors documented that the number of children in the subrecipients' care exceeded the allowable licensed capacity, which according to federal regulations poses an imminent threat to the health and safety of the children. Monitors also documented, but did not report, another health and safety concern involving food storage requirements; however, they did not require the subrecipient to dispose of food stored at improper temperatures. Instead, the department allowed the subrecipient to move the food to another storage facility where the food was later served to children. In addition to elevating these types of health and safety violations to a serious deficiency, the department is required to terminate the site from participation in the programs.

Condition B and Criteria: *Noncompliance Noted During CACFP and SFSP Monitoring Reviews*

CACFP Monitoring Reviews

Based on our review of CACFP monitoring files, we noted the department either did not assess or did not adequately assess the subrecipient's compliance with operating the program in accordance with federal requirements. According to 7 CFR 226.6(m),

(3) *Review content.* As part of its conduct of reviews, the State agency must assess each institution's compliance with the requirements of this part pertaining to:

- (i) Recordkeeping;
- (ii) Meal counts;
- (iii) Administrative costs;

- (iv) Any applicable instructions and handbooks issued by FNS and the Department to clarify or explain this part, and any instructions and handbooks issued by the State agency which are not inconsistent with the provisions of this part;
- (v) Facility licensing and approval;
- (vi) Compliance with the requirements for annual updating of enrollment forms;
- (vii) If an independent center, observation of a meal service;
- (viii) If a sponsoring organization, training and monitoring of facilities;
- (ix) If a sponsoring organization of day care homes, implementation of the serious deficiency and termination procedures for day care homes and, if such procedures have been delegated to sponsoring organizations in accordance with paragraph (l)(1) of this section, the administrative review procedures for day care homes;
- (x) If a sponsoring organization, implementation of the household contact system established by the State agency pursuant to paragraph (m)(5) of this section;
- (xi) If a sponsoring organization of day care homes, the requirements for classification of tier I and tier II day care homes; and
- (xii) All other Program requirements.

(4) *Review of sponsored facilities.* As part of each required review of a sponsoring organization, the State agency must select a sample of facilities, in accordance with paragraph (m)(6) of this section. As part of such reviews, the State agency must conduct verification of Program applications in accordance with §226.23(h) and must compare enrollment and attendance records (except in those outside-school-hours care centers, at-risk afterschool care centers, and emergency shelters where enrollment records are not required) and the sponsoring organization's review results for that facility to meal counts submitted by those facilities for five days.

We noted the following during our review of the monitoring files.

Meal Count Documentation – We noted for 7 of 60 monitoring files reviewed (12%), Audit Services monitors did not compare the number of meals served to the attendance records, did not identify that subrecipients claimed more meals than the number of children in attendance, and did not note any instances when the subrecipient failed to maintain documentation to support the meal reimbursement claim.

Administrative Costs – We noted for 22 of 29 monitoring files reviewed for subrecipients classified as sponsoring organizations (76%), the Audit Services monitors did not perform the necessary reviews and calculate the amount of administrative cost billed to the program to ensure the subrecipients complied with the requirement that administrative costs do not exceed 15% of meal reimbursements. We noted the monitors answered the administrative cost question on the

monitoring guide “not applicable” even though the requirement is applicable to all sponsoring organizations.

Facility Licensing – We noted for 9 of 52 monitoring files reviewed (17%), Audit Services monitors either did not review the subrecipient’s license or the completed monitoring guide did not include a question to instruct the monitor to review the license or documentation of alternate approval to participate in the program.

Eligibility Documentation – We noted for 9 of 51 monitoring files reviewed (18%), Audit Services monitors did not always review the eligibility applications/enrollment forms and did not include findings in the monitoring report when the subrecipient did not maintain the eligibility documentation.

Training and Monitoring – We noted that for 20 of 29 monitoring files reviewed for sponsoring organizations (69%), Audit Services monitors either did not perform procedures to assess the subrecipient’s compliance with training personnel and monitoring of its feeding site’s requirements because the monitor thought the question was not applicable, did not identify the subrecipient’s noncompliance with the training and monitoring requirements, or did not include identified training and monitoring noncompliance in its monitoring report.

Household Contact System³⁸ – DHS has not developed a written Household Contact System policy to guide subrecipients in how to conduct household contacts during the monitoring of its sites. We noted for 22 of 22 monitoring files reviewed where the subrecipient was required to have a household contact system in place (100%), the Audit Services monitor answered the monitoring guide questions “not applicable” and/or added comments that the household contact system was not needed, a clear violation of federal requirements.

Five-Day Reconciliations – We noted for 22 of 29 monitoring files reviewed for sponsoring organizations (76%), Audit Services monitors did not perform the required five-day reconciliations of meals and attendance, performed reconciliations that included less than five days, or did not always reconcile the meals to attendance.

SFSP Monitoring Reviews

Based on our review of SFSP monitoring files, we noted the department either did not assess or did not adequately assess the subrecipients’ compliance with operating the program in accordance with federal requirements. According to the 2017 *Summer Food Service Program State Agency Monitor Guide*,

³⁸ According to 7 CFR 226.6(m)(5), “*Household contacts*. As part of their monitoring of institutions, State agencies must establish systems for making household contacts to verify the enrollment and attendance of participating children. Such systems must specify the circumstances under which household contacts will be made, as well as the procedures for conducting household contacts. In addition, State agencies must establish a system for sponsoring organizations to use in making household contacts as part of their review and oversight of participating facilities. Such systems must specify the circumstances under which household contacts will be made, as well as the procedures for conducting household contacts.”

The State agency must review sufficient records to determine whether the sponsor is in compliance with Program requirements as detailed in regulations. These records include, but are not limited to:

- Program agreement
- Program application (and supporting documents)
- Documents to support the sponsor's eligibility
- Tax exempt status documentation to support nonprofit food status
- Training documentation (provided to and attended by staff)
- Sponsor site monitoring records (such as preoperational site visits, first week visits, and reviews conducted within the first four weeks)
- Accounting records, bank statements, check ledgers, and credit card statements
- Invoices and receipts
- Meal count records
- Menus and other food service records
- Meal delivery receipts
- Documentation of the nonprofit food service account
- Health and safety inspections
- FSMC contracts, if applicable
- Documentation of corrective action taken to correct any Program violations

Training – We noted for 3 of 18 monitoring files reviewed (17%), the Audit Services monitor did not obtain evidence that at least one of the site personnel attended required training.

Monitoring – We noted for 8 of 18 monitoring files reviewed (44%), the Audit Services monitor did not identify that the subrecipients did not comply with the requirement to monitor their feeding sites. Based on review of the subrecipients' monitoring review forms included in the monitoring files, we noted that the subrecipients' monitors did not assess all areas required during the review and the forms included information indicating red flags. Even though the subrecipients' monitoring review form included red flag risks, the subrecipients' monitor and DHS Audit Services monitor did not perform any follow-up procedures to determine the impact on the program.

Allowable Costs – We noted for 13 of 18 monitoring files reviewed (72%), although the Audit Services monitor performed procedures to assess the subrecipients' compliance with the allowable costs requirements, the monitor did not correctly evaluate each federal requirement for compliance. We noted the monitors misclassified the subrecipients' expenses (which could impact allowable costs), did not always obtain bank statements to evaluate the allowable use of SFSP

funds, did not identify when SFSP funds were used for unallowable expenses, and did not include identified issues in the monitoring report.

Meal Count Records – For 8 of 18 monitoring files reviewed (44%), we noted that although the Audit Services monitor performed procedures to assess the subrecipients' compliance with maintaining accurate and complete meal count records, the Audit Services monitor did not always identify meal service violations. We noted that the Audit Services monitor did not identify and did not report in the monitoring report that subrecipients claimed meals at unapproved feeding sites; that subrecipients claimed meals outside of the subrecipients' approved dates of operation; that subrecipients did not adjust meal orders to reflect attendance trends, which resulted in substantial leftovers each day; and that the subrecipients' meal count forms included red flags such as block claiming and lower attendance on the day of the DHS Audit Services monitors' visits.

Meal Delivery Tickets – We noted that for 5 of 12 monitoring files reviewed (42%), the Audit Services monitor either did not perform procedures to assess the subrecipients' compliance with accurate meal delivery tickets, did not identify the subrecipients' noncompliance with the meal delivery ticket requirements, or did not include identified noncompliance in the department's monitoring report.

Documentation of Non-profit Food Service Program – For 8 of 18 monitoring files reviewed (44%), we could not determine whether the Audit Services monitors performed procedures to assess the subrecipients' compliance with operating a non-profit food service program. We noted that even though monitors identified that the subrecipients' reimbursements exceeded expenses, the Audit Services monitor did not document in the monitoring files the excess funds were maintained in a non-profit food service account as required by federal regulations. Without the documentation, we could not be sure whether the Audit Services monitor even looked for the required bank account or just failed to document the verification of the account.

Health and Safety – For 6 of 18 monitoring files reviewed (33%), we noted that the Audit Services monitor did not report in the monitoring reports that the subrecipients did not provide a complete list of feeding sites to the health departments as required by program guidance.

Food Service Management Companies – We noted for 2 of 5 subrecipients who contracted with vendors to provide meals (40%), the monitors did not perform procedures to assess the subrecipient's compliance with using food service management companies. We noted the monitors did not complete a vendor review guide, did not inspect the vendor's facility, and did not review vendor contracts.

Both Programs

Inadequate Supervisory Review of Monitoring Files – We noted that for 53 of 60 CACFP monitoring files (88%) and 17 of 18 SFSP monitoring files reviewed (94%), Audit Services management did not properly perform reviews of the working papers used to support the monitoring reports. We noted that monitors did not sign off on working papers to indicate completeness, supervisors did not sign off to indicate their review of the completed working

papers, and management did not perform timely reviews and released monitoring reports before the reviews were performed.

Corrective Action Plans – We noted for 20 of 59 CACFP monitoring files (34%) and of 15 of 17 SFSP monitoring files reviewed (88%), Audit Services and food program staff did not always obtain the subrecipients' corrective action plans for the issues noted in the monitoring reports and did not document their approval of the subrecipients' corrective action plans. According to "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards," 2 CFR 200.331, 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.

Cause

We believe the department's inadequate review process, incomplete and inconsistent monitoring guides, current staffing level, lack of follow-up procedures on red flags, and ineffective use of the serious deficiency process could have contributed to the conditions noted in this finding. See Finding 2018-015 for further details on issues related to the subrecipient monitoring process.

Effect

When top management does not ensure monitoring activities are sufficiently performed, documented, and reported, there is an increased risk that Audit Services monitors fail to properly identify subrecipient noncompliance, that Audit Services and program staff fail to recover improper payments to subrecipients, and ultimately that subrecipients are allowed to continue participating in the food programs even though they repeatedly violate federal requirements because of lack of training or intentional fraudulent actions.

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

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

Section 200.338 also states,

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

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

Recommendation

The Commissioner of the Department of Human Services should ensure the Audit Services Director implements controls to ensure the subrecipient monitoring process complies with federal regulations. These controls should ensure Audit Services staff fully understand all federal requirements, that staff complete all review guides for all required monitoring activities, that staff expand monitoring efforts to address risks of questionable billing practices, and that staff prepare accurate monitoring reports that include all findings or issues noted during the monitoring review. Management and staff should also ensure that the subrecipient monitoring process is sufficient to ensure subrecipients implement corrective action plans in order to comply with federal requirements.

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

Management's Comment

Concur in part.

The Department has remained committed and focused on program integrity. Through this process, the Department recognized that collaboration is tantamount to success and has worked with each

of our federal partners to build relationships that allow regular guidance and communication, which, in turn, has led to tremendous gains in the efficacy of the Department's programs.

The Department concurs that certain monitoring procedures were not properly completed within the ACL audit software. There are over 350 monitoring procedures for each monitoring engagement, and over 130 subrecipient monitoring reports issued within 30 days from the date of the unannounced on-site monitoring visit in compliance with Title 7 of the *Code of Federal Regulations* parts 225 & 226, Office of Management and Budget, and the State's Central Procurement Office, Policy 2013-007. In the summer of 2017, the monitoring working papers process was transformed from pen and paper into electronic working papers utilizing ACL audit software. The Department informed the auditors that the software was in the early stages in implementation and that staff need time to learn how to properly use the technical aspects of the software, especially given the volume of the procedures and the number of engagements.

The Director of Audit Services evaluated the progress on the implementation of the electronic working papers and made several adjustments and modifications to the monitoring procedures. Staff were trained on the proper completion of the working papers, addressing issues such as:

- signing off when the monitors complete the work and are ready for review
- documenting conclusions in the proper section within ACL
- uploading the documents obtained from the subrecipients in the specific section
- documenting the conclusion when documents were reviewed/observed and not required to be uploaded into ACL

The Director of Audit Services communicated this information to the state auditors during their fieldwork and acknowledged that the Department will need additional time to fully implement ACL.

The finding cites the 2016 Food and Nutrition Services management evaluation report. The Federal partners upon review of all of the Department's efforts in monitoring and program integrity, closed each finding with no further action required by the state. The closure letters were provided to the state auditors during their fieldwork.

The Department continues to build effective practices in monitoring efforts, has demonstrated successful monitoring efforts which resulted in terminating subrecipients from participating in the food programs due to high risk, fraud risk factors, being nonresponsive with corrective actions, or other factors. In fact, the state auditors reported, in a separate finding, within this year's Single Audit Report that the results of their work are similar or identical to the results reported by the Department's Audit Services in the monitoring reports demonstrating efficacy in the Department's monitoring efforts.

The Department does not concur with the representation of how monitoring results are communicated or reported. The Department provided the state auditors with the Department's policies and procedures that describe the monitoring process and how and when a monitoring or serious deficiency (SD) report is issued in accordance with federal laws.

The Department does not concur with state auditors' subjective assertion that the Department's monitoring is an "*Inadequate/Flawed Multi-Level Review Process*." The Director of Audit Services thoroughly reviews the monitoring reports for accuracy and completeness to ensure that the findings within the reports are supported by appropriate federal law and evidence that sustain an appeal before a hearing officer or judicial review.

The Department's Audit Services staff conducts the monitoring review and, after all monitoring work is complete, the monitors draft the initial monitoring report and provide it to their supervisor for review for completeness and accuracy. The report is then forwarded to the Director for the review. According to the Department's policy, after the final report is ready for release, a copy is provided to food program management to determine if the findings within the monitoring report rise to the level of a Serious Deficiency (SD), in accordance with the Department's policy. If the findings in the report rise to the level of an SD, then food program management issues the SD report; otherwise, the report is issued by the Director of Audit Services. Food program management must not alter, edit, or modify the findings or remove disallowed cost identified in the report. All of the reviews are tracked and documented into the tracker for each monitoring engagement. This tracker is an individual document that accompanies the draft report to ensure timely release of the monitoring reports. These trackers were provided or made available to the state auditors for review during their fieldwork. Overall, the Department remains focused on operating these programs with the upmost integrity and continues to refine operations and monitoring for even greater efficiencies.

Auditor's Comment

As we noted in the finding, the department identified instances where the subrecipients' noncompliance met or could meet the regulatory definition of a serious deficiency; however, food program staff did not elevate the issue to the serious deficiency level, essentially allowing the subrecipient to continue participating without any increased scrutiny from monitors. In fact, based on the current monitoring process and schedule, without a serious deficiency determination monitors would not visit the subrecipients again until three years have passed.

Although the Director of Audit Services states that he reviews findings within the report, based on the number of instances of noncompliance we noted in Condition B that were either not identified or not reported in the monitoring report, the full review process is not adequate.

Finding Number	2018-017
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	165TN331N1099, 165TN331N2020, 165TN340N1050, 175TN331N1099, 175TN331N2020, and 175TN340N1050
Federal Award Year	2016 and 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2017-024
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, the Department of Human Services did not comply with federal billing requirements to recoup disallowed costs and had inadequate internal controls over the collection process

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 (DHS). As a pass-through entity for CACFP and SFSP, DHS is responsible for monitoring subrecipients to provide reasonable assurance that these subrecipients comply with federal and state requirements. DHS provides subrecipients with federal reimbursement for eligible meals served to individuals who meet age and income requirements.

DHS' Audit Services unit is responsible for monitoring subrecipients in both CACFP and SFSP. If, during the course of a monitoring review, Audit Services monitors determine that a subrecipient has not complied with program regulations, monitors disallow costs for meals associated with the noncompliance. The *Code of Federal Regulations* for both CACFP and SFSP specify DHS' minimum efforts must include a process to collect funds from subrecipients based on the noncompliance and related disallowed costs. See the Criteria section below for the *Code of Federal Regulations* requirements. These regulations also include a requirement for DHS to send subrecipients billing notices demanding repayment of the disallowed costs and pursuing legal remedies for subrecipients who fail to either repay the funds or agree to provide a satisfactory repayment schedule.

DHS' Overpayment Collection Process

The Audit Services unit provides its results of subrecipient monitoring to the CACFP and SFSP program staff who are responsible for issuing billing notices to the subrecipients to recover any disallowed costs. DHS includes the first billing notice with the monitoring report sent to the

subrecipient. Subrecipients have the right to appeal disallowances but must do so within a specified time.³⁹ If the subrecipient appeals the disallowed costs, the subrecipient is not required to submit payment unless the Appeal and Hearing division upholds Audit Services' disallowance of the costs. Five days after the appeal decision, DHS sends out a redemand for disallowed costs. Absent an appeal, the subrecipient has 30 days to submit payment to DHS as part of the corrective action plan. If the subrecipient does not repay the disallowed costs within 30 days, food program staff are responsible for sending billing notices and/or reminders to the subrecipients to repay the disallowed costs. The CACFP and SFSP regulations differ in the number of billing notices DHS is required to send.

To repay DHS, subrecipients can either (1) submit a check or money order to DHS for the entire amount of the disallowed costs, or (2) negotiate a repayment plan with DHS, which could include the subrecipient agreeing to adjust the affected meal reimbursement claim and allow the costs to be recouped from a subsequent meal reimbursement claim.

If the subrecipient submits a payment, DHS fiscal staff receives the payment; processes the payment through Edison, the state's accounting system; and informs the food program staff that the payment has been received. If the subrecipient includes the repayment check in its corrective action plan that it sends to program staff, program staff will include a scanned copy of the check in the Tennessee Information Payment System (TIPS) and send it to fiscal staff for processing.

Management concurred with the most recent prior audit finding and stated that food program management reviewed the collection process and was working closely with Audit Services, fiscal, and legal staff to issue all billing notices within the designated timeline. We performed procedures to determine if DHS recovered disallowed costs from subrecipients, and, if not, we performed procedures to determine if staff sent out billing notices to subrecipients in compliance with federal regulations. We found the following.

Condition and Criteria

Condition A – Inadequate Internal Control Process to Track Overpayments for Collection

No Tracking Mechanism

Management has not developed an internal control mechanism to ensure DHS complies with federal regulations regarding the collection of disallowed costs. In response to the prior audit finding reported in the 2016 *Single Audit Report*, management stated that it developed a tracking mechanism in February 2017 to track disallowed costs owed to DHS and to issue billing notices timely. During our audit of DHS during the 2017 Single Audit, we noted that staff were using the tracking spreadsheet to ensure the billing notices were issued timely; however, we still found that not all overpayments were recovered, and billing notices were not issued timely as noted in our prior audit finding. During the current audit, management could not provide us with evidence of the tracking mechanism developed in February 2017, and the Director of CACFP and SFSP stated that an external tracking mechanism did not exist.

³⁹ CACFP subrecipients can file an appeal within 15 calendar days, while SFSP subrecipients must file an appeal within 10 calendar days.

Contradicting Information About Recoupment Efforts

We sent multiple requests to program and fiscal staff for information about recouped payments and billing notices that DHS issued. While DHS did provide some of the requested information, it was unable to provide a complete list of recouped payments or billing notices sent from the period July 1, 2017, through June 30, 2018. Based on our review of the provided information, we found that the information contradicted other evidence that we had reviewed. Specifically, we found the following:

- Although fiscal staff stated that four subrecipients' disallowed funds were recouped through the subrecipients' subsequent meal reimbursement claims, we also found evidence within the TIPS system that the subrecipient repaid the disallowance with a check or money order.
- Fiscal staff stated that disallowed costs were recouped from one subrecipient's subsequent meal reimbursement claims although the subrecipient never filed a subsequent claim to recover the disallowed costs. Because DHS mistakenly believed the funds had been recouped, DHS inappropriately stopped the collection process before recovering any costs.
- For two subrecipients, the Audit Services unit's monitoring report included disallowed costs; however, program staff were not aware the subrecipients owed DHS funds until after we inquired about the status of recouped funds. Without knowledge of the overpayment program, staff did not perform any collection procedures. While one subrecipient stopped submitting claims for reimbursement and left the program, the second subrecipient continued to receive meal reimbursement payments even though it owed DHS money.

Increased Risks for Duplicate Collections

As part of the Audit Services unit's corrective action requirements for disallowed meals that monitors identify during monitoring, DHS requires the subrecipient to submit a revision to the original submitted claim for reimbursement to adjust the claim downward. As noted above in the Background section, DHS uses the adjusted claim to recover disallowed costs. Staff net the amount owed to the subrecipient with the current amount due. Because DHS does not have an internal control to track the collection process and recover costs, there is an increased risk that it will not recover overpayments or collects more than is due.

In fact, such an instance occurred when one subrecipient revised a claim, as directed through the corrective action procedures, and also submitted to DHS a payment based upon the agreed-upon payment plan. DHS withheld the full amount of the disallowed costs from the subrecipient's subsequent meal reimbursement claim even though the subrecipient had already made a payment. In addition, we found that DHS had previously over collected from this same subrecipient and as such actually owed the subrecipient based on the duplicate recovery. The subrecipient contacted DHS about the collection error in April 2018; however, due to a lack of understanding of the collection process and lack of communication between fiscal and program staff, DHS decided in June 2018 that it only owed the subrecipient a portion of the two overpayments, when in fact it should have returned the entire amount of the overpayments to the subrecipient.

According to Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 62,

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.

Condition B – Staff Did Not Comply With Federal Requirements Governing Billing Notices and Referrals for Legal Remedies

For our testwork, we selected monitoring reports and performed procedures to determine if DHS complied with collection procedures.

CACFP

We selected a sample of 60 from the 183 monitoring reports Audit Services issued during state fiscal year 2017 as follows:

- we selected 10 monitoring reports for subrecipients we considered high-risk; and
- from the remaining population of 173 monitoring reports, we selected a nonstatistical, random sample of 50 reports that included disallowed costs.

Based on our review of billing notices and collection referrals, we noted that DHS did not comply with federal guidelines for 22 of 60 subrecipients (37%).

SFSP

We reviewed all 18 monitoring reports that DHS issued for 2017 SFSP. Twelve of the 18 monitoring reports reviewed (67%) included disallowed costs. Based on our review of the 12

subrecipients with disallowed costs, we reviewed the billing notices and collection referrals and we noted that DHS did not follow federal guidelines for 4 of 12 subrecipients (33%).

See **Table 1** for the details of instances of noncompliance.

Table 1
Type of Noncompliance by Program

Type of Noncompliance	CACFP*	SFSP*
Program staff did not send the 30-day notices.	8 subrecipients	1 subrecipient
Program staff sent the 30-day notices late.	6 subrecipients (ranging from 1 to 39 days late)	3 subrecipients** (ranging 22 to 119 days late)
Program staff incorrectly sent 60-day notices instead of referring the subrecipients to the Office of General Counsel (OGC).	8 subrecipients	-
Program staff did not send the 60-day notice.	-	1 subrecipient
Program staff incorrectly sent a 90-day notice instead of referring the subrecipient to the OGC.	-	1 subrecipient
Program staff referred subrecipients to OGC late.	5 subrecipients (ranging from 34 to 202 days late)	-
Program staff did not refer subrecipients to OGC at all for legal remedies.	8 subrecipients	-
Program staff could not provide the date of referral to OGC.	1 subrecipient	-
Program staff incorrectly sent demand notices after receiving payments.	2 subrecipients	-
Program staff did not recover overpayments in the following amounts:	\$207,018	\$62,309

*Although food program staff did not always adhere to the billing notice and referral requirements, we noted that 13 CACFP subrecipients and 2 SFSP subrecipients eventually repaid the disallowed costs through their own accord.

**Noncompliance with the 30-day notices (second demand notice) caused program staff not to comply with the billing requirement to issue a third demand notice 60 days after the first demand.

According to 7 CFR 226.14(a), for CACFP,

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.

According to 7 CFR 225.12(b), for SFSP,

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 DHS' December 2017 Financial Integrity Act Risk Assessment. Even though we reported the issue of not complying with recovery efforts in the prior-year finding, we determined that management, once again, did not include in the risk assessment the specific risks and mitigating controls associated with DHS not following federal regulations for recovering and collecting disallowances (unearned payments).

Cause

Based on our discussion with food program staff and fiscal staff, we believe staff do not have a clear understanding of the federal regulations and DHS' collection policy and procedures. When we discussed our audit results during testwork, program and fiscal staff provided contradicting reasons for the errors or were not aware the issues existed until we informed them of our results.

Effect

When DHS does not make timely requests to recover disallowed costs in accordance with federal regulations, there is an increased risk of not recovering the funds or subrecipients refunding more funds than were actually due to DHS. 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 tracking procedures to ensure that disallowed payments are recovered timely and to ensure 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

During the audit process the Department was not given the opportunity to discuss the issues identified in this finding, nor was the Department afforded the opportunity for an exit conversation which could have cleared up misconceptions.

Condition A: *Inadequate Internal Control Process to Track Overpayments for Collection*

Do not concur.

No Tracking Mechanism

The Department maintains two different tracking systems for CACFP and SFSP overpayments. Overpayments for collection are identified and monitored using an internal spreadsheet, one for the F&A fiscal team, one for the program team. Staff continues to use the tracking spreadsheet to ensure billing notices are issued timely and overpayments are recovered. In addition, staff works with sponsors to provide technical assistance with completing Corrective Action Plans (CAPs) and making timely adjustments to claims resulting from monitoring reports concurrent to when the report is issued. After the federally required appeal period has passed, the monetary recoupment is obtained from the next available claim filed. A demand letter is sent, according to Federal timelines, if no future claims will occur. This process has reduced the amount of billing notices required and increased the timeliness of recoupment of overpayments.

Contradicting Information about Recoupment Efforts

The Comptroller's office appears to have identified differences between the role of F&A fiscal staff and the role of program staff and included those differences as part of a finding. The Department agrees that, during the transition, some sponsors may have submitted a reimbursement refund while the same amount was taken from future claims. The new process was outlined in the monitoring report but sponsors submitted paper checks, as well. The Department's increased staff-to-sponsor communications have clarified action steps.

Condition B: *Staff Did Not Comply with Federal Requirements Governing Billing Notices and Referrals for Legal Remedies*

Do not concur.

The Department concurs that billing notices must be sent to sponsors within timelines established by Federal guidelines. As identified below, the CFR requires that action is taken after 30, 60 and 90 days; the CFR does not require that the action is taken on the 31st, 61st and 91st day. Food Program staff have been cross-trained to allow for better workflow and programmatic coverage. The Department has reviewed the collections process and works closely with the Department of Human Services' Audit Services, Fiscal, and Legal Departments to issue all billing notices within the designated timelines. The Department adheres to the following Federal regulations of collections efforts *after* the required corresponding number of calendar days have passed per the notations below. The Department was not given the opportunity to discuss the issues identified in this finding, nor was the Department afforded the opportunity for an exit conversation which could have cleared up misconceptions.

Regarding Summer Food Service Program claims against sponsors, the 7 CFR § 225.12(b) indicates,

- (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, 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.

Regarding Child and Adult Care Food Program claims against sponsors, the 7 CFR § 226.14 (a)(1) Claims against institutions, 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.

In addition, the information provided in Table 1 is incorrect. A 30 Day billing notice was sent to Sponsor 2 on December 11, a 30 Day billing notice was sent to Sponsor 4 on December 15, 2017, and a 30 Day billing notice was sent to Sponsor 6 on February 14, 2018. Sponsor 1, Sponsor 2, Sponsor 3, Sponsor 5, Sponsor 7, and Sponsor 8 were not referred to OGC for collections because the overpayments were returned to the Department. Additionally, there is no preclusion from sending an additional billing notice to Sponsors participating in the food programs.

Auditor's Comment

During our fieldwork, we requested the department to provide explanations for the deficiencies noted in this finding and the department did not provide any additional information. In addition, we did discuss the issue with the Director of Audit Services on February 14, 2019. Management also had 14 days from the date we submitted our draft finding until the day they submitted their comments to discuss any concerns they had. On March 14, 2019, management submitted final comments to this finding which included statements that our audit conclusions were incorrect. Management did not provide the documentation to support their assertion.

Condition A: *Inadequate Internal Control Process to Track Overpayments for Collection*

No Tracking Mechanism

In an email dated November 28, 2018, the Director of CACFP and SFSP stated, “The 30 day billing notices and 60 day billing notices are also kept in TIPS. Once a payment has not been collected the overpayment will be referred to OGC for collections. We do not have an external tracking guide for these notices. We work off of the report that is issued and then send the subsequent notices as needed.” Because the Director explicitly stated she did not have an external tracking method, we concluded our testwork and reported the billing/collection errors.

Condition B: *Staff Did Not Comply with Federal Requirements Governing Billing Notices and Referrals for Legal Remedies*

Given the department has incorrectly overpaid these sponsors management also has the responsibility to promptly start the process to recover these overpayments. Management should start the collection process immediately after the 30th day and follow up on each succeeding action on the 61st and 91st days, as allowed under federal regulations. By delaying the collection process management increases the risk of not collecting these improper payments from sponsors.

Finding Number	2018-018
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	175TN331N1099,175TN331N2020,175TN340N1050, 185TN331N1099, 185TN331N2020, and 185TN340N1050
Federal Award Year	2017 and 2018
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
Repeat Finding	2017-018
Pass-Through Entity	N/A
Questioned Costs	\$1,005,423

For the fourth year, the Department of Human Services did not ensure that the Child and Adult Care Food Program subrecipients maintained accurate and complete supporting documentation for meal reimbursement claims and that subrecipients received reimbursements in accordance with federal guidelines, resulting in \$1,005,423 of questioned costs

Background

The Child and Adult Care Food Program (CACFP) is a year-round food program for eligible participants at child care centers, day care homes, afterschool care programs, emergency shelters, and adult day care centers. CACFP is funded by the United States Department of Agriculture 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 to participate in the program and that the subrecipients comply with federal requirements. To receive payment for the meals they provide to eligible participants, subrecipients submit meal reimbursement claims to the Department of Human Services through the Tennessee Information Payment System (TIPS). Department management is responsible for monitoring the subrecipients' activities to provide 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 Unit to ensure subrecipients comply with federal program requirements and spend grant funds accordingly. Audit Services is required to monitor 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 noted in the three prior audits, we reported that CACFP staff had not ensured subrecipients maintained accurate supporting documentation for meal reimbursement claims and that CACFP staff had 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 added the subrecipients with identified significant questioned costs from the prior audit finding to the federal fiscal year October 1, 2018, through September 30, 2019, monitoring program and that the department will follow up on any issues identified through the monitoring process and as such the department's stated actions did not begin until after our audit period of July 1, 2017, through June 30, 2018. We once again noted noncompliance for state fiscal year 2018.

Because monitoring is the department's only control over subrecipients' compliance, we also identified subrecipient monitoring process deficiencies, which we have reported in the Overall Management Oversight finding 2018-015. Management is responsible for monitoring subrecipients; however, as noted in finding 2018-015, its monitoring process is not sufficient to identify and properly respond to fraud indicators and to address the underlying causes of subrecipients' noncompliance. We also found other federal noncompliance as described below in this finding.

We selected seven CACFP subrecipients from a population of 335, based upon high-risk factors identified in previous audits. To test the remaining population of 328 subrecipients, we selected a nonstatistical random sample of 53 subrecipients. At each of the 60 subrecipients, we reviewed a meal reimbursement claim for a total sample of 60 subrecipients' claims tested. To select the claim month, we haphazardly selected one month during the state fiscal year ended June 30, 2018. To select the feeding site(s) to review for the claim, we haphazardly selected sites based on the following methodology. If the subrecipient had

- 1 to 25 feeding sites, we selected up to 3 sites;
- 26 to 50 feeding sites, we selected 5 sites; and
- 51 or more feeding sites, we selected 10 sites.

When deemed necessary due to questionable meal reimbursement documentation, we expanded our testwork to additional months and/or sites. Based on our review of the subrecipients' claims, we determined that the department reimbursed subrecipients for inaccurate claims and ineligible feeding sites. Specifically, we found

- subrecipients' meal reimbursement documentation was inaccurate;
- subrecipients' meal reimbursement documentation included fraud indicators which department staff did not consider before issuing payments; and
- the department reimbursed subrecipients that operated or claimed reimbursement for ineligible sites.

Risk Assessment

We reviewed the department's December 2017 Financial Integrity Act Risk Assessment and determined that although management listed the risk of subrecipients submitting unsupported claims, 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: *Meal Reimbursement Documentation Was Inaccurate*

Based on testwork performed, we noted that for 38 of 60 claims reviewed (63%), the subrecipients did not maintain documentation to accurately support the number of meals requested on the meal reimbursement claim. We noted that for the 38 claims reviewed,

- 17 subrecipients did not maintain accurate meal count documentation;
- 7 subrecipients did not maintain accurate attendance documentation; and
- 14 subrecipients did not maintain both accurate meal count and attendance documentation.

The subrecipients submitted claims for reimbursement for either more meals served than the subrecipient had documentation to support or for fewer meals served than what was reported on supporting documentation. As such, the department reimbursed subrecipients based on inaccurate meal reimbursement claims, leading to overpayments to the subrecipients totaling \$66,892.

We expanded our review for eight subrecipients and reviewed an additional two claim months. Based on our expanded testwork, we noted that seven of eight subrecipients (88%) did not maintain accurate meal count and attendance documentation for the months reviewed, resulting in \$914,802 in overpayments to the subrecipients, based on inaccurate claims.

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.

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

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.

Questioned Costs for Condition A

See **Table 1** and **Table 2** for details of inaccurate documentation and questioned costs by subrecipient.

Table 1
Results of Testwork for Inaccurate Meal Count Documentation (*Initial Sample*)
For One Claim Month

Subrecipient No.	Errors Noted			Questioned Costs*†
	Overclaim	Underclaim	Daily Attendance (more meals claimed than attendance records support)	
1			X	\$1
2			X	\$16
3	X	X		\$18
4	X		X	\$26
5	X			\$428
6		X		\$0
7			X	\$1
8		X		\$0
9		X		\$0
10	X			\$9
11	X	X	X	\$3,859
12	X			\$104
13	X		X	\$343
14		X		\$0
15			X	\$5
16		X		\$0
17	X		X	\$27
18	X		X	\$799
19		X		\$0
20	X		X	\$671
21	X		X	\$8
22	X		X	\$18
23			X	\$5
24		X	X	\$1
25	X	X	X	\$24
26			X	\$5
27	X			\$83
28		X		\$0
29	X	X		\$110
30			X	\$1
31		X		\$0
32	X			\$28
33		X		\$0
34		X	X	\$0
35	X		X	\$51,036
36	X	X	X	\$464
37	X		X	\$8,802
38		X		\$0
Total Questioned Costs				\$66,892

*Subrecipients without questioned costs indicate that the review found that the subrecipient had underclaimed meals.
†Subrecipient 34’s costs were included in Table 2.

Table 2
Results of Testwork for Inaccurate Meal Count Documentation (*Expanded Sample*)
For Two Additional Claim Months

Subrecipient No.	Errors Noted			Questioned Costs*†
	Overclaim	Underclaim	Daily Attendance (more meals claimed than attendance records support)	
11	X	X	X	\$4,997
32	X			\$85
34	X	X	X	\$867,370
35	X	X	X	\$36,911
37	X	X	X	\$5,339
39	X			\$5
40	X			\$95
Total Questioned Costs				\$914,802

*Questioned costs for Subrecipient 32 are for state fiscal year July 1, 2016, through June 30, 2017.

†Subrecipient 34 did not have separate attendance and meal count records as required by the program regulations for any of its sites during state fiscal year July 1, 2017, through June 30, 2018, so we questioned all payments made to the subrecipient during this period.

Condition B and Criteria: *Meal Reimbursement Documentation Included Fraud Indicators*

Based on our initial and expanded testwork results, we determined that the department still has not developed effective enhanced monitoring activities to identify and follow up on fraud indicators. Based on our testwork, we noted that 2 of 60 subrecipients submitted meal reimbursement claims that included the following fraud indicators:

- the same number of meals served each operational day of the claim month (block claiming), in essence claiming that the exact same number of children are served each day, which appears improbable; and
- claims that indicated all children eligible to be served had perfect attendance for three consecutive months, again which is improbable.

Subrecipient 11 submitted “block” claims (same number of meals served each day for the claim month), and we questioned \$2,854. Subrecipient 40 submitted claims with fraud indicators that included both block claiming and perfect attendance, and we questioned \$20,875.

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.

According to 2 CFR 200.404,

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. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) 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.

Condition C and Criteria: *The Department Reimbursed Subrecipients for Ineligible Feeding Sites*

Based on testwork performed, we noted for 1 of 60 subrecipients (2%) the department reimbursed the subrecipient for meals served at ineligible feeding sites. The department approved the sites as at-risk afterschool childcare centers. According to the *USDA At-Risk Afterschool Care Handbook*, "Programs must provide educational or enrichment activities that are open to all children in an organized, structured, and supervised environment." We noted that the subrecipient stated on its application that "football" was the enrichment activity. Further research into the feeding sites revealed that the feeding sites provided no childcare and were organized as community sport organizations, and thus not eligible as a CACFP feeding site.

According to 7 CFR 226.17a(b)(2),

Organized athletic programs engaged in interscholastic or community level competitive sports are not eligible afterschool care programs.

In addition, the *USDA At-Risk Afterschool Care Handbook* states,

Organized athletic programs that only participate in interscholastic or community level competitive sports (for example, youth sports leagues such as "Babe Ruth" and "Pop Warner" baseball leagues, community soccer and football leagues, area

swim teams, etc.) may not be approved as sponsors or independent centers in the Program.

The department paid \$54,633 to subrecipient 34 for the ineligible sites during the audit period. We questioned all payments to this subrecipient in Condition A.

Cause

Based on discussion with management, the department does not require the subrecipients to provide supporting documentation for each meal reimbursement claim before payment. The department instead relies on its monitoring unit to review meal reimbursement claims supporting documentation during monitoring visits. Audit Services will routinely review only a very small sample of claims during a monitoring visit, which does not provide management with an effective preventative control. In addition, when Audit Services identifies noncompliance and takes action to recover costs relative to the noncompliance identified at the time of the visit, Audit Services has not yet developed a process to expand its reviews when fraud risks are present. We are not able to determine whether the Audit Services staff even identified the fraud risk factors at the time of their visits. The department did not provide any additional information as to how they plan to address the 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 yet taken necessary action to implement enhanced monitoring activities for subrecipients that exhibit fraud risk indicators. For more causes of the issues discussed in this finding, see Overall Management Oversight finding 2018-015.

Effect

Federal regulations address actions that may be imposed by federal and non-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

Our testwork included a review of seven high-risk subrecipients' reimbursement claims and expanded testwork on three subrecipients' reimbursement claims which resulted in known questioned costs of \$989,617. Our testwork also included a review of a nonstatistical random sample of 53 subrecipient meal reimbursement claims which resulted in \$15,721 of known questioned costs. The nonstatistical random sample of 53 meal reimbursement claims totaling \$597,025 was selected from a population of 7,518 claims and adjustments, totaling \$54,517,678 for the period July 1, 2017, through June 30, 2018, the state's fiscal year. 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 in Conditions A, B, and C above, we questioned \$1,005,423. See **Table 3** for details by condition.

Table 3
Summary of Questioned Costs

Issue	Questioned Costs State Fiscal Year 2017	Questioned Costs State Fiscal Year 2018
Condition A - Meal Reimbursement Documentation Was Inaccurate	\$85	\$981,609
Condition B - Meal Reimbursement Documentation Included Fraud Indicators		\$23,729
Condition C - The Department Reimbursed Subrecipients for Ineligible Sites		-
Total Questioned Costs for State Fiscal Year 2017		\$85
Total Questioned Costs for State Fiscal Year 2018		\$1,005,338
Total Questioned Costs		\$1,005,423

Recommendation

The department should fulfill its responsibility as the pass-through entity, as described in the federal regulations, and mandate accurate claims for reimbursement. 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. We recommend that the department take action on findings that we present and enforce the federal guidelines. For subrecipients with enhanced fraud risks, the department should request sufficient documentation to support claims for reimbursement before approving reimbursements to the subrecipients. Additional steps like this may be necessary to ensure that subrecipients are paid for actual meals served to children instead of intentionally or unintentionally overbilling the state for federal reimbursement. Only relying on subrecipient monitoring to review a small portion of the total amount of claims is not enough to prevent inaccurate claims for reimbursement or fraud from occurring in CACFP. For more recommendations concerning the issues discussed in this finding, see Overall Management Oversight finding 2018-015.

Management's Comment

Monitoring is not the department's only control over subrecipients' compliance. The department relies on program monitoring for onsite compliance reviews; however the department additionally utilizes onsite technical assistance and training visits, desk reviews, system controls and edit checks as additional controls over compliance.

Condition A: Meal Reimbursement Documentation Was Inaccurate

Concur in part.

The Department concurs that meal reimbursement documentation was inaccurate, but the Department does not concur with the amount of the identified questioned cost.

7 CFR. 226.8(f) states, "in conducting management evaluations, reviews or audits in a fiscal year, the State agency, FNS or OIG may disregard an overpayment if the overpayment does not exceed \$600." The Department has established an internal policy that disregards overpayments that do not exceed \$100.

28 of the 38 subrecipients with identified questioned costs were below the \$100 department threshold and would not be pursued for recovery. In the expanded test work, three of the seven subrecipients with identified questioned costs were below the \$100 department threshold and would not be pursued for recovery. 17 of the 38 identified errors were underclaims, and in the expanded test work, four of the seven subrecipients included underclaims. The Department contends that the subrecipient is not obligated to claim all eligible meals. If a subrecipient chooses not to file a claim for eligible meals, it is not a violation of program regulations and, therefore, should not be considered as part of a programmatic finding.

The Department continues to evaluate findings identified in this report and through Departmental internal monitoring and have created training sessions to mitigate programmatic weaknesses. All CACFP trainings are developed and conducted in conjunction with USDA FNS.

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 state auditors in support of their conclusions.

Condition B:

Do not concur.

The department has discussed this issue with federal partners. We received guidance from USDA FNS to regard "block" claims as a potential issue and to follow up with monitoring for verification. The department followed this guidance and monitored the identified subrecipients. One of the identified subrecipient's monitoring visits resulted in a Serious Deficiency, an overpayment and a subsequent termination from the CACFP program.

Condition C:

Concur in part.

The department concurs that at-risk afterschool sites must provide educational or enrichment activities. One of the sites in question was closed by the Sponsor on September 30, 2018 and is no longer operating as part of the CACFP. The second site in question was reviewed by monitoring staff who determined that the site was open to the community and that educational activities were taking place during meal service and, therefore, eligible for participation in CACFP.

Auditor's Comment

Condition A: *Meal Reimbursement Documentation Was Inaccurate*

2 CFR 200.84 defines questioned costs as 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. Once an auditor reports questioned costs based on the audit, the federal grantor then determines whether these costs are disallowed and what amounts should be recovered. Also 2 CFR 200.516(a)(3) requires us to report likely questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

7 CFR 226 provides guidance for overpayment recoveries when the department, USDA's Food and Nutrition Services, and/or the USDA's Office of Inspector General identify overpayments to subrecipients resulting from their own reviews or audits.

Condition B: *Meal Reimbursement Documentation Included Fraud Indicators*

As we have noted in the finding, and as defined in 2 CFR 200.084, we are required to question costs that appear unreasonable. It is illogical and thus unreasonable for a subrecipient to submit an identical claim (block claim) or a claim suggesting perfect attendance for three consecutive months.

Condition C: *The Department Reimbursed Subrecipients for Ineligible Feeding Sites*

As we noted in the finding, the second site in question provided only community level competitive sports and did not offer any educational activities during meal service making the site ineligible under federal program regulations.

Finding Number	2018-019
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	175TN331N1099, 175TN331N2020, 175TN340N1050, 185TN331N1099, 185TN331N2020, and 185TN340N1050
Federal Award Year	2017 and 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility Subrecipient Monitoring
Repeat Finding	2017-020
Pass-Through Entity	N/A
Questioned Costs	\$13,203

For the sixth 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 documentation as required by federal regulations, resulting in \$13,203 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 (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring that subrecipients are eligible and comply with federal requirements. Because management does not review supporting documentation for meal reimbursement claims before issuing payments to the subrecipients, management must rely on its Audit Services section to ensure subrecipients comply with federal program requirements and spend grant funds accordingly. To ensure subrecipients' compliance, Audit Services staff perform monitoring visits at a subrecipient or feeding site. Monitors follow a DHS-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 five prior audits, DHS did not ensure that subrecipients determined and properly documented individual eligibility for participants. DHS management did concur in part with the prior finding. They stated,

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 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.

During our current testwork, we concluded that these training and monitoring efforts have still been insufficient to correct the continuing issues related to subrecipients not maintaining complete and accurate eligibility documentation.

Condition and Criteria

From a population of 340 CACFP subrecipients, we selected 7 subrecipients based upon the high-risk factors identified in previous audits and the total expenditures claimed for reimbursement during state fiscal year 2018. Of the 7 high-risk subrecipients, 3 were required to maintain eligibility documentation. To test the remaining population of 333 CACFP subrecipients, we selected a nonstatistical, random sample of 58 subrecipients, for a total of 61 subrecipients tested. For each subrecipient selected, we haphazardly selected between 1 and 10 participants to review, for a total of 744 participants. 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: Age Requirement Errors

For the 744 participants selected, the 61 subrecipients were required to keep documentation of 663 participants' ages. We noted errors at 3 of the 61 subrecipients (5%) (for 71 of the 663 participants who required documentation of age). One subrecipient did not maintain any documentation of participants' ages for 9 participants (1%); 1 subrecipient did not document ages on the maintained documentation for 61 participants (9%); and 1 subrecipient claimed 1 participant (0.15%) who did not meet the definition of a child.

The subrecipients claimed the participants were children; however, the eligibility applications were missing the participants' birth date and/or age, and none of the subrecipients provided any other supporting documentation of the children's ages when we requested the data. Therefore, 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

For the 744 participants selected, the 61 subrecipients were required to keep eligibility documentation for 662 participants. We noted errors for 25 of the 61 subrecipients (41%) (for 156 of the 662 participants who required eligibility documentation). We noted that 1 subrecipient did not maintain any eligibility applications for all 22 program participants (3%); 2 subrecipients did not maintain eligibility applications for 3 participants (0.45%); and 23 subrecipients did not maintain complete applications for 131 participants (20%). 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; or
- the signature of the participant's guardian.

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.

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.

Condition C: Subrecipients Did Not Maintain Documentation of Meals, Hours, and Days

For the 744 participants selected, the 61 subrecipients were required to keep enrollment documentation for 674 participants. We noted errors for 26 of the 61 subrecipients (43%) (for 180 of the 674 participants who required enrollment documentation). The subrecipients did not always maintain documentation of each child's normal meals and normal days and hours of care for 32 participants (5%), and the documentation they did maintain was not complete and/or updated annually for 148 participants (22%).

As stated above in 7 CFR 226.15(e)(2), enrollment documentation regarding the participant's days and hours of care and meals received while in care should be maintained and updated annually. We did not question costs for the documentation errors noted above because the errors we noted did not negate the participants' eligibility for the program.

Condition D: Subrecipients Incorrectly Determined the Category of Meal Status for Their Participants

For the 744 participants selected, 60 subrecipients were required to document the category of meal status for 641 participants. We noted errors for 19 of the 60 subrecipients (32%) (for 92 of the 641 participants required to document the category of meal status). We noted that the subrecipients did not keep information needed to classify the eligibility meal status (free, reduced-price, and paid) or incorrectly determined the eligibility meal status for 92 participants (14%). We also found the following:

- Information needed to classify the child for free or reduced-price eligibility was missing for 3 participants (0.47%).
- Based on the information provided for the remaining participants, subrecipients incorrectly determined the eligibility meal status for 89 participants (14%).

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 DHS' December 2017 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 its annual risk assessment included mitigating controls to ensure subrecipients correctly determine eligibility requirements or maintain the documentation to support eligibility.

Cause

During our discussions, DHS 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, DHS' training of subrecipients 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, DHS 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 correctly determined the meal status of participants and maintained proper documentation to support eligibility determinations, DHS 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, DHS will continue to have an increased risk of improperly reimbursing subrecipients in the program.

Federal regulations address actions that federal agencies and non-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 \$13,203 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	\$70
Subrecipient 2	\$67
Subrecipient 3	\$1,082
Subrecipient 4	\$481
Subrecipient 5	\$222
Subrecipient 6	\$22
Subrecipient 7	\$185
Subrecipient 8	\$181
Subrecipient 9	\$306
Subrecipient 10	\$106
Subrecipient 11	\$321
Subrecipient 12	\$176
Subrecipient 13	\$79
Subrecipient 14	\$7,152
Subrecipient 15	\$18
Subrecipient 16	\$98
Subrecipient 17	\$354
Subrecipient 18	\$93
Subrecipient 19	\$2,003
Subrecipient 20	\$60
Subrecipient 21	\$61
Subrecipient 22	\$66
Total	\$13,203

Our testwork included a review of 3 high-risk subrecipients' reimbursement claims, which resulted in known questioned costs of \$255. Our testwork also included a review of a nonstatistical, random sample of 58 subrecipient meal reimbursement claims, which resulted in \$12,948 of known questioned costs. We selected the nonstatistical, random sample of 58 meal reimbursement claims,

totaling \$606,613, from a population of 7,518 claims and adjustments, totaling \$54,517,678, for the period July 1, 2017, through June 30, 2018 (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 to 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 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: Age Requirement Errors

Do not concur.

The ages and birthdates 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; Head Start enrollment information; the individual information maintained on each child by the child care institution; and State licensing documentation.

Condition B: Subrecipients Did Not Maintain Eligibility Applications or Did Not Maintain Complete Applications

Concur.

The United States Department of Agriculture (USDA) Food Nutrition Service (FNS) recognized the difficulty surrounding income eligibility applications and issued a prototype CACFP Meal Benefit Income Eligibility (Child Care) Form. The Department adopted the use of this document, notified subrecipients, and made it available for immediate use on June 21, 2018.

Subrecipients are required to maintain income eligibility applications in certain situations. All applicable fields that pertain to a participant's individual situation are required and determined by the participant's circumstances. For example, inclusion of all household members, income, or partial social security numbers are not required if the participant is eligible based on participation in the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR). Head Start participants are not required to complete an income eligibility application since they are categorically eligible, according to USDA regulations. Guardians of foster children are only required to complete minimum sections of the income eligibility application.

Child and Adult Care Food Program (CACFP) sponsors are trained by the Department at least annually through in-person and online means. Further, the Program Specialists began conducting on-site, in-person technical assistance visits to subrecipients starting in January 2019. In addition, beginning June 2019, Family Day Care Home subrecipients, independent centers, and sponsors will have the opportunity to attend one of many regional training sessions to be offered each month that will include income eligibility applications, recordkeeping requirements, and other program requirements. Additionally, topic specific training and technical assistance are available at the sponsors' request, including support in accurate completion of income eligibility application forms.

The finding indicated documentation of the enrollment of each participant at centers that 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. A USDA Memo released on March 11, 2005, *CACFP Policy #02-05: Collection of Required Enrollment Information by Child Care Centers and Day Care Homes*, states, "We have been informed that State licensing agencies in a number of States require parents to sign their children in and out of child care facilities each day.

We have determined that this satisfies the requirement to collect the normal days and hours in care on each child's enrollment form provided that: the sign-in sheet captures the time the children arrive at and depart from the child care facility; and each day, the sign-in and sign-out times are signed or initialed by a parent or guardian."

Further, as indicated in USDA Memo CACFP 15-2013, "The Food and Nutrition Service (FNS) discourages State agencies from requiring a specific form to document enrollment for the purposes of CACFP. Instead, we encourage State agencies to accept other types of forms that centers and homes may already use in order to capture the required information." Therefore, CACFP specific

documentation of enrollment of each participant at centers and day care homes is not a Federal requirement.

Condition C: Subrecipients Did Not Maintain Documentation of Meals, Hours, and Days

Do not concur.

The Federal regulation 7 CFR 226.15 (e)(2) indicates, “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.” A United States Department of Agriculture (USDA) memo released on March 11, 2005, *CACFP Policy #02-05: Collection of Required Enrollment Information by Child Care Centers and Day Care Homes*, states, “We have been informed that State licensing agencies in a number of States require parents to sign their children in and out of child care facilities each day.

We have determined that this satisfies the requirement to collect the normal days and hours in care on each child’s enrollment form provided that: the sign-in sheet captures the time the children arrive at and depart from the child care facility; and each day, the sign-in and sign-out times are signed or initialed by a parent or guardian.”

Further, as indicated in USDA Memo CACFP 15-2013, “The Food and Nutrition Service (FNS) discourages State agencies from requiring a specific form to document enrollment for the purposes of CACFP. Instead, we encourage State agencies to accept other types of forms that centers and homes may already use in order to capture the required information.”

Condition D: Subrecipients Incorrectly Determined the Category of Meal Status for Their Recipients

Concur.

The United States Department of Agriculture (USDA) Food Nutrition Service (FNS) recognized the difficulty surrounding income eligibility applications and issued a prototype CACFP Meal Benefit Income Eligibility (Child Care) Form. The Department adopted the use of this document, notified subrecipients, and made it available for immediate use on June 21, 2018.

Child and Adult Care Food Program (CACFP) sponsors are trained by the Department at least annually through in-person and online means. Further, the Program Specialists conducting began on-site, in-person technical assistance visits to subrecipients starting in January 2019. In addition, beginning June 2019, CACFP Family Day Care Home subrecipients, CACFP independent centers, and CACFP sponsors will have the opportunity to attend one of many regional training sessions that will be offered each month that will include income eligibility applications, recordkeeping requirements, and other Program requirements. Additionally, topic specific training and technical assistance are available at the sponsors’ request, including support in accurate completion of income eligibility application forms.

Subrecipients are required to maintain income eligibility applications in certain situations. Income eligibility applications must be completed, on file, and updated annually. All applicable fields that pertain to participant’s individual situation are required and determined by the participant’s

circumstances. Inclusion of all household members, income, or partial social security numbers are not required if the participant is eligible based on participation in the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR). Head Start participants are not required to complete an income eligibility application since they are categorically eligible, according to USDA regulations. Guardians of foster children are only required to complete minimum sections of the income eligibility application.

The Department continues to evaluate findings identified in this report and as a result of the Department's internal monitoring and have created training sessions to mitigate programmatic weaknesses. All CACFP trainings are developed and conducted in conjunction with USDA FNS.

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.

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). Training and technical assistance are provided to all participants in the Child and Adult Care Food Program on a regular basis. Multi-modal training sessions, USDA policies and regulations, and technical assistance are also options for sponsors to obtain program guidance through the Department. The Department intends to increase program assistance at the regional levels with additional training opportunities beginning in June 2019. In addition, the Division of Audit Services provides on-site monitoring to review records, observe program operation, and provide technical assistance which may lead to reimbursement adjustments based on findings. According to Federal regulations, the presence of a repeat finding, factored with levels of severity, is escalated and the sponsor must take steps to permanently correct the findings or be removed from program participation after due process is provided.

It should be noted that 10 of the 22 subrecipients with identified questioned costs were below the \$100 department threshold and were the questioned cost substantiated with supporting documentation would not be pursued for recovery.

Auditor's Comment

Conditions A, B, and C

We discussed the issues in this finding with the Director of CACFP and SFSP on November 15, 2018. From the date of that conversation, the department's management and staff had until March 6, 2019, to provide us with any documentation to resolve these conditions; however, they did not

provide such documentation for enrollment, including information on each child's normal days, hours of care, and the meals normally received while in care.

Finding Number	2018-020
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	175TN331N1099, 175TN331N2020, 175TN340N1050, 185TN331N1099, 185TN331N2020, and 185TN340N1050
Federal Award Year	2017 and 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2017-021
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the two prior audits, the Department of Human Services has not developed effective internal controls over commodities and 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 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' CACFP staff determine 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 DHS for approval. For federal fiscal year 2018, program staff reviewed over 300 potential subrecipient applications.

For all subrecipients, DHS 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 the U.S. Department of Agriculture'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 for each month. For our audit period, the cash-in-lieu 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 two audits that DHS did not offer commodities to all subrecipients; did not have an internal tracking process to track subrecipients who requested commodities in order to report those requests to the Tennessee Department of Agriculture; and did not ensure subrecipients received either commodities or cash in lieu of commodities.

DHS management concurred with the prior audit finding and stated,

The Department has taken steps to correct this condition. The Department worked in conjunction with our Information Technology staff and the TIPS [Tennessee Information Payment System] vendor to develop a reporting process that allows the Department to track those subrecipients who select to receive commodities instead of CIL [cash in lieu].

In its six-month follow-up report to the Comptroller, DHS management stated,

The department has implemented an internal review process to ensure that all CACFP applications are approved to provide cash in lieu to eligible institutions.

Despite management's comment to the prior audit finding and its six-month follow-up report to the Comptroller, management still has not implemented a tracking process to document subrecipients that request to receive commodities or cash-in-lieu of commodities. Additionally, DHS did not ensure that subrecipients who requested commodities actually received them or were provided cash in lieu of commodities.

Condition

In response to the prior audit finding, DHS redesigned the CACFP child care center applications to allow subrecipients to opt to receive commodities; however, DHS staff did not develop an internal process to track those subrecipients and other subrecipients who selected this option. Based on discussion with CACFP program staff, as of October 18, 2018, DHS was still working with the TIPS vendor to develop the reporting process mentioned in management's response to the prior audit finding. As a result, DHS still did not report those subrecipients who opted to receive commodities to the Tennessee Department of Agriculture, which has the responsibility to provide the commodities. In addition, because FNS has not authorized DHS to offer cash-in-lieu to sponsors who request commodities, it could not provide cash in lieu of commodities unless specifically requested by the subrecipient.

During our claim review testwork (see Finding 2018-018 for sample methodology), we noted that for 1 of 60 claims tested (2%), despite the subrecipient's request to receive cash-in-lieu of commodities on its application, as noted above, DHS did not pay the subrecipient cash-in-lieu of commodities. DHS underpaid this subrecipient \$2,129 for the period October 1, 2017, through June 30, 2018.

Given the problems identified during our fieldwork, we also reviewed DHS' December 2017 Financial Integrity Act Risk Assessment. Despite repeat findings related to this federal program, we determined that management did not ensure that its annual risk assessment included mitigating controls to ensure staff tracked, reported, and paid all subrecipients who requested commodities or cash-in-lieu of 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),

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.

Cause

Based on discussion with DHS management, the internal process to track subrecipients who elect to receive commodities or cash-in-lieu of commodities was not implemented due to a change in management at the TIPS vendor. In addition, the one subrecipient was not paid cash-in-lieu of commodities because CACFP staff inadvertently entered that the subrecipient requested commodities instead of cash-in-lieu of commodities during the application approval process.

Effect

Because DHS lacks a proper way to track subrecipients that request commodities or cash-in-lieu of commodities, the Director of CACFP and SFSP (Summer Food Service Program) and program staff were unaware that subrecipients had requested commodities. While it is the Tennessee Department of Agriculture's responsibility to deliver commodities, DHS is ultimately responsible for reporting subrecipients that opt to receive commodities to the Department of Agriculture. Without obtaining approval from FNS to offer cash-in-lieu of commodities to subrecipients, DHS has underpaid subrecipients in the program.

Failure to establish and maintain effective internal controls increases the risk that DHS will not timely prevent or detect noncompliance. 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

Because the federal grantor requires DHS 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 track and report those subrecipients requesting commodities. The Commissioner and the Director of CACFP and SFSP should also request an exemption from the federal grantor to forgo the commodities requirement due to the impracticality of providing them. If FNS approves this request, DHS 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

Concur in part.

The Department took immediate steps to correct this condition. The Department corrected the identified underpayment for cash-in-lieu and provided evidence to auditors during the audit work period. The Department has provided a list of commodities and/or cash-in-lieu subrecipients to the TN Department of Agriculture, as required.

As an additional control, the Department does intend to implement an Ad Hoc Reporting tool for the TIPS system. All system changes are prioritized as part of the Department's change management process and the date of implementation is dependent on budgetary and other system change priorities.

Finding Number	2018-021
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	175TN331N1099, 185TN331N1099, and
Identification Number	185TN332L4003
Federal Award Year	2017 and 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2017-026 2017-027
Pass-Through Entity	N/A
Questioned Costs	\$507,975

As noted in the prior four audits, 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 \$507,975 of questioned costs

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and administered on the state level by the Tennessee Department of Human Services (DHS). As a pass-through entity for SFSP funds, DHS is responsible for providing sufficient qualified consultative, technical, and managerial personnel to administer the program and monitor performance to ensure that subrecipients, known as sponsors, comply with program rules and regulations.

SFSP operates during the summer months. 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, 2017, through June 30, 2018, and our SFSP review included the following periods:

- summer 2017 (May through September 2017 with the months of July through September falling within our audit scope); and
- summer 2018 (May through September 2018 with the months of May and June falling within our audit scope).

DHS uses the Tennessee Information Payment System (TIPS) to detail approvals of meal services at individual sites and to process reimbursement payments to sponsors for meals served to children. DHS does not require sponsors to submit supporting documentation when filing claims; however, federal regulations require sponsors to maintain all documentation to support their claims and to comply with federal guidelines during the meal reimbursement process. In addition, the department, as the non-federal entity, must implement internal controls over compliance

requirements for federal awards designed to provide reasonable assurance that its subrecipients achieve compliance with the federal grantor's regulations.

As part of the internal control process, the department established a sponsor application process to provide oversight and accountability over sponsors' operations. During the application process and before sponsors can begin in the program, DHS approves various information pertaining to the sponsors' meal services before the sponsors can serve meals and claim reimbursement through the reimbursement request process. The information that DHS approves includes, but is not limited to,

- physical locations of where actual meal services take place - sponsors are expected to serve SFSP meals at these locations during approved dates;
- field trips - if sites' personnel desire to serve meals outside the approved physical locations, for example, due to scheduled activities;
- the maximum number of meals sponsors can serve during individual meal services, known as the capacity; and
- approved dates of operation during which site personnel serve meals to children.

Sponsors can request to change previously approved information on the application to accommodate summer program operations. Once DHS has approved changes, sponsors must abide by the newly approved information in order to claim meals for reimbursement.

Sponsors use meal count forms to document the number of meals served to children during each meal service. Sponsors use these forms to calculate reimbursement requests.

DHS provides federal reimbursements to sponsors for eligible meals served to individuals who meet age and income requirements based on a combined rate, which covers meals and administrative components. The meal component of the combined reimbursement rate is applicable to all sponsors and their sites. The administrative component of the combined rate depends on whether sponsors self-prepare their own meals or obtain meals from a food vendor. If the sponsor obtains meals from a food vendor, then the geographical locality of the feeding site, which can be either in an urban or rural area, determines the administrative component of the combined reimbursement rate.

Based on our understanding of the federal regulation, the federal grantor expects sponsors to administer the program with high integrity and to accurately claim only reimbursable meals served to children and in compliance with program guidance. The federal grantor also expects the department to monitor the sponsors to obtain reasonable assurance that sponsors comply with federal and state regulations, and that the department follows up on program violations and inconsistencies.

We selected a nonstatistical, random sample of 60 meal reimbursement claims, totaling \$7,076,561, from the population of 92 SFSP sponsors' meal reimbursement claims paid during state fiscal year 2018, totaling \$8,743,455.

Based on our review of the sponsors' claims, we determined that DHS reimbursed sponsors for inaccurate meal reimbursement claims. Specifically, we found that

1. sponsors did not maintain or could not provide complete and accurate supporting documentation for meal claims submitted to DHS for reimbursement;
2. sponsors claimed meals above the approved serving limits;
3. sponsors claimed meals outside the approved dates;
4. sponsors claimed meals for unapproved field trips; and
5. DHS reimbursed sponsors using incorrect administrative rates.

In addition, we noted questionable meal reporting practices, suggesting that the sponsors did not take an actual and accurate meal count each day, as required by federal regulations. We found that

1. sponsors provided photocopied meal count forms to support their reimbursement payments; and
2. one sponsor provided meal count documentation showing questionable meal service patterns that are highly unlikely to occur, given how the program operates.

As reported in findings in the four prior audits, we found that sponsors had not complied with established federal regulations required to support the meal reimbursement claims. Management concurred or concurred in part with the most recent prior finding (applicable to **Conditions A, B, and C** below of the current finding). Management stated the following in its comments to the prior audit finding and again in its six-month follow-up report to the Comptroller:

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. The department has added the subrecipients with identified significant questioned costs to the FFY 2018 monitoring program. The department will follow up on any issues identified through the monitoring process.

Management did not concur with the prior audit finding related to questionable meal reporting practices (applicable to **Condition G** below of the current finding), stating the department's monitoring process includes following up on questionable practices, which can result in either stricter oversight or termination of sponsors from the program. Management stated that the monitors exceed food program monitoring requirements; however, federal directives restrict the monitors to disallowing costs only based on appropriate sufficient evidence sustainable during the appeal process.

We believe that through the present weak internal control environment, DHS' management does not adequately scrutinize repeat violators and questionable meal reporting practices in the programs' riskiest areas. As a result, management allows sponsors to continue participating and obtaining reimbursements for meals served in violation of program requirements and in some cases for meals not served at all. Since 2014, we have continued to see the same or similar program noncompliance, often by the same sponsors. These sponsors have been identified repeatedly by our audits and even by the department's Audit Services unit for noncompliance even though these

very sponsors have had years of training and consultative assistance on program operations. Given the inherent risk of improper payments in SFSP and the department’s less aggressive approach to address repeated sponsor noncompliance, we continue to find sponsors that continue to ignore the federal and state regulations and, in some cases, exhibit dishonest behavior. See finding 2018-015 for further information on management’s oversight responsibilities.

Risk Assessment

We reviewed DHS’ December 2017 Financial Integrity Act Risk Assessment and determined that although management listed the risk of subrecipients submitting claims that are not supported by documentation, DHS—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 Incomplete and/or Based on Inaccurate Meal Counts*

Based on our review of the TIPS reimbursement payments DHS paid to sponsors and corresponding supporting meal count documentation obtained from the sponsors, we noted that for 48 of 60 claims reviewed (80%) for 32 sponsors, DHS staff did not ensure the sponsors maintained complete or accurate documentation to support meal reimbursement claims filed with DHS.

The sponsors submitted claims for reimbursement for more meals served than the sponsor had documentation to support. In some cases, the sponsors submitted claims for fewer meals served than were reported on supporting documentation.

According to Title 7, *Code of Federal Regulations* (CFR), Part 225, Section 15(c),

Sponsors shall maintain accurate records justifying all 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
Results of Testwork and Questioned Costs for Unsupported Claims

Sponsor	Claim Number	Questioned Costs^{*†}	Number and Type of Meals Represented in Questioned Costs
Sponsor 1	1	\$349	91 lunches
Sponsor 2	1	\$495	107 breakfasts 68 lunches
	2	\$238	62 lunches

Sponsor	Claim Number	Questioned Costs**†	Number and Type of Meals Represented in Questioned Costs
Sponsor 3	1	\$310	68 breakfasts 42 suppers
	2	\$1,203	5 breakfasts 270 lunches 41 suppers
Sponsor 4	1	\$575	150 lunches
Sponsor 5	1	\$54	11 breakfasts 8 lunches
Sponsor 6	1	\$2	1 breakfast
Sponsor 7	1	\$4	1 lunch
	2	\$616	33 breakfasts 142 lunches
Sponsor 8	1	\$4	1 lunch
	2	\$1,403	366 lunches
Sponsor 9	1	\$19	5 lunches
Sponsor 10	1	\$432	5 lunches 455 snacks
Sponsor 11	1	\$1,649	119 breakfasts 348 lunches 92 snacks
	2	\$1,748	50 breakfasts 325 lunches 468 snacks
Sponsor 12‡	1	\$3,149	343 breakfast 626 lunches
	2	\$289,810	31,431 breakfasts 57,679 lunches
Sponsor 13	1	\$708	5 breakfasts 182 suppers
Sponsor 14	1	\$15	4 lunches
Sponsor 15	1	\$428	96 breakfasts 57 lunches
	2	\$143	55 breakfast 6 lunches
Sponsor 16	1	\$15	4 lunches
Sponsor 17	1	\$2,366	27 breakfasts 47 lunches 354 snacks 471 suppers
Sponsor 18	1	\$843	77 breakfasts 176 lunches
	2	\$334	39 breakfasts 65 lunches

Sponsor	Claim Number	Questioned Costs**†	Number and Type of Meals Represented in Questioned Costs
Sponsor 19	1	\$123	32 suppers
	2	\$590	5 lunches 149 suppers
Sponsor 20	1	\$294	3 breakfasts 75 lunches
	2	\$4	1 lunch
Sponsor 21	1	\$19	5 lunches
	2	\$1,290	495 breakfasts 53 lunches 5 snacks
	3	\$365	154 breakfasts 7 lunches 1 snack
Sponsor 22	1	\$257	14 breakfasts 59 lunches
Sponsor 23	1	\$80	21 lunches
Sponsor 24	1	\$0	-
	2	\$31	8 lunches
Sponsor 25	1	\$399	15 breakfasts 404 snacks
Sponsor 26	1	\$0	-
Sponsor 27	1	\$32	1 breakfast 7 lunches 3 snacks
	2	\$175	41 lunches 20 snacks
	3	\$282	71 breakfasts 33 lunches
Sponsor 28	1	\$146	68 breakfasts
Sponsor 29	1	\$78	6 breakfasts 17 lunches
Sponsor 30	1	\$44	20 breakfasts
Sponsor 31	1	\$44	1 breakfast 11 lunches
Sponsor 32	1	\$348	48 breakfasts 65 lunches
	2	\$3,852	105 breakfasts 962 lunches
Total		\$315,365	98,063 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, for 15 sites, or all sites if the sponsor served and claimed meals during selected claim at less than 15 sites.

‡We requested Sponsor 12 to provide us the daily meal count forms to support meals claimed in TIPS for claims 1 and 2; however, the sponsor informed us that the requested meal count documentation could not be located. We were

able to obtain copies of the sponsor's daily meal count forms from DHS' Audit Services unit for claim 1. The unit did not obtain the supporting meal count documentation for claim 2. As a result, we questioned all reimbursement payments DHS paid to the sponsor for claim 2 for all 84 sites.

Condition B and Criteria: *Sponsors Served and Claimed Meals Above the Approved Serving Limits*

Based on our review of DHS' approved information in TIPS pertaining to serving limits and our review of the meal count documentation obtained from the sponsors, we noted that for 25 of 59 claims reviewed (42%), 18 sponsors claimed meals above the maximum number of approved meals for the sponsor's 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
Results of Testwork and Questioned Costs for Serving and Claiming Meals Above Capacity Amounts

Sponsor	Claim Number	Questioned Costs	Overall Number and Types of Meals Claimed Above the Approved Limits
Sponsor 2	1	\$1,129	50 breakfasts 266 lunches
	2	\$595	2 breakfasts 154 lunches
Sponsor 5	1	\$688	180 breakfasts 80 lunches
Sponsor 7	1	\$98	45 breakfasts
	2	\$1,430	109 breakfasts 311 lunches
Sponsor 8	1	\$148	15 breakfasts 30 lunches
Sponsor 9	1	\$158	42 lunches
Sponsor 10	1	\$24	5 lunches 5 snacks
Sponsor 11	1	\$175	20 breakfasts 35 lunches
Sponsor 12	1	\$21	6 breakfasts 2 lunches
Sponsor 13	1	\$31	3 lunches 5 suppers

Sponsor	Claim Number	Questioned Costs	Overall Number and Types of Meals Claimed Above the Approved Limits
Sponsor 14	1	\$287	75 lunches
Sponsor 21	1	\$184	35 breakfasts 28 lunches
	2	\$650	19 breakfasts 155 lunches 16 snacks
	3	\$744	2 breakfasts 27 lunches 700 snacks
Sponsor 23	1	\$118	26 breakfasts 16 lunches
Sponsor 24	2	\$200	65 breakfasts 15 lunches
Sponsor 27	2	\$583	152 lunches
	3	\$46	12 lunches
Sponsor 30	1	\$188	49 lunches
Sponsor 32	1	\$23	6 lunches
	2	\$113	30 lunches
Sponsor 33	1	\$7	3 breakfasts
	2	\$42	19 breakfasts
Sponsor 34	1	\$8	2 lunches
Total		\$7,690	2,817 meals

Condition C and Criteria: *Sponsors Served and Claimed Meals Outside the Approved Dates of Operation*

Based on our review of DHS’ approved operation days in TIPS and our review of the meal count documentation obtained from sponsors, we noted that for 15 of 59 claims reviewed (25%), 12 sponsors served and claimed meals prior to DHS’ approval or claimed meals before or after the approved dates of operation.

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.

In addition, 7 CFR 225.9(d) states,

Reimbursements. Sponsors shall not be eligible for meal reimbursements unless they have executed an agreement with the State agency. All reimbursements shall be in accordance with the terms of this agreement. Reimbursements shall not be

paid for meals served at a site before the sponsor has received written notification that the site has been approved for participation in the Program.

Questioned Costs for This Condition

See **Table 3** for details of questioned costs for this condition.

Table 3
Results of Testwork and Questioned Costs for
Serving and Claiming Meals Outside Approved Dates of Operation

Sponsor	Claim Number	Questioned Costs*	Number and Types of Meals Claimed Outside Approved Dates
Sponsor 3	1	\$0	560 lunches
Sponsor 6	1	\$394	61 breakfasts 68 lunches
Sponsor 7	1	\$94	43 breakfasts
Sponsor 9	1	\$635	125 breakfasts 95 lunches
Sponsor 11	1	\$0	193 breakfasts 150 lunches
	2	\$219	37 breakfasts 37 lunches
Sponsor 13	1	\$230	60 suppers
Sponsor 14	1	\$314	82 lunches
Sponsor 22	1	\$0	1,047 breakfasts 2,235 lunches
Sponsor 25	1	\$0	105 snacks
Sponsor 27	1	\$6,460	724 breakfasts 1,137 lunches 191 snacks 90 suppers
	2	\$34,668	3,815 breakfasts 6,680 lunches 795 snacks
	3	\$57	15 lunches
Sponsor 29	1	\$497	227 breakfasts
Sponsor 30	1	\$468	79 breakfasts 77 lunches
Total		\$44,036	18,728 meals

*For sponsors without questioned costs, we found that errors and discrepancies noted in our review were not caused by the sponsors' personnel, but instead, the department's staff made errors during the application approval process which were corrected subsequently when discovered. Since these errors were made and remediated prior to our review, we excluded these costs from calculating of questioned costs.

Condition D and Criteria: *Sponsors Served and Claimed Meals During Unapproved Field Trips*

Based on our review of DHS’ approved information in TIPS pertaining to sponsors’ feeding sites and our review of the meal count documentation, we noted that for 3 of 60 claims reviewed (5%), 2 sponsors served and claimed meals at unapproved field trips. More specifically, we determined that Sponsor 14 served and claimed meals on 5 unapproved field trips, and Sponsor 27 served and claimed meals at 19 and 23 unapproved field trips for 2 different claims.

According to the 2016 *Administration Guide – Summer Food Service Program*,

Meals must be consumed on site in order to be eligible for reimbursement, unless the State agency has been notified prior to meal service for a field trip or FNS [Food Nutrition Services] has approved other off-site meal consumption.

Questioned Costs for This Condition

See **Table 4** for details of questioned costs for this condition.

Table 4
Results of Testwork and Questioned Costs for Claiming Meals
During Unapproved Field Trips

Sponsor	Claim Number	Questioned Costs	Number and Types of Meals Claimed During Unapproved Field Trips
Sponsor 14	1	\$441	115 lunches
Sponsor 27	2	\$0*	753 lunches
	3	\$0*	140 breakfasts 814 lunches
Total		\$441	1,822 meals

*The field trips in question for Sponsor 27 involved trips from one approved SFSP site to another approved SFSP site. We did not question any costs for Sponsor 27 since the sponsor was allowed to claim the meals in question under the SFSP site where the field trips took place.

Condition E and Criteria: *DHS Reimbursed Sponsors Using Incorrect Administrative Rates*

Based on review of meal reimbursement information in TIPS, we noted for 3 of 60 meal reimbursement claims tested (5%), DHS reimbursed 2 sponsors using incorrect administrative reimbursement rates, resulting in overpayments of \$982.

Meal Preparation Type Discrepancy (Self-Preparer versus Vended Meal Preparation)

DHS reimbursed Sponsor 3 for two claims using the higher administrative rate reserved for sponsors who self-prepare meals even though the sponsor did not self-prepare meals. Since meals were obtained by a food service vendor, reimbursement to the sponsor should have occurred at the lower administrative rate.

Site Locality Discrepancy (Rural versus Urban Locality)

Our review found that DHS reimbursed Sponsor 9 for one feeding site using the higher administrative rate applicable to vended sites located in a rural area. However, we found that the actual geographical location of the site was in an urban area, requiring reimbursement to the sponsor at the lower administrative rate.

According to the 2016 *Administration Guide – Summer Food Service Program*,

The SFSP has two different levels of administrative reimbursement rates. The higher reimbursement rates are for sponsors of sites that prepare or assemble their own meals and for sponsors of sites located in rural areas. The lower rate is for all other sponsors.

Questioned Costs for This Condition

See **Table 5** for details of questioned costs for this condition.

Table 5
Results of Testwork and Questioned Costs for Reimbursing Sponsors
Using Incorrect Rates

Sponsor	Claim Number	Questioned Costs*	Number and Types of Meals Reimbursed Using Incorrect Administrative Rate
Sponsor 3	1	\$486	3,421 breakfasts 5,442 lunches and suppers
	2	\$489	3,988 breakfasts 5,118 lunches and suppers
Sponsor 9	1	\$7	114 lunches
Total		\$982	18,083 meals

*The administrative component of sponsors' reimbursement is calculated using the number of meals served times the administrative rate. Questioned costs in this table represent the difference between the amount of reimbursement DHS paid the sponsor and the amount of reimbursement that should have been paid had the department reimbursed the sponsors using the correct administrative rates.

Condition F and Criteria: *Sponsors Provided Photocopied Meal Count Forms to Support Reimbursement Payments*

Based on our review of the meal count documentation obtained from sponsors, we noted for 5 of 60 meal reimbursement claims reviewed (8%), 4 sponsors provided photocopied meal count forms (exact or partial replica of the same form with only the dates changed), which suggests the meal count documentation was not properly prepared during actual meal services as required by federal regulation and which also heightens the risk of potential fraudulent activity. We questioned the number of meals claimed based on questionable photocopied documents.

According to 7 CFR 225.15(c),

Sponsors shall maintain accurate records justifying all 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.

The 2016 *Administration Guide – Summer Food Service Program* states, “Daily meal count sheets are required.” The guide also states, “Each site must take a point-of-service meal count every day.”

Lastly, we do not believe, nor would any prudent persons, that photocopied meal counts represent adequate documentation to support meal reimbursement payments.

Questioned Costs for This Condition

See **Table 6** for details of questioned costs for this condition.

Sponsor	Claim Number	Questioned Costs	Number of Meals Included in the Photocopied Meal Counts	Number of Sites That Photocopied Meal Counts
Sponsor 5	1	\$8,812	1,340 breakfasts 1,575 lunches	3
Sponsor 11	1	\$2,282	257 breakfasts 459 lunches	1
	2	\$3,514	320 breakfasts 750 lunches	
Sponsor 17	1	\$14,384	2,406 breakfasts 2,380 lunches	3
Sponsor 23	1	\$1,084	180 breakfasts 180 lunches	1
Total		\$30,076	9,847 meals	8 sites

Condition G and Criteria: *One Sponsor Provided Meal Count Documentation Showing Questionable Patterns*

Our review of the meal count documentation obtained from one sponsor revealed that for 1 of 60 meal reimbursement claims tested (2%), all of Sponsor 5’s 15 feeding sites included questionable patterns, unrealistically serving the same number of meals each day with little or no variance during the claim period. Given our experience with SFSP, we believe that these meal service outcomes are unlikely at feeding sites and that the number of meals Sponsor 5 claimed is questionable.

We noted that Sponsor 5

- recorded the same number of meals day after day,
- never recorded second meals served,

- never or rarely recorded leftover meals,
- recorded first meals served in multiples of five, and
- recorded the same number of meals delivered as number of meals served.

In addition to the questionable meal reporting patterns, we noted noncompliance for Sponsor 5 in Conditions A, B, and F of this finding. DHS monitors reported in the department's 2016 SFSP monitoring report that Sponsor 5 claimed 85 breakfast meals even though the monitors observed only 27 breakfast meals served for the day. In addition, the monthly claims for all three feeding sites that DHS monitors reviewed during the 2016 SFSP included questionable meal reporting patterns, claiming the same number of meals daily with little or no variance. However, the DHS monitors did not recognize the patterns as questionable, and they did not further scrutinize the discrepancy between the number of meals served during their observation and the number of meals Sponsor 5 claimed on the reimbursement request. The monitors did not elevate the discrepancies to the serious deficiency level, a process that would require DHS to establish stricter oversight if the sponsor continued to participate in SFSP. Because monitors did not recognize questionable meal count patterns during 2016 SFSP monitoring and did not report a serious deficiency, DHS did not review Sponsor 5 during its 2017 and 2018 SFSP monitoring.

According to 7 CFR 225.15(c),

Sponsors shall maintain accurate records justifying all 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.

Questioned Costs for This Condition

See **Table 7** for details of questioned costs for this condition.

Table 7
Results of Testwork and Questioned Costs for Questionable Patterns

Sponsor	Claim Number	Questioned Costs	Number of Meals Included in the Questionable Patterns
Sponsor 5	1	\$109,385	14,362 breakfasts 20,843 lunches
Total		\$109,385	35,205 meals

Cause

Because DHS does not require subrecipients to provide supporting documentation for each meal reimbursement claim before payment, management and staff instead rely on its Audit Services unit to review supporting documentation during monitoring visits and to train sponsors about the federal program requirements. We discussed the issues presented within this finding with management; however, DHS did not provide any additional information to explain subrecipients' continuing noncompliance and 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 8**.

Table 8
Reasons for Noncompliance

Conditions	Sponsors' Reasons for Noncompliance*
Condition A: Claims were incomplete and/or based on inaccurate meal counts.	Calculation errors, mistakes, or documentation noncompliance (45); missing documentation or documentation not provided (5); and the exact reason could not be determined, or no reason was provided (3).

Conditions	Sponsors' Reasons for Noncompliance*
Condition B: Sponsors served and claimed meals above the approved serving limits.	Setting capacities too low without requesting increases (7); misunderstanding of processes, requirements, and guidelines on capacities (7); the exact reason could not be determined, or no reason was provided (7); and lack of communication about sites' capacities between sponsor and site personnel (1).
Condition C: Sponsors served and claimed meals outside the approved dates of operation.	Errors made by DHS food program staff during the application packet approval process (4); mistakes or lack of oversight (3); misunderstanding of processes and guidelines on approved dates (3); the exact reason could not be determined or no reason was provided (3); serving and claiming meals prior to obtaining approvals (1); and erroneously filled out meal count forms (1).
Condition D: Sponsors served and claimed meals during unapproved field trips.	Changes in field trips on short notices without updating TIPS (1); and the exact reason could not be determined (1).
Condition E: DHS reimbursed sponsors using incorrect administrative rates.	DHS food program staff's incorrect determination and guidance of meal service preparation type (1); and TIPS' incorrect determination of geographical locality (1).
Condition F: Sponsors provided photocopied meal count forms to support reimbursement payments.	Misunderstanding of allowed or unallowed practices in SFSP (2); and the exact reason could not be determined (2).
Condition G: One sponsor provided meal count documentation showing questionable patterns.	The sponsor did not provide the exact reason but commented that the children's participation was quite consistent (1).

*The numbers shown in parenthesis represent how many sponsors provided the reason for noncompliance. The sponsors could have provided more than one reason for the noncompliance.

Effect

As a pass-through entity for SFSP, DHS is responsible for ensuring that sponsors comply with federal and state requirements. When DHS 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 and non-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

See **Table 9** for a summary of questioned costs for all conditions.

Table 9
Summary of Questioned Costs for All Conditions

Conditions	Questioned Costs
Condition A: Claims were incomplete and/or based on inaccurate meal counts.	\$315,365
Condition B: Sponsors served and claimed meals above the approved serving limits.	\$7,690

Condition C: Sponsors served and claimed meals outside the approved dates of operation.	\$44,036
Condition D: Sponsors served and claimed meals during unapproved field trips.	\$441
Condition E: DHS reimbursed sponsors using incorrect administrative rates.	\$982
Condition F: Sponsors provided photocopied meal count forms to support reimbursement payments.	\$30,076
Condition G: One sponsor provided meal count documentation showing questionable patterns.	\$109,385
Total Questioned Costs	\$507,975

This finding, in conjunction with findings 2018-015 and 2018-022, resulted in total known federal questioned costs exceeding \$25,000 for federal programs that were audited as major programs. When known questioned costs are greater than \$25,000 for a type of compliance requirement for a major program, 2 CFR 200.516(a)(3) requires us to report those costs.

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

Recommendation

The Commissioner and the Director of Child and Adult Care Food Program (CACFP) and Summer Food Service Program (SFSP) should pursue actions to ensure both subrecipients and DHS 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.

When subrecipients continually fail to 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 in DHS' risk assessment the risks and corresponding controls associated with SFSP subrecipients not complying with the program requirements.

Management's Comment

The department takes a serious and aggressive approach to addressing program noncompliance. The department follows federal regulations and guidelines as written by the United States

Department of Agriculture in this and all programs. In fact, the Department responded and provided, in response to a separate finding, a partial list of sponsors that were terminated from participating in the food program due to high risk, fraud risk factors, nonresponsive to corrective actions, and other factors. Such diligence will continue in accordance with federal law as the Department operates this program.

Condition A: *Claims Were Incomplete and/or Based on Inaccurate Meal Counts*

We concur that the claims were incomplete and/or inaccurate; we do not concur with the identified questioned costs.

7 C.F.R. 225.10(c) states, “in conducting management evaluations, reviews or audits in a fiscal year, the State agency, FNS or OIG may disregard an overpayment if the overpayment does not exceed \$100.” The Department has established an internal policy that disregards overpayments that do not exceed \$100.

The identified sponsors did not provide documentation to support the number of meals claimed in 2017 to the comptroller’s office. It is important to note that 17 of the claims with questioned costs are below the \$100 recoupment threshold and would not be recovered. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what the State auditors noted in this condition.

The Department’s continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

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 Served and Claimed Meals Above the Approved Serving Limits*

Concur that the sponsor served and claimed meals above the approved serving limits. Do not concur with the identified questioned costs.

7 C.F.R. 225.10(c) states, “in conducting management evaluations, reviews or audits in a fiscal year, the State agency, FNS or OIG may disregard an overpayment if the overpayment does not exceed \$100.” The Department has established an internal policy that disregards overpayments that do not exceed \$100.

Six of the claims with questioned costs are below the \$100 recoupment threshold and would not be recovered. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what the State auditors noted in this condition.

The Department’s continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

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 of Operation*

Concur in part.

As noted in table 3, 4 of the identified claims were caused by staff errors that were subsequently corrected. These errors are not instances of program or sponsor noncompliance and should not be included in the finding. The remaining identified claims were not in compliance with the criteria.

It is important to note that 2 of the claims with questioned costs are below the \$100 recoupment threshold and would not be recovered. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what the State auditors noted in this condition. The Department implemented a process in 2017 to review high risk SFSP sponsors' claims prior to payment.

The Department's continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

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 D: *Sponsors Served and Claimed Meals During Unapproved Field Trips*

Concur.

The identified sponsors did not receive approval for field trips prior to taking meals off site. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what the State auditors noted in this condition. The Department implemented a process in 2017 to review high risk SFSP sponsors' claims prior to payment.

The Department's continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control. Additionally, the Department has transitioned to a case management approach to SFSP, which will allow for more Program Specialist involvement and a decrease in program administration errors.

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: *DHS Reimbursed Sponsors Using Incorrect Administrative Rates*

Concur that the identified sponsors were reimbursed using incorrect administrative rates. Do not concur with the identified questioned costs.

7 C.F.R. 225.10(c) states, “in conducting management evaluations, reviews or audits in a fiscal year, the State agency, FNS or OIG may disregard an overpayment if the overpayment does not exceed \$100.” The Department has established an internal policy that disregards overpayments that do not exceed \$100.

It is important to note that 1 of the claims with questioned costs was below the \$100 recoupment threshold and would not be recovered. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what the State auditors noted in this condition. The Department implemented a process in 2017 to review high risk SFSP sponsors’ claims prior to payment.

The Department’s continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

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 F: *Sponsors Provided Photocopied Meal Count Forms to Support Reimbursement Payments*

Concur.

The identified sponsors were incorrectly photocopying meal count forms. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what the State auditors noted in this condition. The Department implemented a process in 2017 to review high risk SFSP sponsors’ claims prior to payment.

The Department’s continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

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 G: *One Sponsor Meal Count Documentation Showing Questionable Patterns*

Concur in part.

We concur that the identified sponsor’s claims included patterns that would invite additional questions; however, the Department does not concur that these patterns inherently indicate incorrect claims or claims that would result in meal disallowances. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what the State auditors noted in this condition. The Department implemented a process in 2017 to review high risk SFSP sponsors’ claims prior to payment.

The Department's continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

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

2 CFR 200.84 defines questioned costs as 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. Once an auditor reports questioned costs based on the audit, the federal grantor then determines whether these costs are disallowed and what amounts should be recovered. Also 2 CFR 200.516(a)(3) requires us to report likely questioned costs greater than \$25,000 for a type of compliance requirement for a major program. Because we have identified a total of \$622,978 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.

7 CFR 225 provides guidance for overpayment recoveries when the department, USDA's Food and Nutrition Services, and/or the USDA's Office of Inspector General identify overpayments to subrecipients resulting from their own reviews or audits.

Condition G

Despite the department's monitoring efforts of the sponsor in question, management failed to adequately recognize unreasonable meal patterns and questionable documentation the sponsor provided to monitors during the monitoring review. The review process, which management states is thorough, did not address the red flag patterns. Management has not yet developed a monitoring system to recognize and follow up on questionable practices, which is a key flaw in the monitoring process and the reason why questionable sponsors continue to participate in this program without further scrutiny. The department's response that it does not concur that these patterns inherently indicate incorrect claims or claims that would result in meal disallowances suggests management is unlikely to follow up on questionable billing practices and will continue to allow sponsors to overbill the program due to error or fraud. We have made repeated recommendations to management to develop a strong follow-up response to these questionable patterns.

Finding Number	2018-022
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Federal Award	
Identification Number	185TN331N1099 and 185TN332L4003
Federal Award Year	2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Repeat Finding	2017-025 2017-026
Pass-Through Entity	N/A
Questioned Costs	FY2019: \$7,152

For the fifth 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, resulting in \$7,152 of federal questioned costs

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and administered on the state level by the Tennessee Department of Human Services (DHS). As a pass-through entity for SFSP funds, DHS is responsible for providing sufficient qualified consultative, technical, and managerial personnel to administer the program and monitor performance to ensure that subrecipients, known as sponsors, comply with program rules and regulations.

Sponsors may operate the program at one or more feeding sites. DHS requires sponsors to count meals served and record this number on a daily meal count form. Sponsors can claim reimbursement requests only for meals that are compliant with program guidance, such as meals served with all required components and within DHS approved timeframes. Site personnel then submit the meal count forms to the sponsor, who calculates monthly totals and submits reimbursement requests to DHS.

DHS uses the Tennessee Information Payment System to process reimbursement payments to sponsors. DHS does not require sponsors to submit supporting documentation when filing claims; however, federal regulations require sponsors to maintain all documentation to support their claims and to comply with federal guidelines during the meal reimbursement process. DHS monitors subrecipients to obtain reasonable assurance that both sponsors and site personnel comply with state and federal requirements.

DHS addresses meal service violations by requiring subrecipients to submit a corrective action plan, which outlines actions and steps to prevent the noncompliance from occurring in the future. More serious violations, outlined in the federal guidelines, result in a process called a serious

deficiency, which requires DHS to start terminating the sponsor from the program and disapprove the subrecipient's application from future program participation unless the subrecipient takes appropriate corrective actions to prevent the recurrence of the deficiencies.

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, including meal observation and subsequent follow-up claim review testwork, crossed two state fiscal years:

- 2018 (July 1, 2017, through June 30, 2018, with the months of May and June falling during our review period); and
- 2019 (July 1, 2018, through June 30, 2019, with the months of July and August falling during our review period).

We selected 21 of the 58 sponsors that DHS approved for the 2018 program, using a combination of systematic and haphazard selection methods. We observed 31 meal services at 28 feeding sites operated by the 21 different sponsors.

After the 2018 program ended, we followed up with all 21 sponsors to ensure the sponsors claimed the correct number of meals on the reimbursement claims submitted to DHS for the 31 meal services we observed. These 31 meal service follow-ups consisted of 30 monthly claims the sponsors submitted.

We noted meal service noncompliance during our meal observations (see Condition A). Based on our follow-up reviews, we also noted that subrecipients did not claim the correct number of meals for the day of our observation (see Condition B) and did not maintain accurate meal reimbursement documentation for all meals for the month we reviewed (see Condition C).

We reported in the prior four audits that subrecipients had not complied with established federal regulations required for meal service at feeding sites and had not maintained accurate meal reimbursement documentation. DHS management concurred with the prior audit finding and acknowledged that noncompliance and errors occur in administering the SFSP. Management stated that it remains committed to efforts to make improvements and continues providing federally required training and monitoring; however, management also commented that no monitoring plan or training activities can ensure complete compliance with all requirements.

Based on our current results, 11 of 13 sponsors noted in this finding were returning sponsors for 2018 SFSP and have participated in SFSP for 3 or more years, and therefore received repeated training on compliance requirements. We have reported issues with all 11 returning sponsors in at least 1 finding for the 3 prior audits. Given the fact that these sponsors have multiple years of experience and an established relationship with DHS in this program, we believe management has not effectively analyzed the causes for the sponsors' continued noncompliance and that the following may contribute to sponsors' continuous program violations:

- DHS has either not provided sponsors training or has provided insufficient or ineffective training;

- DHS has not identified the sponsors' continued noncompliance as serious deficiencies requiring corrective action;
- DHS has not identified that sponsors are incapable of administering the program in accordance with requirements; or
- DHS has not reacted to fraud risk factors for sponsors that may have nefarious motives.

We also found that even though DHS may place sponsors into a serious deficiency status based on its monitoring process and begin actions to terminate the sponsors from program participation, the serious deficiency process has its weaknesses. One such weakness is that program staff can and do determine to accept a sponsor's correction action plan to address the current serious deficiency even though the sponsor may be a repeat violator. As such, DHS cannot rely only on the routine monitoring and/or the serious deficiency process to address habitually noncompliant sponsors that are unwilling or unable to administer the program within compliance long-term.

As noted in our prior audit findings and again in this finding, we continue to find that the same sponsors have not complied with the federal requirements. Even though we have reported these sponsors to management, we do not see sufficient evidence that management has used our audit results to further investigate and address repeatedly identified sponsors. See Finding 2018-015 for further information on management allowing repeat violators who exhibit substandard practices to continue participating in the food programs.

All 3 conditions noted in this finding and the type of meal service noncompliance described in Condition A are repeated from the prior year. It is also important to note that DHS approved approximately 2,000 feeding sites statewide under 58 participating sponsors to serve meals during 2018 SFSP. Our sample of 31 meal services represents only a small fraction of SFSP operations.

Risk Assessment

Another element of our testwork involved reviewing DHS' December 2017 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 its annual risk assessment, we once again determined that management did not include in the assessment the specific risks and mitigating controls (such as removing sponsors from the program) associated with sponsors repeatedly not following federal regulations while serving meals.

Condition A: *Meal Service Noncompliance*

Overall, we noted 8 different types of meal service noncompliance at 10 of 31 meal services observed (32%), ranging from 1 to 3 SFSP violations per site. We are reporting 3 types of meal service noncompliance in this finding. The remaining 5 types of noncompliance did not rise to the finding level and are not included in this finding; however, we communicated the details of each type of noncompliance to DHS management.

We observed the following types of noncompliance with the SFSP program requirements:

- 3 sponsors served and documented incomplete meals;

- 2 sponsors documented incorrect meal counts on the daily meal count form; and
- 5 sponsors served meals outside approved times.

See **Table 1** for details of noncompliance noted at individual feeding sites.

Table 1
Instances of Meal Service Noncompliance

Sponsor	Feeding Site	Sponsor Served and Documented Incomplete Meals	Sponsor Documented Incorrect Meal Counts	Sponsor Served Meals Outside Approved Times
Sponsor 1	Site A	✓		✓
Sponsor 2	Site A	✓	✓	
Sponsor 3	Site A	✓		
Sponsor 4	Site A		✓	
	Site B			✓
Sponsor 5	Site A			✓
Sponsor 6	Site A			✓
Sponsor 7	Site A			✓
Total Meal Type Noncompliance		3	2	5

The above-mentioned instances of noncompliance substantiate grounds to disallow program payments. We discussed each instance of noncompliance and its allowability for program reimbursement with sponsors' personnel at the time of or subsequent to our site visit, and the personnel agreed to correct the meal count forms and document only reimbursable meals. See Conditions B and C for the results of our follow-up review.

Criteria

See **Table 2** for applicable noncompliance criteria.

Table 2
Meal Service Observations Criteria

Type of Noncompliance	Applicable Criteria From the Summer Food Service Program 2016 <i>Administration Guide</i>⁴⁰
Sponsors served and documented incomplete breakfasts. and	For a breakfast to be a reimbursable meal, it must contain: <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. For a lunch or supper to be a reimbursable meal, it must contain:

⁴⁰ The Summer Food Service Program 2016 *Administration Guide* is a publication of federal requirements for sponsors set forth by the U.S. Department of Agriculture's Division of Food and Nutrition Service, which administers SFSP.

Type of Noncompliance	Applicable Criteria From the Summer Food Service Program 2016 <i>Administration Guide</i> ⁴⁰
Sponsors served and documented incomplete lunches.	<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 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.
Sponsors served meals outside approved times.	Reimbursement may not be claimed for . . . [m]eals served outside of approved timeframes or approved dates of operation.

Cause

In an effort to determine the cause of the noncompliance at the sponsor level, we discussed the errors with the sponsors and site personnel after the meal observation while at the feeding site and received the explanations outlined in **Table 3**.

Table 3
Reasons for Meal Service Noncompliance

Type of Noncompliance	Reasons for Noncompliance
Sponsors served and documented incomplete meals.	<ul style="list-style-type: none"> • Feeding site personnel were trained and aware that all required components of the meal should be served at the same time during a meal service; however, we observed site personnel serving meals with missing meal components. • Feeding site personnel were unaware that the meal components served did not meet the requirements of reimbursable meals.
Sponsors documented incorrect meal counts.	<ul style="list-style-type: none"> • Feeding site personnel's confusion about what components were to be served led to the miscount. • Feeding site personnel did not provide an explanation for the noncompliance.
Sponsors served meals outside approved times.	<ul style="list-style-type: none"> • One sponsor did not timely request DHS to change the meal service times to match the actual times meals were served. • Feeding site personnel were aware of the approved meal service times but decided not to follow them. • Feeding site personnel were unaware of the approved meal service times.

Condition B: *Incorrect Number of Meals Claimed for the Day of Our Meal Service Observations*

Our testwork revealed that for 3 of 31 meal services observed (10%), 3 sponsors did not claim the correct number of meals that we physically observed during our observation. See **Table 4** for details of the noncompliance and the questioned costs.

Table 4
Follow-up: Noncompliance for the Day of Our Meal Observation

Sponsor	Meal Service Observed	Number of Reimbursable Meals We Observed		Number of Meals the Sponsor Claimed on the Meal Count Form*		Difference	Questioned Costs
		1st Meals	2nd Meals	1st Meals	2nd Meals		
Sponsor 1	Lunch	0	0	100	0	100 lunches	\$392
Sponsor 7	Lunch	22	2	41	2	19 lunches	\$75
Sponsor 8	Snack	17	0	17	1	1 snack	\$1
Total Questioned Costs for This Condition							\$468

*Subsequent to our meal service observations and after 2018 SFSP ended, we followed up to determine whether the sponsor claimed the correct number of reimbursable meals for the day of our meal observation on the claim submitted to DHS.

Cause

When we inquired about the cause for the noncompliance noted above, some sponsors stated that the noncompliance was caused by human error while others did not provide any reasons for the noncompliance.

Condition C: Meal Reimbursement Documentation Was Inaccurate for the Month of Our Meal Service Observations

In addition to verifying the day of our meal service observations, we also verified the number of meals the sponsor claimed for the entire corresponding month for the feeding sites where we performed our meal observations. Our testwork revealed that for 13 of 30 monthly claims reviewed (43%), 10 sponsors did not maintain the correct documentation to support the meal reimbursement claim submitted for the meal type for the month. See **Table 5** for details of the noncompliance.

Table 5
Follow-up: Noncompliance for the Corresponding Month of Our Meal Observation Day

	Sponsor	Claim Count per Sponsor	Number and Type of Meals Represented in Questioned Costs	Questioned Costs*
1	Sponsor 1	1	375 breakfasts	\$837
		2	1,143 lunches	\$4,483
2	Sponsor 2	1	-	-
		2	15 breakfasts	\$33
3	Sponsor 3	1	302 lunches	\$1,185
4	Sponsor 6	1	127 snacks	\$118
5	Sponsor 7	1	1 lunch	\$4
6	Sponsor 9	1	-	-
7	Sponsor 10	1	4 lunches	\$16
8	Sponsor 11	1	-	-

	Sponsor	Claim Count per Sponsor	Number and Type of Meals Represented in Questioned Costs	Questioned Costs*
9	Sponsor 12	1	-	-
		2	2 lunches	\$8
10	Sponsor 13	1	-	-
Questioned Costs for This Condition				\$6,684

*Sponsors without questioned costs indicate that the review found the sponsor had underclaimed meals.

Cause

When we inquired about the cause for the noncompliance noted above, some sponsors stated that the noncompliance was caused by human error while others did not provide any reasons for the noncompliance.

Criteria (Applicable to Conditions B and C)

According to Title 7, *Code of Federal Regulations*, (CFR) Part 225, Section 15(c),

Sponsors shall maintain accurate records justifying all meals claimed . . . The sponsor's records shall be available at all times for inspection and audit by representatives of the Secretary, the Comptroller General of the United States, and the State agency for a period of three years following the date of submission of the final claim for reimbursement for the fiscal year.

Cause Provided by DHS Management, Applicable to All Three Conditions

We discussed the noncompliance with DHS' management. The Director of Audit Services stated that the noncompliance occurred at the sponsoring agencies' level. The Director also stated, and we agree, that DHS' monitors identified similar or identical noncompliance errors during their monitoring efforts for the 2018 SFSP.

Effect

When sponsors do not comply with program requirements during meal services and fail to maintain complete and accurate supporting documentation for the number of meals claimed, DHS cannot ensure that reimbursements paid to sponsors are for allowable meals. As a pass-through entity for SFSP, DHS is responsible for ensuring that sponsors comply with federal and state requirements. When DHS 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

We questioned \$7,152 for the noncompliance noted above. See **Table 6** for the overall noncompliance and questioned costs noted at the 13 sponsors.

Table 6
Overall Noncompliance and Questioned Costs

Sponsor	Condition A* <i>Meal Service Noncompliance</i>	Condition B <i>Noncompliance for the Day</i>	Condition C† <i>Noncompliance for the Month</i>	Overall Questioned Costs per Sponsor†‡
Sponsor 1	✓	\$392	\$5,320	\$5,712
Sponsor 2	✓	-	\$33	\$33
Sponsor 3	✓	-	\$1,185	\$1,185

Sponsor	Condition A* <i>Meal Service Noncompliance</i>	Condition B <i>Noncompliance for the Day</i>	Condition C† <i>Noncompliance for the Month</i>	Overall Questioned Costs per Sponsor‡‡
Sponsor 4	✓	-	-	-
Sponsor 5	✓	-	-	-
Sponsor 6	✓	-	\$118	\$118
Sponsor 7	✓	\$75	\$4	\$79
Sponsor 8		\$1	-	\$1
Sponsor 9		-	-	-
Sponsor 10		-	\$16	\$16
Sponsor 11		-	-	-
Sponsor 12		-	\$8	\$8
Sponsor 13		-	-	-
Totals		\$468	\$6,684	\$7,152

*We did not disallow meals during the meal service observations due to sponsors agreeing to correct meal count documentation and claim only reimbursable meals.

† Sponsors without questioned costs indicate that the review found that the sponsor underclaimed meals.

‡‡ All questioned costs are payments made during the period July 1, 2018, through September 30, 2018.

This finding, in conjunction with findings 2018-015 and 2018-021, 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 SFSP should ensure both subrecipients and DHS comply with the federal requirements. The Director of SFSP should develop stronger preventive and detective controls over SFSP. These controls should ensure that all sponsors follow federal guidelines when serving meals and claiming meals on their meal reimbursements.

If subrecipients continue violating program guidelines, 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 DHS' risk assessment.

Management's Comment

The Department continues to act in good faith according to the *USDA Summer Food Service Program State Agency Monitor Guide (2017)* Part 8: Corrective Action, Serious Deficiency, and Termination. "The serious deficiency process of SFSP was established to ensure compliance with USDA FNS regulations and guidance and to protect Program integrity...by allowing State

agencies a process in which sponsors that have not corrected non-compliance issues may be terminated for cause in accordance with Federal regulations.” (2017, p. 59)

When a sponsor fails to implement timely corrective action to correct serious deficiencies cited, the State agency must proceed with termination of the sponsor’s Program agreement as specified in SFSP regulations. However, the State agency must provide the sponsor with a reasonable opportunity to correct problems before termination. If an acceptable corrective action plan is received and during a follow up visit it appears that the sponsor has permanently corrected the finding, a temporary deferral of the serious deficiency is given. If, in the future, it is discovered that the sponsor failed to permanently correct the serious deficiency the sponsor’s agreement is terminated.

When a sponsor is denied participation in CACFP, they must be provided with information that they have the right to obtain a hearing by an official other than the staff directly responsible for the original determination. Upon request of a hearing, the Hearing Official then reviews the evidence and makes a final decision regarding continued participation. If a request for a hearing is not received in timely manner the sponsor’s participation is terminated. The only exception to the procedure is due to evidence of immediate health and/or safety of the children whereas immediate termination is warranted.

The Department continues to follow the letter of 7 CFR 225.11(c) in the administration of this program.

Condition A: Meal Service Non-compliance

Concur.

According to Table 1, three sponsors served and documented incomplete meals. The Department acknowledges that non-compliance and errors occur in the administration of the Summer Food Service Program (SFSP) and remains committed to efforts to improve and take appropriate action where warranted pursuant to 7 C.F.R. 225.12-13. 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 zero 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 opportunities to sponsors. 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 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 and providing monitoring to each of their sites to identify challenges, make corrections and provide further training to site personnel. In addition, the Department offers online training to site supervisors and sponsors. All SFSP trainings are developed and conducted in conjunction with the United States Department of Agriculture (USDA) Food Nutrition Service (FNS). 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 preventative control.

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: Incorrect Number of Meals Claimed for the Day of Our Meal Service Observations

Concur in part.

We concur that three sponsors did not claim the correct number of meals that were observed by the auditors; however we do not concur with the identified questioned costs.

7 C.F.R. 225.10(c)D states, "in conducting management evaluations, reviews or audits in a fiscal year, the State agency, FNS or OIG may disregard an overpayment if the overpayment does not exceed \$100." The Department has established an internal policy that disregards overpayments that do not exceed \$100.

It is important to note that 2 of the 3 Subrecipients with questioned costs are below the \$100 recoupment threshold and would not be recovered. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what was noted in this condition. The Department implemented a process in 2017 to review high risk SFSP sponsors' claims prior to payment.

The Department's continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

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: Meal Reimbursement Documentation Was Inaccurate for the Month of Our Meal Service Observations

Concur in part.

The Department concurs that documentation reviewed contained inaccuracies. The Department does not concur with the amount of identified questioned costs.

7 C.F.R. 225.10(c)D states, "in conducting management evaluations, reviews or audits in a fiscal year, the State agency, FNS or OIG may disregard an overpayment if the overpayment does not exceed \$100." The Department has established an internal policy that disregards overpayments that do not exceed \$100.

It is important to note that four out of the eight questioned costs are below the \$100 recoupment threshold and would not be recovered. The Department agrees that the monitoring process can result in disallowance of meal costs similar to what was noted in this condition.

The Department's continuous effort of increasing and improving its training to food program sponsors can mitigate the risk of future non-compliance, but does not act as a complete preventative control.

The Department will move to recover any supported disallowed meal costs contingent upon the receipt of necessary documentation to support the State auditors' conclusions.

Summary of Questioned Costs

It is important to note that 10 of the 13 subrecipients included in the review had questioned costs below the \$100 recoupment threshold and would not be recovered. Two of the identified Sponsors with errors represent 96% of the questioned costs. The Department monitored these two Sponsors, similarly questioned costs from these entities, and is in the process of recovering these funds.

Auditor's Comment

2 CFR 200.84 defines questioned costs as 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. Once an auditor reports questioned costs based on the audit, the federal grantor then determines whether these costs are disallowed and what amounts should be recovered. Also 2 CFR 200.516(a)(3) requires us to report likely questioned costs greater than \$25,000 for a type of compliance requirement for a major program. Because we have identified a total of \$622,978 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.

7 CFR 225 provides guidance for overpayment recoveries when the department, USDA's Food and Nutrition Services, and/or the USDA's Office of Inspector General identify overpayments to subrecipients resulting from their own reviews or audits.

Finding Number	2018-023
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	H126A170063
Federal Award Year	2017
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Human Services did not expend the required 15% of the 2017 Vocational Rehabilitation grant award for pre-employment transition services

Background

The U.S. Department of Education provides Vocational Rehabilitation grants to assist states with operating comprehensive Vocational Rehabilitation programs to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, the Department of Human Services (DHS) administers Vocational Rehabilitation through its Division of Rehabilitation Services. As part of administering Vocational Rehabilitation grants, Title 34, *Code of Federal Regulations* (CFR), Part 361, Section 65(a)(3)(i) requires DHS to reserve at least 15% of its allotted grant award for the provision of pre-employment transition services (Pre-ETS). For federal fiscal year 2017,⁴¹ DHS received a grant award of \$59,042,683 from the federal government, which meant management needed to reserve and expend \$8,856,402 for the provision of Pre-ETS services in order to comply with the federal compliance requirement for matching, level of effort, and earmarking. DHS, in collaboration with local educational agencies, must use these funds to provide or arrange for the provision of Pre-ETS to disabled students. DHS must ensure these services are available statewide for all students with disabilities, regardless of whether the student has applied or been determined eligible for Vocational Rehabilitation services. 34 CFR 361.48(a)(2) requires these services, include the following:

- (i) Job exploration counseling;
- (ii) Work-based learning experiences, which may include in-school or after school opportunities, or experience outside the traditional school setting (including internships), that is provided in an integrated environment in the community to the maximum extent possible;

⁴¹ Federal fiscal year is the accounting period for the federal government. It begins on October 1 and ends on September 30. The fiscal year is designated by the calendar year in which it ends. The 2017 federal fiscal year period was October 1, 2016, through September 30, 2017.

- (iii) Counseling on opportunities for enrollment in comprehensive transition or postsecondary educational programs at institutions of higher education;
- (iv) Workplace readiness training to develop social skills and independent living; and
- (v) Instruction in self-advocacy . . . which may include peer mentoring.

Federal guidance also specifies that administrative expenditures are allowable under the Vocational Rehabilitation grant, but DHS cannot classify administrative expenditures as Pre-ETS expenditures.

Condition

To ensure DHS met the earmarking requirement for Pre-ETS, we determined the total of Pre-ETS expenditures for the 2017 grant award⁴² and calculated the percentage of the total grant award expended for the provision of Pre-ETS. For the 2017 grant award, DHS expended only \$2,384,385 for Pre-ETS services, which is approximately 4% of the total grant award and \$6,472,017 less than the 15% requirement. Based on our review of DHS' accounting records, DHS expended less than 70% of its total federal fiscal year 2017 grant award, which indicates the deficiency in spending was due to a lack of spending, not inappropriate spending.

Risk Assessment

Due to the issues we discussed in this finding, we reviewed the DHS' December 2017 Financial Integrity Act Risk Assessment, and we determined that management did not assess the risks associated with not meeting federal earmarking requirements.

Criteria

Title 34, *Code of Federal Regulations*, Section 361.65(a)(3)(i) states,

Pursuant to section 110(d) of the Act, the State must reserve at least 15 percent of the State's allotment, received in accordance with section 110(a) of the Act for the provision of pre-employment transition services, as described in §361.48(a) of this part.

34 CFR 361.48(a) states,

Each State must ensure that the designated State unit, in collaboration with the local educational agencies involved, provide, or arrange for the provision of, pre-employment transition services for all students with disabilities, as defined in §361.5(c)(51), in need of such services, without regard to the type of disability, from Federal funds reserved in accordance with §361.65, and any funds made available from State, local, or private funding sources.

⁴² We did not perform this calculation for the 2018 grant award, as federal fiscal year 2018 did not end until after the audit period, so DHS still had time available to expend Pre-ETS funds under the 2018 grant award.

Cause

According to DHS management, the U.S. Department of Education's Rehabilitation Services Administration did not issue final Pre-ETS regulations until August 2016, with additional policy guidance and directives added in January and June of 2017. As a result, while DHS management set aside the required 15% of the final grant award, it was not able to fully expend the funds. Fiscal and DHS management stated they were already aware of the lack of spending, and they are placing significant effort and resources towards addressing the issue. DHS management further stated that its efforts thus far have included ensuring staff allocate significant, steady funding to Pre-ETS annually; this included increasing the amount of contract providers and adding more than 20 dedicated positions statewide for the direct provision of Pre-ETS.

Effect

By not expending earmarked funds as required, DHS increases the risk that Tennessee students eligible to receive Pre-ETS services will not receive services that could help them pursue job and higher education opportunities to live more independently.

Additionally, federal regulations address actions that federal agencies may impose in cases of noncompliance. According to 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.

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 of DHS should ensure that Vocational Rehabilitation program management and staff address the lack of Pre-ETS spending and continue to focus their efforts on increasing Pre-ETS spending to provide more services to disabled students in Tennessee. The Commissioner of DHS should also ensure the risk assessment and the mitigating controls are adequately documented and approved; 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 Comments

Concur.

The department concurs that while strides have been made in increasing expenditures for the provision of quality Pre-Employment Transition Services (Pre-Ets) as defined in the Workforce Innovation and Opportunity Act (WIOA), it has fallen short of expending the required 15% of the final grant award. Since the introduction of WIOA and its increased focus on providing transition services to students with disabilities, the department has made significant progress in engaging community providers, Local Education Authorities (LEAs), and other stakeholders in developing a strategic approach to providing the required Pre-Ets services in a meaningful way statewide that has grown to over 35 contracts with community based services delivery providers, contracts with nearly 47 LEAs totaling in \$8,132,783 in contract obligations for the 5 required Pre-Ets services for the current federal fiscal year.

Additionally, the department has dedicated 23 direct service provision staff, 3 supervisors and 1 director to designing and implementing Pre-Ets statewide. The department has continued to refine its service delivery processes by continued evaluation and receiving feedback from providers. As a result, processes continue to be developed to ensure that the service providers maximize their service delivery and allowable billing potential within the specific constraints of the federal regulations.

Finally, not all efforts to obligate and spend the required Pre-Ets funds are immediately apparent because, in accordance with the grant requirements, contract obligations made as part of the normal state fiscal year grant cycle are obligated for, and liquidated from that federal fiscal year grant

award. As a result, while the contracted services were provided during the 2017 federal fiscal year, contract expenditures were liquidated from the 2016 award. In order to address this issue, beginning October 1, 2018 all VR contracts were shifted to align with the federal fiscal year which ensures that all obligations, expenditures and service provision fall within the same federal fiscal year.

Finding Number	2018-024
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	H126A170063 and H126A180063
Federal Award Year	2017 and 2018
Finding Type	Significant Deficiency – Matching, Level of Effort, Earmarking Material Weakness – Reporting Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking Reporting
Repeat Finding	2017-029
Pass-Through Entity	N/A
Questioned Costs	N/A

For the fourth 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 did not ensure compliance 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 (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 DHS, including submitting 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.

DHS 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 reporting period ends.

Once it receives the SF-425 reports, RSA reviews DHS' reports and makes the following determinations:

- whether DHS is permitted to carry over Vocational Rehabilitation funds into the next federal fiscal year,
- if DHS must return any unobligated federal program income to RSA, and

- if DHS complied with various compliance requirements.

General Reporting Requirements

Obligations

RSA requires grantees (in this case, DHS) to track and report the amounts and funding sources of obligations.⁴³ In addition, DHS must track these obligations by obligation date and by status (unliquidated or liquidated).⁴⁴

RSA requires DHS to complete a separate SF-425 report for each federal Vocational Rehabilitation grant award until each award's period of performance ends;⁴⁵ therefore, if the department carries over federal Vocational Rehabilitation funds into the subsequent federal fiscal year, it must submit two SF-425 reports for each reporting period in the subsequent federal fiscal year.

Prior Audits

During the 2015 Single Audit, we identified several critical deficiencies in DHS' preparation of Vocational Rehabilitation SF-425 federal financial reports. Specifically, we found that management did not ensure that DHS' 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, DHS entered into a Corrective Action Plan with RSA during the 2015 audit period to correct the SF-425 reporting deficiencies. As part of the plan, DHS completed or revised SF-425 reports for the 2014–2017 grant awards during the prior audit period.

During the 2017 Single Audit, we found that DHS 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.

To determine whether DHS continued to improve review and control processes and properly reported required financial information in its SF-425 reports during the current audit period, we tested the semi-annual SF-425 report for the period ended March 31, 2018, for the federal fiscal year 2017 grant award. We also analyzed DHS' state maintenance of effort⁴⁶ expenditures to

⁴³ 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.

⁴⁴ 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.

⁴⁵ 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.

⁴⁶ Maintenance of effort refers to the requirement that states demonstrate that state funding contributed to federally funded programs remains consistent based on criteria determined by the grantor agency.

ensure DHS complied with maintenance of effort requirements. We found that, for the current period, despite steps to resolve these matters during the prior audit periods, DHS management still did not ensure that the required SF-425 reports were accurately prepared during the audit period, nor did management ensure DHS met the maintenance of effort requirements.

Condition and Cause

Controls Over the Reporting Process Were Inadequate, Resulting in Fiscal Staff Misreporting Five Lines of the Report by Improperly Including and Excluding Expenditures

During our testwork, we noted that the controls over the reporting process did not ensure that DHS properly reported accurate information related to certain lines of the submitted SF-425 reports. When reports are submitted, all financial activity included in the reports should be based on underlying accounting records that demonstrate all the activity that occurred during the reporting period. When preparing the grant year 2017 report for the period ended March 31, 2018, fiscal staff excluded 12 expenditure accounts and included expenditures that occurred after March 31, 2018, in their calculations, resulting in staff misreporting lines 10e, 10j, 11d, 11f, and 12b on the report. Additionally, for line 12b, fiscal staff improperly included unliquidated obligations in their calculation of Pre-Employment Transition Services expenditures. See **Table 1** for details.

Table 1
Report Lines Calculated Incorrectly
Grant Year 2017, Period Ending March 31, 2018

Report Line	Line Description	Reported Amount	State Audit Calculations	Amount Overstated/ (Understated)
10e	Federal Share of Expenditures	\$47,915,542	\$48,143,231	(\$227,689)
10j	Recipient Share of Expenditures	\$15,426,469	\$15,399,588	\$26,880
11d	Indirect Cost Base	\$4,833,700	\$3,775,767	\$1,057,933
11f	Federal Share of Indirect Cost	\$3,547,208	\$2,970,198	\$577,010
12b	Pre-Employment Transition Services	\$6,535,380	\$1,729,127	\$4,806,253

Fiscal Staff Did Not Correctly Calculate Unliquidated Obligations Based on DHS' Established Process

Fiscal staff also incorrectly calculated the federal share of unliquidated obligations for line 10f and the recipient share of unliquidated obligations for line 12d. Fiscal staff relied on a Procurement Budgetary Activity Report extracted from the state's accounting system to determine the remaining amount of outstanding purchase orders. This report is a real-time report that shows obligation amounts by purchase order, liquidations for each purchase order as of the date of the report, and the remaining unobligated amount. Fiscal staff cannot run this report retroactively. To prepare the SF-425 report for the period ended March 31, 2018, fiscal staff ran the Procurement Budgetary Activity Report on May 11, 2018, which was over a month after the end of the reporting

period. Based on our discussion with the Fiscal Director and our review of the SF-425 preparation procedures, staff should have obtained the total expenditures for the first 15 days of April 2018 from the accounting records and added that total to the obligation total obtained from the Procurement Budgetary Activity Report because, according to the Fiscal Director, those expenditures were likely the result of obligations incurred prior to the end of the reporting period. When we recalculated line 10f and 12d using the Procurement Budgetary Activity Report fiscal staff provided and added expenditures from the first 15 days of April per DHS' instructions, we determined that fiscal staff had in fact included expenditures subsequent to April 15, 2018, and, based on their established process, overstated the amounts for lines 10f and 12d.

We also analyzed the Procurement Budgetary Activity Report to ensure DHS appropriately used the report's information when calculating unliquidated obligations. Based on our review, we noted that fiscal staff did not perform any reconciliations for the Procurement Budgetary Activity Report even though they ran it over a month after the end of the reporting period. We analyzed the obligations and liquidations for the Pre-Employment Transition Services portion of the report, and we found that the report included approximately \$325,000 of expenditures beyond March 31, 2018. Since fiscal staff did not reconcile the report to expenditure information available in the state's accounting system, fiscal staff included information that contained liquidations, which occurred against the obligations outside of the reporting period, to calculate unliquidated obligations, thereby understating unliquidated obligations reported on lines 10f and 12d.

Inadequate Controls and Noncompliance Related to Maintenance of Effort Requirements

DHS is required to spend at least as much in non-federal expenditures as it spent two years prior. For instance, DHS should have expended as much in non-federal expenditures in 2017 as it did in 2015. If DHS does not meet that requirement, regulations require RSA to reduce the subsequent grant award by the deficit. DHS reports its maintenance of effort expenditures on the SF-425 report, line 10j, Recipient Share of Expenditures.

Based on our discussion with the former DHS Controller,⁴⁷ the controls for meeting the maintenance of effort requirement are the same as the controls over SF-425 reporting because DHS reports its maintenance of efforts expenditures on its financial report and therefore reviews the expenditure total as part of the report review process. Therefore, the internal control deficiencies related to reporting noted above are also internal control deficiencies over maintenance of effort.

We found that DHS did not meet the maintenance of effort requirement for federal fiscal year 2017 and that RSA was unable to reduce the 2018 grant by the appropriate deficit because, while fiscal staff did implement a documented process to calculate and monitor maintenance of effort expenditures, they miscalculated the recipient share of expenditures for grant year 2017. Specifically, fiscal staff calculated a \$308,467 shortage in maintenance of effort spending. When we recalculated DHS' maintenance of effort expenditures for grant year 2017, we determined its shortage was actually \$275,743. While we could not identify evidence demonstrating that RSA reduced the 2018 grant award based on the maintenance of effort expenditure shortage, these

⁴⁷ The former DHS Controller left his position in October 2018 during our fieldwork. We specifically reference the former Controller as "former" to not mislead readers regarding our source of understanding controls over maintenance of effort.

inaccuracies could have led RSA to reduce the award by \$32,724 more than necessary based on DHS' spending.

Risk Assessment

We reviewed the Department of Finance and Administration's December 2017 Financial Integrity Act Risk Assessment specific to DHS' fiscal operations 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 low, so no mitigating controls were described. Given the frequency with which we have identified reporting inaccuracies in the current and prior audits, we concluded that management should have assessed the likelihood as high and included a control activity to mitigate the risk in the department's annual risk assessment.

Criteria

According to RSA Policy Directive 15-05,

RSA uses the SF-425 data to monitor the financial status of the VR [Vocational Rehabilitation] program and to assess grantee compliance with the fiscal requirements contained in the Rehabilitation Act of 1973 (Rehabilitation Act), as amended by the Workforce Innovation and Opportunity Act (WIOA). Therefore, the reports must be accurate and submitted timely. VR grantees must submit completed SF-425 reports on a semi-annual basis. The end dates for each reporting period in a fiscal year are 3/31 and 9/30.

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 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 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 [*Code of Federal Regulations*] 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)).

Based on our review of Title 2, *Code of Federal Regulations* (CFR), Part 200, Section 303(a), DHS 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 [federal fiscal year] 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 34 CFR 361.62(a),

The Secretary reduces the amount otherwise payable to a State for any fiscal year by the amount by which the total expenditures from non-Federal sources under the vocational rehabilitation services portion of the Unified or Combined State Plan for any previous fiscal year were less than the total of those expenditures for the fiscal year two years prior to that previous fiscal year.

Effect

In 2015, RSA identified DHS' Vocational Rehabilitation program as high risk, for reasons including deficiencies in reporting and financial management. RSA also prescribed special conditions to the 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 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.

Recommendation

The DHS Controller should ensure that the Fiscal Director and fiscal staff 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 DHS Controller should implement internal controls for Vocational Rehabilitation financial reporting to provide for complete, accurate report submissions. This should include requiring fiscal staff to review records to ensure that reports include all relevant financial activity and that the activity has actually occurred in the period reported. If there is no evidence demonstrating the transaction occurred during the reporting period, the transaction should not be included in a report.

The DHS Controller should ensure that fiscal staff adhere to the established documented process for calculating maintenance of effort thresholds based on actual expenditures and that controls are in place and effective to ensure staff accurately calculate and monitor maintenance of effort expenditures.

The Commissioner and the Controller 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

Concur.

The Department of Finance and Administration, which staffs the Department of Human Services, is in the process of making enhancements to the financial reporting unit. These enhancements include, but are not limited to:

- Increasing emphasis on training to staff as it relates to reporting requirements for Vocational Rehabilitation and calculation of maintenance of effort (MOE) thresholds;
- Incorporating multiple reviews of the underlying report data prior to report submission;
- Educating the reporting staff on the proper manner of calculating and reporting unliquidated obligations; and

- Developing and utilizing reporting tools (e.g., queries and step by step instructions) to assist at arriving at the amounts to be reported.

The enhancements are expected to be completed on or about June 30, 2019.

On or before September 30, 2019, the documentation of the ERM activities of the accounting office will be reviewed and updated to ensure that the risk assessment (inherent and residual) and risk response relative to reporting inaccurate information on federal reports have been appropriately evaluated and documented considering the significance of the risk on objective achievement. In addition, identified control activities will be modified and/or added to; and monitoring activities will be established as needed to ensure that these controls are operating effectively and do not deteriorate over time. Management Action Plans will also be created for any control activities that are deemed ineffective.

Note: The auditors state in the “Effect” section of this finding that, “In 2015, RSA identified DHS’ Vocational Rehabilitation program as high risk, for reasons including deficiencies in reporting and financial management....” For clarification, TDHS was notified in 2016 that the high risk status placed on the 2016 TN VR award would not continue nor be placed on the 2017 award as a result of a corrective action plan implemented by the Department of Human Services and approved by Rehabilitation Services Administration.

Finding Number	2018-025
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	H126A170063 and H126A180063
Identification Number	
Federal Award Year	2017 and 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Cash Management
Repeat Finding	2017-028
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior three audits, fiscal staff for the Department of Human Services requested additional federal funds before ensuring all program income and refunds had been spent, and the department did not ensure that check receipts were properly sourced in the accounting records

Background

The U.S. Department of Education provides Vocational Rehabilitation grants to help states operate comprehensive Vocational Rehabilitation programs that help individuals with disabilities gain, maintain, or return to employment. In Tennessee, the Department of Human Services (DHS) administers Vocational Rehabilitation through its Division of Rehabilitation Services. The Department of Finance and Administration (F&A) is responsible for cash management functions for all of DHS. As DHS incurs program 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 result of the programs' operations. This generated income is known as program income. According to the Fiscal Director, DHS derives program income from two sources: Social Security Administration reimbursements for the cost of Vocational Rehabilitation services and Tennessee Rehabilitation Center contract receipts for work performed by clients. 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 by reducing the amount of federal funds requested.

In the prior audit, we found that fiscal staff did not ensure that DHS had spent program income and refunds before requesting additional federal funds. DHS management concurred in part with the prior-year finding and stated, "the transactions were not identified as program income until after they were deposited."

Based on our current testwork, we found that in order to more reliably and timely recognize program income, fiscal staff developed new controls to centralize check processing and consistently verify the receipt of automatic transfers. Staff fully implemented these controls approximately February 1, 2018. We noted significant improvement after the implementation of

the new controls and we found no issues after April 9, 2018; however, because fiscal staff had not fully corrected the condition for the majority of the audit period, we are required to report this condition.

Condition and Cause

We reviewed all 394 Vocational Rehabilitation program income and refund cash receipts, totaling \$2,456,027, that fiscal staff received and recorded in Edison revenue accounts during the period July 1, 2017, through June 30, 2018. For each transaction, we identified

- the date DHS 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, during the prior audit 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 process transactions, we did not consider program income and refunds to be available until one week after receipt, per Title 34, *Code of Federal Regulations* (CFR), Section 361.63(c)(3)(ii). 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 88 of the 394 receipts of program income and refunds tested (22%), totaling \$835,121, F&A's Fiscal Directors and Accountants could not demonstrate that the program income had been spent before requesting additional federal funds. Per the accounting records, staff spent these receipts of program income and refunds from 1 to 49 days (an average of 16 days) after the next request of federal funds subsequent to the one-week administrative grace period. We noted that 81 of these errors occurred prior to February 1, 2018, which is approximately when DHS implemented new controls to ensure all program income was recorded timely and spent prior to requesting additional federal funds. The other 7 errors occurred after February 1, 2018, and we did not note any errors after April 9, 2018. See **Tables 1 and 2** below for details.

Table 1
Vocational Rehabilitation Program Income Spent After Federal Draw
Transactions Prior to February 1, 2018

Days Late*	Amount of Program Income	Number of Program Income Transactions
1	\$ 96,361	17
5	63,880	4
7	44,365	1
8	70,826	1
9	98,673	17
10	36,893	1
12	158,636	3
13	7,027	5
14	10,579	6
20	7,591	1
26	198	4
27	26,484	1
28	4,566	1
32	64,007	5
36	1,503	4
43	4,524	4
45	58,607	2
49	67,939	4
Totals	\$822,659	81

*This is the number of days the program income was used after the first federal draw that occurred subsequent to the one-week administrative period discussed above.

Table 2
Vocational Rehabilitation Program Income Spent After Federal Draw
Transactions After February 1, 2018

Days Late*	Amount of Program Income	Number of Program Income Transactions
1	\$5,705	1
2	1,774	2
3	3,548	3
16	1,435	1
Totals	\$12,462	7

*This is the number of days the program income was used after the first federal draw that occurred subsequent to the one-week administrative period discussed above.

Based on discussion with the Fiscal Director responsible for cash management and program income duties for DHS, this issue was primarily the result of a lack of developed procedures to identify Vocational Rehabilitation program income timely. Specifically, staff were not aware of the receipt of program income until they received confirmation of the receipt from either state Vocational Rehabilitation program staff or the federal government, which the Fiscal Director noted

sometimes did not occur until over a month after the program income was deposited into the state's bank account.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Finance and Administration's December 2017 Financial Integrity Act Risk Assessment for DHS fiscal operations. We determined that fiscal management did document a risk related to program income and assessed the impact and likelihood as medium. Given the frequency of noncompliance with the program income requirements that we identified in the current and prior audits, we concluded that fiscal management should have assessed the likelihood as high in the annual risk assessment.

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.

In addition, according to 2 CFR 200.302(b),

The financial management system of each non-Federal entity must provide for the following . . . (3) Records that identify adequately the source and application of funds for federally-funded activities.

Furthermore, 34 CFR 361.63(b) states,

Sources of program income include, but are not limited to: Payments from the Social Security Administration for assisting Social Security beneficiaries and recipients to achieve employment outcomes; payments received from workers' compensation funds; payments received by the State agency from insurers, consumers, or others for services to defray part or all of the costs of services provided to particular individuals; and income generated by a State-operated community rehabilitation program.

Effect

Failure to spend program income prior to requesting additional federal funds results in transfers of funds between the federal government and the state, which violates 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. Furthermore, 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.

Furthermore, when fiscal staff do not have a process to ensure check receipts (program income revenue) and expenditures transactions are properly coded in the accounting records, management cannot ensure that DHS is using program income according to federal regulations.

Recommendation

The Commissioner and the Controller of DHS should continue to follow the new process to ensure that Vocational Rehabilitation program income and refunds are spent prior to drawing additional federal funds. As noted above, based on the results of our testwork after management's corrective action implemented in February, we found significantly fewer errors between February and April and no errors after April 9, 2018.

The DHS Controller should ensure the risk assessment and the mitigating controls are adequately documented and approved; 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

Concur.

As noted by the auditors, on April 9, 2018 the Department of Finance and Administration accounting office, which staffs the Department of Human Services, modified its established business processes and implemented new controls to reduce, to an acceptable level, the risk of program income and refunds being spent before additional federal funds are requested.

By September 30, 2019, the documentation of the Enterprise Risk Management (ERM) activities of the accounting office will be reviewed and updated to ensure that the risk assessment (inherent and residual) and risk response relative to identified program income risks have been appropriately evaluated and documented considering the significance of the risk on objective achievement. In addition, monitoring activities will be established as needed to ensure that identified controls are operating effectively and do not deteriorate over time.

Finding Number	2018-026
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	1501TNCCDF, 1701TNCCDF, and 1801TNCCDF
Federal Award Year	2015 and 2017 through 2018
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Repeat Finding	2017-037
Pass-Through Entity	N/A
Questioned Costs	\$1,727

As noted in the two prior audits, the Department of Human Services did not ensure that child care providers maintained adequate documentation of child care services and did not ensure a contractor's expenditures were reasonable, resulting in \$1,727 of federal 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 its Child Care Certificate Program, which provides child care assistance to low-income families to allow them to work and/or attend school, and to promote the physical, emotional, educational, and social development of children. DHS' Family Assistance and Child Care Services staff are responsible for determining children'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. The providers must sign a provider agreement and comply with the program's requirements, in order to receive payments for child care services through the Child Care Certificate Program.

Child Care Provider Payment Process

Child care providers must submit Enrollment Attendance Verification (EAV)⁴⁸ forms (electronically or via mail) in order to receive payment for child care services. Providers are paid the weekly rates determined by DHS, depending 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- or part-time,
- the child's school enrollment, and

⁴⁸ EAV forms provide documentation of enrollment and attendance status for each child enrolled in the program.

- the provider's participation in the star-quality rating program.

DHS pays providers a higher reimbursement rate for younger children, who require longer hours of child care, and for school-age children when school is not in session (including holidays). DHS also supports the providers' fixed costs of child care services by providing full payment even if a child is absent, up to five absences each month. Once the absence allowance is met, DHS only pays the providers based on the actual number of days they provided child care services each month.

DHS Oversight of Federal Award Activities

DHS is responsible for overseeing the operations of the federal award and must monitor its activities to assure compliance with federal requirements and performance expectations, as stated in Title 45, *Code of Federal Regulations* (CFR), Part 75, Section 342. The department's oversight includes local office staff, fiscal staff assigned to DHS from the Department of Finance and Administration, and Audit Services staff.

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 loading 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.

Upon receipt of a provider's EAV, fiscal staff review the EAV for reasonableness and irregularities before approving the provider's reimbursement. The department requires each provider to maintain at its location the attendance documentation (sign-in/sign-out sheets) as support for the EAVs for the past three or five years, depending on the contract.

DHS Monitoring Activities of the Provider

DHS' Audit Services staff are responsible for monitoring child care providers to ensure 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

DHS is also responsible for planning and administering child care quality and improvement activities for the CCDF program. The department contracts with various agencies, Tennessee higher education entities, and state departments to provide training and technical assistance to parents, caregivers, and child care providers. CCDF program staff are responsible for monitoring the contractors to ensure they comply with the terms and conditions of agreements.

Prior Audit Finding Follow-up

The prior audit determined that DHS management had not ensured that child care providers had adequately documented their services and, therefore, federal costs were questioned. DHS

management concurred that the costs noted in the prior audit finding were not allowable and mentioned the Audit Services Division's efforts to monitor the compliance of providers with documentation requirements. Management's comments did not address whether it considered these monitoring efforts sufficient to ensure that providers were compliant. Moreover, management did not include any new actions relative to the lack of documentation, other than to recover the questioned costs noted in the prior finding.

Condition and Criteria

To determine if management followed program requirements, including whether management's monitoring of providers was effective, we tested a nonstatistical, random sample of 60 CCDF expenditures from the period July 1, 2017, to June 30, 2018. Our sample of 60 included 46 direct child care provider payments and 14 expenditures other than for direct child care. Additionally, we tested 1 payment to a contractor identified with unallowable costs from the prior audit and determined the contractor had charged DHS for 2 Apple watches and accessories, which were not allowable for the program.

Specifically, we tested 46 direct child care expenditures, totaling \$9,081, from a population of 480,043 transactions, totaling \$90,414,152. We requested attendance documentation from the child care providers and tested DHS' compliance with federal regulations, including whether providers maintained adequate supporting documentation to support their reimbursement requests. Based on our testwork, for 14 of 46 expenditures tested (30%), we noted that the department did not ensure that child care providers maintained adequate documentation of child care services.

Specially we found that the 14 errors involved 2 conditions—providers that did not maintain documentation and providers that maintained some level of documentation; however, the documentation was not sufficient to support all child care service days on the respective request for reimbursement.

Provider Conditions

Child Care Providers Did Not Maintain Attendance Documentation

Based on our testwork, for 5 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 1 provider was not aware that it was required to maintain attendance documentation to support the child care costs it received. We questioned \$581 in federal funds for providers' and DHS' lack of documentation. State questioned costs were \$22, for a total of \$603.

According to 45 CFR 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 or A.6 (depending on the date) of the contractor agreement states,

The Contractor 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 or five (5) years (depending on the date of the agreement).

Child Care Providers Did Not Maintain Adequate Attendance Documentation

Based on our testwork, we found that for 9 of 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 as absent.
- A provider reported children as absent on the EAV; however, the attendance documentation showed the children as present.

We questioned a total of \$500 in federal funds for the days for which the child care providers did not maintain adequate documentation to support child care services.

We also found that three providers identified this year were also reported in our two previous audits (2017 and 2016) as having documentation errors. Management made a monitoring visit to the three providers in 2016 and also found notable issues with lack of documentation to support child care services. All three providers are owned by the same individual, according to the respective contracts. Management visited the provider again in October 2017 and questioned a total of \$1,825,228 in child care payments for both monitoring visits. Without knowing the specific payments management has questioned, some of our questioned costs for August 2017 (\$466) may overlap with those questioned during DHS' visit to the entities in October 2017. The department's efforts to recoup the questioned funds are ongoing, and the three providers are no longer in the program.

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 or A.6 (depending on the date) of the provider agreement states,

The Provider (Contractor) 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.
- 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:

A daily attendance (sign in and out) record of the printed and legal signature of each individual authorized to pick up and/or drop off the child must be maintained. Each child listed must be on separate lines. Parent/guardian and/or signatures of individuals authorized to pick up and/or drop off the child should be located in the child's file. Initials or nicknames are not acceptable as signatures on the attendance sheets/logs. If the Provider uses an electronic process, the signature, number or code should match the signature of the parent/guardian or approved individual located in the child's file. . . .

- 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.

From our 60 items sampled, we also tested 14 CCDF expenditures that were for items other than direct provider payments, totaling \$435, from a population of 17,972 transactions, totaling \$20,433,497. These expenditures mainly included office supplies and travel for case management, monitoring, and assessments of child care centers and daycares. We did not note any problems.

Contractor Condition

Contractor Charged Unreasonable Costs to DHS, Which Passed the Charges to the CCDF Grant

We also followed up on the prior audit finding condition involving CCDF contractor payments. Our random sample did not contain any payments to a CCDF contractor. Since DHS did not address the problem from the prior year and we found continuing problems, we tested one payment

and did not test any further payments. We haphazardly selected a payment to the contractor identified in the prior audit and requested supporting documents for the contractor's largest invoice to DHS (\$608,613 federal portion) during the period July 1 to June 30, 2018. Based on our testwork, we found that the contractor charged unallowable costs to the department which passed charges on to the CCDF grant. These unallowable charges included two Apple watches, along with accessories, totaling \$646 in federal questioned costs. We questioned \$193 in state costs, for a total of \$839. These costs did not relate to improving the quality of child care in Tennessee. Additionally, we noted that the contract between DHS and the contractor for networking services did not require documentation and receipts for items other than travel and that department's program staff did not review the contractor's supporting documentation for the expenditures before payment.

According to Section C.5(b)(1) of the contract between DHS and the contractor,

An invoice under this Grant Contract shall include only reimbursement requests for actual, reasonable, and necessary expenditures required in the delivery of service described by this Grant Contract and shall be subject to the Grant Budget and any other provision of this Grant Contract relating to allowable reimbursements.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed DHS' December 2017 Financial Integrity Act Risk Assessment. We determined that although management listed departmental noncompliance with program requirements as a risk, management—despite prior audit findings—did not mitigate its risk by strengthening controls to ensure child care providers maintained adequate documentation to support child care services and to ensure a contractor's expenditures were reasonable.

Cause

DHS' process for ensuring compliance with federal regulations is not adequate to ensure child care providers maintain adequate documentation. Despite the repeated findings, management has relied solely on Audit Services' monitoring. Furthermore, the department has not established a reliable process for reviewing contractor invoices. Despite this repeated finding, management has not ensured that program staff scrutinize specific contractor purchases in their reviews of contractor invoices. Under the contract, invoices to DHS only include budgetary classifications of expenses and do not include supporting documentation for the contractor's expenses other than travel. CCDF program staff only performed a comparison of invoiced expenditures submitted for reimbursement to budgetary information to ensure that individual line items of the approved budget for the contractor were not exceeded.

Effect

When DHS does not ensure child care providers maintain adequate and complete documentation, it cannot ensure that payments to child care providers are for actual services. The department cannot be certain that program payments are reasonable without reviewing supporting documentation for contractor expenses. Without effective controls to ensure compliance, DHS increases its risk of noncompliance, errors, fraud, waste, and abuse.

Questioned Costs

We questioned federal costs of \$1,727 charged to the CCDF program. 2 CFR 200.516(a)(3) requires us to report questioned costs when likely questioned costs are greater than \$25,000 for a type of compliance requirement for a major program. See a summary of the known questioned costs in **Table 1**.

Table 1
Summary of Federal Questioned Costs

Condition	Federal Questioned Costs
Child care providers did not maintain attendance documentation	\$ 581
Child care providers maintained inadequate attendance documentation	500
Contractor charged unreasonable costs to DHS, which passed the charges to the CCDF grant	646
Total	\$1,727

We also questioned \$215 in state costs from above.

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, DHS should perform a financial review to determine the extent of unallowable costs that the contractor charged to the program. The Deputy Commissioner should consider requiring contractors to submit supporting documentation for invoiced expenses. Furthermore, the Deputy Commissioner should reassess controls over the areas pointed out in this finding and document any mitigating controls implemented in the department's risk assessment.

Management's Comment

Child Care providers did not maintain attendance documentation

Concur.

The Department required providers to maintain necessary attendance documentation. This requirement is also enforced through child care licensing and certificate staff during their on-site visits. When a provider does not have required documentation, a demand letter is sent to that provider to recoup any reimbursements that are not supported by proper documentation.

Child Care providers did not maintain adequate attendance documentation

Concur.

The Department required providers to maintain necessary attendance documentation. This requirement is also enforced through child care licensing and certificate staff during their on-site visits. When a provider does not have required documentation, a demand letter is sent to that provider to recoup any reimbursements that are not supported by proper documentation.

Contractor charged unreasonable costs to DHS, which passed the charges to the CCDF grant

Concur.

The Department, on November 28, 2018, issued a management decision letter to the contractor, based on the state auditors' notification of unallowable cost detected through their work to recover the questioned costs. On January 10, 2019, the contractor reimbursed the Department for the full amount of the unallowable cost. This information was provided to the state auditors during their fieldwork.

Finding Number	2018-027
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	1701TNCCDF and 1801TNCCDF
Federal Award Year	2017 and 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2017-033
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.575	1701TNCCDF	\$65,708
93.575	1801TNCCDF	\$3,207,336

As noted in the prior audit, 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, resulting in federal questioned costs of \$3,273,044

Background

The Child Care and Development Fund provides funds to states, territories, and Indian tribes to increase the availability, affordability, and quality of child care services. Funds are used to subsidize child care for low-income families with parents who 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.

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

The Read to be Ready Summer Camp Program provides literacy camps for economically disadvantaged students entering first, second, or third grades using subawards, primarily to local school systems. We reviewed expenditures for the 2018 summer camp program and determined that the Department of Human Services (DHS) used \$3,273,044 in Child Care and Development Fund (CCDF) funds for the Department of Education's Read to be Ready program by entering into an interagency agreement with the Department of Education to use the CCDF funds for this program. Based on our discussion with DHS management, management considers the Read to be Ready program to be a *quality activity* per CCDF regulations and thus an allowable use of CCDF funds. Management further claimed that the Administration for Children and Families (ACF)⁴⁹ had approved the use of CCDF funds for the 2018 summer camp program via email. However, based on our review of the email from ACF dated June 27, 2018, ACF questioned management about the educational "activities" of the camp. Furthermore, ACF advised management that if the activities were direct services, then DHS must perform the CCDF required eligibility determinations and collect the applicable co-payments from parents, unless ACF had waived this requirement through DHS' State Plan.⁵⁰

We reviewed the interagency agreement for the 2018 summer camp program and concluded that DHS improperly classified CCDF expenditures as quality service instead of direct service activities and did not perform required eligibility determinations; therefore, we questioned all expenditures, which totaled \$3,273,044.

The federal regulations define the 10 types of quality activities as activities intended to improve the quality of child care services for all children.

Based on email communication between the former Director of Child Care Services and the Office of Child Care's⁵¹ (OCC) Central Office on June 27, 2018, the OCC provided clarity on the activities that qualify as direct services after DHS had requested to amend its State Plan. The OCC states,

Tennessee's response states that "All portions of Read to be Ready Summer Camp support the children's literacy and writing materials, teacher training and camp activities." Children's literacy and writing materials and teacher training fit the description of quality activities outlined in the CCDBG Act. However, we are not clear on what is included in "activities." If activities refer to the educational services provided at the summer camp, it is likely these would be considered direct services not quality expenditures. Please note that OCC has not made a determination regarding whether expenditures have been appropriately classified

⁴⁹ According to the ACF website (www.acf.hhs.gov/), "The Administration for Children and Families (ACF) is a division of the Department of Health & Human Services . . . [to] promote the economic and social well-being of children, families, individuals and communities with leadership and resources for compassionate, effective delivery of human services."

⁵⁰ The DHS State Plan is DHS' plan to spend federal funds and is approved by the federal grantor.

⁵¹ The Office of Child Care (OCC) is an office within ACF that supports low-income working families through child care financial assistance and promotes children's learning by improving the quality of early care and education and after-school programs. See <https://eclkc.ohs.acf.hhs.gov/about-us/article/office-child-care-occ> for more information.

in Tennessee's case, and is unable to do so in the absence of more detailed information and documentation. However, the Lead Agency should be prepared to justify its approach for audit purposes. Whenever CCDF is used for direct services (even for high-quality programming that the Lead Agency chooses to classify as a quality expenditure), the Lead Agency must meet all related CCDF requirements, including conducting eligibility determinations for individual children to ensure that they meet CCDF eligibility criteria, providing a minimum of 12-months of eligibility, charging a family co-payment (unless waived under Lead Agency criteria), and meeting health and safety requirements.

The email noted above also details how DHS will determine eligibility by stating that "There were several measures used to determine eligibility which include children participating in the Child Care Subsidy Program, free or reduced lunch and children and families experiencing homelessness." We asked management to provide any documentation used in the eligibility determination process, as well as any federal waivers for eligibility determinations, but management did not provide any documentation.

Per the interagency agreement with the Department of Education, "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 the state's children and to society, the CCDF expenditures used for improvement in child literacy did not meet the federal requirement to "improve the quality of child care services for all children." Based on our continuing discussions with management, we have concluded that there is a fundamental difference of opinion in what constitutes a CCDF quality activity versus CCDF direct care services. Based on the federal regulations, since the Read to be Ready program does not improve the quality of child care services, DHS has in fact spent CCDF funds as direct care services, which requires management to follow eligibility determination requirements before the CCDF funds can be spent.

We also found that management had not properly identified the CCDF quality activities and/or direct services in DHS' State Plan, and management could not provide documentation to differentiate the two classifications of expenditures.

DHS confirmed it did not collect 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 DHS ensured the literacy camps met the requirements related to provider licensing and health and safety.

We questioned the total amount of \$3,273,044 in expenditures charged to the CCDF grant for the Read to be Ready Summer Camp Program during the audit period (July 1, 2017, through June 30, 2018).

Criteria

According to 45 CFR 98.53(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.”

Per 45 CFR 98.50(F)(a),

Direct child care services shall be provided:

- (1) To eligible children, as described in §98.20;
- (2) Using a sliding fee scale, as described in §98.45(k);

(3) Using funding methods provided for in §98.30.

Cause

During the prior audit, management believed the entirety of the Read to be Ready Summer Camp Program qualified as a child care quality activity. This year, management made the same claim and stated that DHS utilized the Child and Adult Care Food Program (CACFP) area eligibility map to determine eligibility for 75% of children serviced. The remaining 25% were not included in the map, nor were they required to undergo determination as mandated by CCDF requirements. The CACFP eligibility determination process does not meet the CCDF eligibility requirements, and management did not get approval from ACF to use this process to determine eligibility for this program.

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. The unallowable activities are due to DHS not conducting the required eligibility determinations. According to 45 CFR 98.65(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 \$3,273,044 charged to discretionary funds of the CCDF grant award for the audit period (July 1, 2017, through June 30, 2018).

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 and do not reflect the actions a prudent person would take in the circumstances.

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. The known questioned costs in this finding exceed \$25,000.

Recommendation

The Commissioner of DHS should establish adequate internal controls for monitoring partnerships to ensure the state is compliant with all CCDF regulations related to child care services for the program. The Director of Child Care Services should ensure that the eligibility screenings are in line with CCDF requirements for direct care providers and are conducted by its partner in the program, the Department of Education, or in a cooperative effort by the departments to ensure compliance. Management should continue to seek guidance from the Office of Child Care to

ensure compliance with CCDF regulations related to the program. The Director of Child Care Services should also ensure the State Plan is updated to include all required information.

Management's Comment

Concur.

The Read to be Ready program is an innovative program without precedent in other states. As such, the Department has made multiple inquiries to Administration for Children and Families to receive guidance on whether all or part of the program is permissible under CCDF funds, while maintaining a consistent position, based on the preceding information and regulations, that the program constituted quality activities.

Up to and throughout the summer of 2018, the Department was financially supporting this innovative program in good faith reliance upon the federal regulations and guidance received from ACF. Through this program 2,200 educators were trained in innovative teaching methods and delivered innovative programming to 7,700 children.

As noted in the Department's response to the prior year finding concerning the Read to be Ready program, the Department did consider the program to be an allowable activity and cost under the Child Care Development Fund (CCDF) as quality services. The Department consistently took this position based on representations, statements and approvals made by the Federal Health and Human Services, Administration for Children and Families (ACF) and provisions in Title 45 of the *Code of Federal Regulations* (CFR) pertaining to the CCDF as explained below.

The CFR delineates between quality activities and direct services in the use of CCDF funds. Relevant to the Read to be Ready program, 45 C.F.R. § 98.53(a) defines quality activities to include the following:

- Supporting the training, professional development, and postsecondary education of the child care workforce;
- Providing technical assistance to eligible child care providers; and
- Evaluating and assessing the quality and effectiveness of child care programs and services offered.

The finding ignores the many activities provided in the program that align with the above list of quality activities specifically allowed in the CFR. As part of the grant contract with the Tennessee Department of Education (TDOE) for the Read to be Ready program, educators participate in intensive training prior to the summer program to improve their ability to teach reading skills to school-aged children. Per the grant contract with TDOE effective in Year 2, TDOE was required to provide family engagement training and literacy-content training to grant recipients, monitor grant recipient training progress through on-site and desk reviews, provide technical assistance to grant recipients, and report outcome information to the Department (See Grant Contract sections A.5, A.6, A.8, and A.9). Therefore, based on the federal regulations concerning quality activities in child care, the Department continues to believe that the Read to be Ready program contains multiple quality activities not acknowledged in the audit finding.

The Department's basis for considering the Read to be Ready program as quality activities under CCDF is in statements and approvals made by the Federal overseers, ACF. In fact, on June 27, 2018 ACF regional office sent an email to TDHS stating, "Based on additional information provided by Tennessee, supporting the Read to be Ready Summer Literacy camp is likely an allowable use of CCDF quality funds, regardless of whether all of the children participating currently receive child care subsidies through CCDF."

The above position is bolstered by the fact that the Read to be Ready program was part of the Department's approved State Plan during the time of the 2018 Read to be Ready audit. Pursuant to 45 C.F.R § 98.1(a)(1), the Secretary of DHHS (through ACF) "will approve [a CCDF State Plan] that satisfies the requirements of the CCDBG Act and this part". As the Department included the Read to be Ready program in its State Plan that was in effect during the 2018 Read to be Ready program year, ACF approved of Read to be Ready as being consistent with the CCDBG Act and the regulations.

Auditor's Comment

As noted in the finding, the June 27, 2018, ACF email also goes on to state,

They are not clear on what is included in "activities." If activities refer to educational services provided at the summer camps, it is likely these would be considered direct services not quality expenditures.

There is no evidence to support that the \$3,273,044 is all quality expenditures. We asked management to provide us with a break down of expenditures that were quality activities and those that were direct services. Management could not provide this information. To charge expenditures as direct services, eligibility determinations are required. Management stated that they did not perform any eligibility determinations during the audit period for this program.

Finding Number	2018-028
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	1501TNCCDF, 1601TNCCDF, 1701TNCCDF, and 1801TNCCDF
Federal Award Year	2015 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking Reporting
Repeat Finding	2017-034
Pass-Through Entity	N/A
Questioned Costs	

	Federal Award	
CFDA	Identification Number	Amount
93.575	1501TNCCDF	\$415,383

As noted in prior audits, the Department of Human Services again submitted inaccurate ACF-696 Federal Financial Reports; did not establish adequate internal controls over earmarking; 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 with parents who 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 program, a state may transfer funds to CCDF; the transferred funds are treated as discretionary funds.

HHS requires Tennessee's Department of Human Services (DHS) to complete and submit a quarterly financial status report (ACF-696), which presents cumulative expenditures by funding stream for each separate grant award, as well as next quarter expenditure estimates, within 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 the redistribution of unused CCDF funds from one state to another at the end of each federal fiscal year (October 1, through September 30). HHS also uses the reports to monitor states' compliance with various fiscal-related requirements, such as earmarking and matching requirements. The Tennessee Department of Finance and Administration's Division of Accounts performs DHS' federal reporting responsibilities, including preparing and submitting the ACF-696 report to HHS.

HHS requires DHS to meet three earmarking requirements for CCDF: administrative earmarking, quality earmarking, and targeted funds.

Under the administrative earmarking requirements, a state may not spend more than 5% of the aggregate amount of discretionary, mandatory, and federal and state shares of the matching funds on administrative activities.

Under the quality earmarking requirements for the CCDF award for federal fiscal year (FFY) 2015, a state must spend at least 4% of the aggregate amount of discretionary, mandatory, and federal and state shares of the matching funds on quality activities. For FFY 2016 and FFY 2017, the minimum quality spending requirement increased to 7%, and it increased to 8% in FFY 2018. In addition, beginning with the CCDF award for FFY 2017, a state must spend at least 3% of the aggregate amount of discretionary, mandatory, and federal and state shares of the matching funds on activities to improve the quality of care for infants and toddlers.

The earmarking requirements for targeted funds specify the minimum amounts that a state must spend for specified activities. For the 2015 grant award, HHS allocated Tennessee \$2.6 million in Infant and Toddler Targeted Funds; \$4.5 million in Quality Expansion Targeted Funds; and \$416,191 in School Age/Resource and Referral Targeted Funds. For the 2016 grant award, HHS allocated the state \$2.9 million in Infant and Toddler Targeted Funds. The terms and conditions of the CCDF grant award required the state to spend the 2015 grant award targeted funds by September 30, 2017. HHS did not allocate targeted funds for the 2017 or 2018 grants.

During the prior audit, we found that DHS' Controller and the Director of Child Care Services did not establish adequate internal controls over reporting and earmarking; the Accountant submitted ACF-696 reports that were inaccurate and unsupported; and program staff did not comply with the earmarking requirements for targeted funds. Management concurred in part with the finding related to the internal controls for reporting requirements and concurred with the findings related to inadequate internal controls over earmarking and noncompliance with the reporting and earmarking requirements. Management stated that the Director of Child Care Services would develop an earmark matrix that includes the requirements to track earmarking expenditures.

During the current audit, we found that while DHS had implemented some corrective actions, there were still problems with the ACF-696 reports. To determine whether fiscal staff complied with federal reporting requirements, we tested the ACF-696 reports for the CCDF grant award provided for FFY 2017 and FFY 2018 for the quarter ended December 31, 2017, and for the quarter ended June 30, 2018. Additionally, to determine whether fiscal staff and DHS complied with federal earmarking requirements, we tested earmarking expenditures charged to the CCDF grant award provided for grant year 2015.

Based on our audit procedures, we noted that DHS

- did not establish adequate internal controls over preparing and submitting the ACF-696 reports, resulting in the submission of inaccurate reports (Condition A); and
- did not establish adequate internal controls over earmarking, resulting in DHS not complying with the earmarking requirements for targeted funds and administrative expenditures (Condition B).

Conditions, Criteria, and Causes

Condition, Criteria, and Cause A. Fiscal Management Did Not Establish Adequate Internal Controls Over Preparing and Submitting the ACF-696 reports, Resulting in the Submission of Inaccurate Reports

We reviewed the report preparation process and the review process that fiscal staff used to prepare the ACF-696 reports we tested. Fiscal staff classified expenditure items based on the department ID, program code, and account code⁵² in order to report expenditures according to the applicable corresponding lines in the ACF-696 reports. Based on our review of the report preparation process and subsequent testing of the reports, we noted that fiscal staff misclassified travel, information systems, and quality⁵³ expenditures. We also identified additional errors regarding maintenance of effort expenditures and inconsistencies with how fiscal staff reported unliquidated obligations.⁵⁴ The errors we found indicate management and staff have not fully corrected deficiencies in the report review process.

Misclassification of Travel Expenditures

Based on our testwork, we found that fiscal staff included travel expenditures as quality activities in line 1(b), certificate program costs/eligibility determinations in line 1(h)(2), and all other non-direct services in line 1(h)(3); fiscal staff should have reported all 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.” Based on discussion with fiscal staff, they had changed their preparation process to properly account for travel expenditures based on recommendations from the prior audit, but they were not aware there was an additional account code they needed to account for travel. See **Table 1** for details.

Table 1
Travel Expenditures Misclassified on ACF-696 Reports

Quarter Ended December 31, 2017, for FFY 2017 Award			
	<i>Quality Activities (Line 1(b))</i>	<i>All Other Non-direct Services (Line 1(h)(3))</i>	<i>Certificate Program Costs/Eligibility Determination (Line 1(h)(2))</i>
Mandatory Fund	\$21,776	\$1,943	-
Matching Fund	-	\$2,716	-
Discretionary Fund	\$36,782	\$8,210	-
Maintenance of Effort	-	-	\$1,717

⁵² Department IDs, program codes, and account codes are codes that DHS uses to identify programs and activities of financial transactions in Edison, the state’s accounting system.

⁵³ Quality expenditures include expenditures such as 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.

⁵⁴ Unliquidated obligations refer to the amount of obligations incurred by the grantee that have not been paid, such as the unpaid portion of a contract at a given point in time.

Quarter Ended June 30, 2018, for FFY 2017 Award			
Mandatory Fund	\$21,776	\$1,943	-
Matching Fund	-	\$2,716	-
Discretionary Fund	\$36,666	\$8,157	-
Maintenance of Effort	-	-	\$1,717
Quarter Ended June 30, 2018, for FFY 2018 Award			
Mandatory Fund	\$23,223	\$115	-
Discretionary Fund	\$1,072	\$2,954	-
Maintenance of Effort	\$13,183	\$2,691	\$6,555

Misclassification of Information Systems Expenditures

Based on our testwork, we found that fiscal staff misclassified information systems expenditures charged to maintenance of effort funds. 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 only expenditures for “establishment and maintenance of computerized child care information systems.” Instead of including only those costs specifically related to establishing or maintaining a child care information system in line 1(h)(1), fiscal staff reported other costs related to the Information Systems Division, such as the salaries of the division’s executive leadership and other indirect costs charged to CCDF and other programs as systems costs. See **Table 2** for details.

Table 2
Misclassified Information Systems Expenditures

Quarter Ended December 31, 2017			
<i>Grant Year</i>	<i>Amount Misclassified</i>	<i>Line Reported</i>	<i>Correct Report Line</i>
2017	\$664,947	1(h)(1)	1(a)
Quarter Ended June 30, 2018			
<i>Grant Year</i>	<i>Amount Misclassified</i>	<i>Line Reported</i>	<i>Correct Report Line</i>
2017	\$664,894	1(h)(1)	1(a)

Misclassification of Quality Activities Expenditures

For the 2017 and 2018 grant awards, HHS did not award any School-Age/Resource and Referral Targeted Funds to DHS. We found, however, that fiscal staff reported expenditures as School-Age/Resource and Referral Targeted Funds in line 1(e) on its grant year 2017 and 2018 reports. Fiscal staff should have reported the expenditures as quality activities under the discretionary funds (line 1(b)). See **Table 3**.

Table 3
Misclassified Quality Activity Expenditures

Quarter Ended December 31, 2017			
<i>Grant Year</i>	<i>Amount Misclassified</i>	<i>Line Reported</i>	<i>Correct Report Line</i>
2017	\$3,485,242	1(e)	1(b)

Quarter Ended June 30, 2018			
<i>Grant Year</i>	<i>Amount Misclassified</i>	<i>Line Reported</i>	<i>Correct Report Line</i>
2017	\$3,696,163	1(e)	1(b)
2018	\$1,018,772	1(e)	1(b)

Maintenance of Effort Expenditures Reported in the Incorrect Fiscal Years' Reports

Based on our testwork, we found that fiscal staff improperly included \$845,962 of maintenance of effort expenditures that were obligated in FFY 2016 in line 1(b) of the grant year 2017 reports for both the quarter ended December 31, 2017, and the quarter ended June 30, 2018. According to the report instructions, maintenance of effort expenditures must be obligated and liquidated in the year of the grant award. Therefore, expenditures that were obligated in FFY 2016 should be liquidated in FFY 2016 and reported as maintenance of effort expenditures in the report for FFY 2016.

Inconsistent Treatment of Amounts Reported as the Federal Share of Unliquidated Obligations

We found that fiscal staff were not consistent in how they included or excluded contracts with one state entity in their calculation of unliquidated obligations. Our testwork revealed that fiscal staff excluded two contracts with one state entity from the calculation for unliquidated obligations on the Grant Year 2017 report for the quarter ended December 31, 2017. Fiscal staff stated they excluded these contracts because they were with another state entity, and the state cannot obligate funds to itself according to CFR. We determined, however, that fiscal staff did include these contracts in the calculation for the Grant Year 2017 report for the quarter ended June 30, 2018. As a result, fiscal staff overstated the amount reported as the federal share of unliquidated obligations by \$289,780.

According to 45 CFR 98.60(d)(5),

obligations may include subgrants or contracts that require the payment of funds to a third party (e.g., subgrantee or contractor). However, the following are not considered third party subgrantees or contractors:

- (i) A local office of the Lead Agency
- (ii) Another entity at the same level of government as the Lead Agency; or
- (iii) A local office of another entity at the same level of government as the Lead Agency.

Condition, Criteria, and Cause B. Program Staff and Fiscal Staff Did Not Establish Adequate Internal Controls Over Earmarking, Resulting in DHS' Noncompliance With the Earmarking Requirements for Targeted Funds and Administrative Expenditures

We discussed internal controls over earmarking with DHS and fiscal staff, and we determined that neither program nor fiscal staff had adequate controls in place to ensure compliance with earmarking requirements. We found that the Director of Child Care Services did not ensure that program staff developed a process to ensure DHS met the minimum quality earmarking and targeted funds requirements. While fiscal staff did have a process in place to review expenditures

to ensure compliance with administrative earmarking requirements, they did not always ensure DHS met its 5% administrative earmarking requirement.

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.”

We tested DHS’ compliance with earmarking level requirements for the 2015 grant, because the “Program Specific Terms and Conditions for State and Territory Grantees” for CCDF, dated September 2015, states, “Compliance with Discretionary targeted amounts, the minimum quality expenditures, and administration cap requirements will be verified at the end of the Discretionary liquidation period.” The discretionary liquidation period for the FFY 2015 grant award ended September 30, 2017.

Based on DHS’ accounting records, we found that DHS program and fiscal staff did not ensure that DHS expended all of Tennessee’s allotment of Infant and Toddler Targeted Funds and School-Age/Resource and Referral Targeted Funds for the FFY 2015 grant award. Provision 9c of the terms and conditions of the grant award requires the state to expend all of its allotment of targeted funds. See **Table 4** for the amounts of shortages in targeted funds expenditures.

Table 4
Shortages of Targeted Fund Expenditures for the Federal Fiscal Year 2015 Grant Award

Targeted Fund	Allotment	Expenditures Per Accounting Records	Shortage
Infant and Toddler	\$2,612,878	\$736,655	\$1,876,223
School-Age/Resource and Referral	\$416,191	\$58,932	\$357,259
Total Shortage:			\$2,233,482

Source: Edison accounting records.

We also found that DHS program and fiscal staff did not comply with the administrative earmarking requirements for the 2015 grant award. According to 45 CFR 98.54(a), “not more than 5% of the aggregate funds [that is, the amount of discretionary, mandatory, and federal and state shares of the matching funds] expended by the lead agency from each fiscal year’s allotment shall be expended for administrative activities.” We found that DHS expended 5.35% of the aggregate funds on administrative activities due to an adjusting entry that charged an excess amount of funds to the discretionary grant. See **Table 5** for the excess amount of funds expended on administrative activities.

Table 5
Excess Administrative Earmarking Expenditures for the Federal Fiscal Year 2015 Grant Award

Aggregate Funds Expenditures	Maximum Administrative Expenditures	Actual Administrative Expenditures	Excess Administrative Expenditures
\$118,632,071	\$5,931,604	\$6,436,987	\$415,383

Source: Edison accounting records.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Finance and Administration's 2017 Financial Integrity Act Risk Assessment for DHS operations and determined that management identified in the assessment the risk associated with ensuring that accurate reports are submitted. Management documented in the assessment that there was a medium impact and a medium likelihood that the risk would occur. Management, however, did not assess the risk of noncompliance with earmarking.

Effect

When DHS submits inaccurate federal reports and does not comply with applicable federal earmarking requirements, the department negatively impacts the effectiveness of the program, which is designed to ensure that the appropriate amounts of federal funding are devoted to improving the quality of child care provided in a state.

Failure to establish and maintain effective internal controls increases the risk that noncompliance will not be prevented or detected and corrected timely. 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.

Additionally, federal regulations address actions that HHS may impose in cases of noncompliance. As noted in 45 CFR 75.371, "If a non-Federal entity fails to comply with Federal statutes, regulations or the terms and conditions of a Federal award, the HHS awarding agency or pass-through entity may impose additional conditions," including, as described in Section 75.207, "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 75.371 also states,

If the HHS awarding agency or pass-through entity determines that noncompliance cannot be remedied by imposing additional conditions [as described above], the HHS 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 HHS 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 HHS awarding agency regulations at 2 CFR part 376 (or in the case of a pass-through entity, recommend such a proceeding be initiated by a HHS 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 \$415,383 in FFY 2015 federal discretionary funds that were not expended in accordance with the administrative earmarking requirements.

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, a 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 DHS 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 will prepare the ACF-696 reports in accordance with federal report instructions and submit ACF-696 reports that are accurate. This should include

- updating fiscal staff's report preparation process to address all misclassifications;
- establishing a process for fiscal staff to properly use obligation date information to ensure expenditures are reported in the correct fiscal year's ACF-696 report;

- ensuring fiscal staff treat obligations consistently when reporting unliquidated obligations; and
- ensuring fiscal staff only report targeted funds when the grant award includes a targeted fund allotment.

In addition, DHS' Controller and the Director of Child Care Services should coordinate to establish internal controls to monitor the 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 targeted funds and developing policies and procedures for periodically monitoring expenditures to ensure the state will meet earmarking requirements within the required timeframe.

The Commissioner and the Controller 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

Condition A: Fiscal Management Did Not Establish Adequate Internal Controls Over Preparing and Submitting the ACF-696 Reports, Resulting in the Submission of Inaccurate Reports

Concur.

The Department of Finance and Administration's (F&A) accounting office, which provides services for the Department of Human Services, will assess and modify as necessary, federal reporting team resources and processes to mitigate the risks associated with accurate and timely federal financial reporting.

This effort will include, but not be limited to:

- A review of all Edison expenditure account codes used by DHS to properly map travel expenditures in the ACF-696 report line 1(a), child care administration;
- A review of all expenditure account codes currently mapped to and reported in the ACF-696 report line 1(h)(1) to ensure that these only include expenditures that are clearly supported for the establishment and maintenance of computerized child care information systems;
- Establishing a process for the federal reporting team members to familiarize them with the earmarking requirements for targeted funds by grant award to help reduce the risk of misclassifying targeted and quality activities expenditures in the ACF-696 report; and
- Educating the federal reporting team members on the proper manner of reporting current expenditures against obligations of prior grant years, as well as how to identify and report unliquidated obligations. In addition, reporting tools (e.g., queries and step

by step instructions) to assist at arriving at the amounts to be reported will be developed and consistently utilized.

Condition B: Program Staff and Fiscal Staff Did Not Establish Adequate Internal Controls Over Earmarking, Resulting in DHS' Noncompliance With the Earmarking Requirements for Targeted Funds and Administrative Expenditures

Finance and Administration

Concur.

As noted by the state auditors, the Department of Finance and Administration, which staffs the DHS accounting office, has a process in place to review expenditures to comply with administrative earmarking requirements. By June 30, 2019, the internal controls surrounding this process will be modified, and/or added to, in order to reduce the risk of such process not being completed as prescribed.

In the case of the 2015 grant award excess administrative expenditures cited and questioned by the auditors in Table 5, due to a breakdown in internal controls, an adjusting entry was not processed as intended, resulting in the administrative expenses recorded in the Edison accounting records not matching those reported on the ACF-696 report. The necessary adjusting entry will be recorded in the Edison accounting records before June 30, 2019.

By September 30, 2019, the documentation of the Enterprise Risk Management activities of the accounting office:

- Will be reviewed and updated to ensure that the risk assessment (inherent and residual) and risk response relative to identified federal reporting risks have been appropriately evaluated and documented considering the significance of the risk on objective achievement. In addition, identified control activities will be modified and/or added to; and, monitoring activities will be established as needed to ensure that these controls are operating effectively and do not deteriorate over time. Management Action Plans will also be created for any control activities that are deemed ineffective; and
- Will be updated as needed to include the necessary assessment of risk relative to the role of the accounting department in ensuring compliance with earmarking requirements for targeted funds. This assessment will recognize that the control environments maintained by the program and accounting office staff relative to this area must be complementary to ensure achievement of the department's objectives.

DHS Child Care Services Response

Concur.

Program's management has identified earmarking through its use of a matrix for budgetary purposes to strengthen internal controls over earmarking. New fiscal and program leadership will continue to partner and develop monitoring tools for meeting these requirements by June 30, 2019.

Finding Number	2018-029
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	1501TNCCDF, 1701TNCCDF, and 1801TNCCDF
Federal Award Year	2015 and 2017 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2017-038
Pass-Through Entity	N/A
Questioned Costs	\$972

As noted in the prior two audits, 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 \$972

Background

The Tennessee Department of Human Services (DHS) administers the Child Care and Development Fund (CCDF), a federal program that provides subsidies for child care. The state's Child Care Certificate Program, which is funded from the CCDF, 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 DHS staff or, for children in foster care or protective services, by 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 are under court supervision.

Child care providers request payment for services on a biweekly, semimonthly, or monthly basis by submitting child care Enrollment Attendance Verification forms for eligible children. DHS' 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, DHS 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. DHS staff use the criteria in the payment rate schedules to assign a payment rate for each child. When child care providers submit Enrollment Attendance Verification 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.

DHS 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 DHS staff and review of supporting documentation, each district field supervisor selects monthly samples for each employee in their district to 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 the review and any eligibility errors noted during the case review process.

Because DHS 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 because those factors can change periodically, it is critical that management's internal control processes, such as the monthly case reviews, are properly designed and implemented to help management identify and correct instances of incorrect payments.

We reported in the prior audit that the former Child Care Services Director did not ensure that DHS staff

- consistently performed case reviews of eligibility determinations and redeterminations;
- calculated and made payments to child care providers 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. Management concurred with the previous issues concerning case reviews and with payments to children over the age of 12, but management did not concur with the miscalculations related to payments to child care providers for program requirements. Management commented that for the payments made to child care providers, two of the four errors occurred during holiday times and their costs should not be projected for the entire year. We disagree with management because absences during holidays are not handled different from any absences throughout the year. Management also believes that because there were overpayments and underpayments, they should be projected at a net cost. We also disagree with management's opinion because it is not appropriate or logical to net the errors involving different providers. We did net underpayments and overpayments to the same provider as applicable. For internal control case reviews, management stated that DHS developed a new case reading tool on January 11, 2018, but in its six-month follow-up report to the Comptroller's Office dated September 28, 2018, management stated that the new case reading tool was not completed until July 2018. DHS did not implement any corrective action for case reviews during the fiscal year 2018, and noncompliance continued.

Condition and Cause

In order to determine if DHS complied with federal requirements related to eligibility for children receiving subsidized child care, we obtained all child care provider payment records and certain individual eligibility information contained in DHS' Tennessee Child Care Management System (TCCMS) for the period July 1, 2017, through June 30, 2018, and performed sampling procedures

as detailed below. Based on the results of our testwork, we found that the Child Care Services Director did not ensure that staff consistently performed case reviews of eligibility determinations and redeterminations. We also found that the Child Care Services Director did not ensure that staff calculated and made payments to child care providers 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 \$972.

Condition A: Internal Controls Over Case Determinations/Redeterminations Were Not Applied Consistently Throughout the Year as Required by the CCDF State Plan

Based on our discussion with DHS program staff, as well as our review of the CCDF State Plan for federal fiscal years 2016 through 2018 and DHS' Field Supervisor One's job plan, DHS uses a supervisory case review process as the internal control to ensure eligibility determinations and redeterminations are performed and are appropriate. As part of the CCDF State Plan and the Field Supervisor One's job plan, supervisors of the child care specialists who make the eligibility determinations are required to perform random monthly case reviews of at least five eligibility determination or redetermination cases assigned to the employee to ensure the determinations were accurate.

We identified 33 employees who were responsible for conducting eligibility determinations for the Child Care Certificate Program during the scope of our audit. From the population of 33, 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 33 employees (39%), 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 11 employees, supervisors did not review any cases for the month selected for testwork.

We also noted that 2 of the 13 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 case review evaluation process. There is no internal control in place for instances when supervisors perform eligibility determinations and redeterminations. The *Standards for Internal Control in the Federal Government* (Green Book), states that management should design and implement control activities that respond to risks through policies.

When we discussed the errors with staff, they acknowledged the problem and indicated that these errors were the result of an outdated paper case review process and that the new electronic case review process had not been fully implemented until July 2018. The electronic case reading tool is an automated process; Strategic Technology Solutions queries TCCMS on all new open eligibilities and reports the information to Quality Improvement and Strategic Solutions (QISS) staff, who compile a sample and provide it to DHS child care supervisors. Supervisors enter the case information for the open eligibilities into the Survey Monkey tool, and then QISS compiles the results for scoring. Management stopped using the previous paper case review process and

relied upon the new electronic case reading tool before fully testing the new procedure at the end of the audit period.

Condition B: Payments Testwork

From a population of 510,386 payment transactions to child care providers, totaling \$96,665,373, for the Child Care Certificate Program, from July 1, 2017, through June 30, 2018, we selected a sample of 60 payment transactions, totaling \$11,542, to determine whether 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 DHS used to determine the payment amount. Based on our testwork, we determined that for 1 of 60 payments tested (2%), DHS did not ensure that provider payments were calculated and paid in accordance with program requirements. We found that DHS paid the providers using incorrect parent co-pay rates, resulting in \$12 in known question costs, which when projected exceeds the \$25,000 threshold for reporting. DHS staff believe this is an error and is not a significant problem requiring additional internal controls or policies. We are required to report known questioned costs when the likely questioned costs exceed \$25,000. See the Questioned Costs section of this finding.

Condition C: Age Requirements Analysis

Based on our analysis of payments to child care providers from July 1, 2017, through June 30, 2018, we found that DHS paid \$119,677 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 1,283 payments, totaling \$113,313, made on behalf of 127 children who were age 13, we selected a sample of 60 payments, totaling \$7,904. Based on our testwork, we noted that for 2 of 60 payments tested (3%), the children were ineligible to participate in the program. From a population of 105 payments, totaling \$6,364, made to 11 participants age 14 and over, we tested a randomly selected payment made to each of the 11 participants and noted that 1 participant (9%) was ineligible to participate in the program. This individual was deemed ineligible for exceeding the age limit and did not qualify based on other allowable criteria, such as being incapable of self-care or under court supervision. As a result of these instances of noncompliance, we questioned \$960 that DHS paid to child care providers on behalf of the ineligible individuals. See the Questioned Costs section of this finding.

DHS staff stated that the 2 individuals' cases should have been closed after the individuals turned 13 years old and that the payments should not have occurred. Management stated that the process identifying potentially ineligible children over the age of 13 needs improvement.

Criteria

Criteria for Internal Controls Over Case Reviews

"Appendix I: Requirements," of the Green Book states that, "Management should design control activities to achieve objectives and respond to risks" and "Management should implement control activities through policies."

According to Title 45, *Code of Federal Regulations* (CFR), Part 98, Section 68(a),

Lead Agencies are required to describe in their Plan effective internal controls that are in place to ensure integrity and accountability, while maintaining continuity of services, in the CCDF program. These shall include... (iii) Quality Control or Quality assurance reviews[.]

According to the CCDF plan for federal fiscal years 2016 through 2018, the lead agency must describe the activities to identify program violations and administrative errors to ensure program integrity. The plan listed the following lead agency activities:

- Run system reports that flag errors (include types)

Describe:

Monthly random case readings are conducted by field supervisors to catch potential errors.

- Review of enrollment documents, attendance or billing records
- Conduct supervisory staff reviews or quality assurance reviews.

According to DHS' Field Supervisor One's (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 DHS 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 DHS 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 DHS 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 it will pay providers for services rendered to ineligible program participants increases.

Questioned Costs

For the errors noted above, we questioned costs of \$972 due to incorrect payments to providers and payments paid on behalf of ineligible participants. Our payments testwork included a review of 60 payments, totaling \$11,542, from a population of 510,386 payments, totaling \$96,665,373, during fiscal year 2018. Our age requirements analysis testwork for fiscal year 2018 included a review of 60 payments, totaling \$7,904, for children 13 years old, from a population of 1,283 payments, totaling \$113,313; and a review of 105 payments, totaling \$6,364, for 11 participants age 14 and over. This results in total known questioned costs of \$972. This finding, in conjunction with finding 2018-027 (which also included federal questioned costs for the federal compliance requirement Eligibility), results in total known federal questioned costs exceeding \$25,000 for the Child Care and Development Fund. 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.

Recommendation

Recommendation for Internal Controls Over Case Reviews

The Commissioner should ensure that DHS' internal controls are adequately designed and operating effectively to prevent or detect provider overpayments. The control process should include ensuring that supervisors perform and document each employee's monthly eligibility case reviews. Management should also establish a review process to ensure supervisors' case determinations and redeterminations are performed correctly.

Recommendation for Payments Testwork

The Director of Operations for CCDF should also consider updating the TCCMS information system so that it automatically assigns the correct payment rates for eligible children. The Director of Operations should also consider performing periodic data analyses to identify when staff enter 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 participants' ages and close cases promptly when individuals reach the 13-year-old age limit to ensure compliance with federal CCDF eligibility requirements.

Management's Comment

Condition A: *Internal controls over case determinations/redeterminations were not applied consistently throughout the year as required by the CCDF state plan*

Concur.

The Department began development of an automated case reading tool in January 2018, in collaboration with the Department's division of Quality Improvement and Strategic Solutions (QISS). This tool was first implemented in June 2018 for use on cases determined in May 2018, but was found to require revision due to inaccurate scoring. QISS fully implemented the revised tool in August 2018, for cases determined in July 2018.

Condition B: *Payments Testwork*

Concur.

The Department agrees that one payment out of 60 tested resulted in an overpayment of \$12.40. This instance was the result of human error. By June 30, 2019, program management will provide staff with refresher training to prevent future occurrences. Additionally, program management will conduct periodic data analyses to identify when staff enter incorrect payment rate data in the system.

Condition C: *Age Requirements Analysis*

Concur.

The Department agrees that two of 60 payments tested were to children over 13 years of age who were ineligible. By June 30, 2019, program management will provide staff with refresher training to prevent future occurrences.

Finding Number	2018-030
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	1501TNCCDF, 1701TNCCDF, and 1801TNCCDF
Federal Award Year	2015 and 2017 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2017-039
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior two audits, 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 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 Enrollment Attendance Verification 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 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 that 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, 2017, DHS' policy required CCDF child care specialists (program evaluators) to perform, at a minimum, one announced and four quarterly unannounced visits per regulated provider licensing year,⁵⁵ and to complete a child care evaluation form, which includes health and safety checks, for each visit. Additional visits may be required based on the extended hours offered, transportation offered, and star ratings. 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 for regulated providers, effective April 18, 2018, and dropped the requirement that the four unannounced visits be conducted quarterly. The four unannounced visits can now be conducted any time within the licensing year. Unregulated providers consist of homes where the number of supervised children does not exceed six. Child care specialists currently only perform health and safety checklists for unregulated providers upon initial enrollment.

Additionally, 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 and had a lack of licensing documentation for out-of-state providers. DHS concurred in part with the prior finding and stated that it would make changes to its DHS' Collateral Document. It also stated it would implement centralized controls on annual licenses for out-of-state providers and document that information in the Tennessee Licensing Care Systems. DHS did not concur with the prior finding, stating that critical health and safety requirements are in place. For the current audit, we found that DHS staff still had not performed some of the required visits timely and still had documentation issues related to health and safety requirements and out-of-state child care providers, resulting in this repeat finding.

Condition and Cause

Condition A: *Staff Did Not Perform Some Required Site Visits Timely for Regulated Providers*

From a population of 505,067 payments to regulated child care providers during fiscal year 2018, we selected a nonstatistical, random sample of 60 payments 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

⁵⁵ A licensing year begins when a child care provider receives its license. More visits are required if the provider has a low star rating, and less visits are required if a licensing year is only 9 to 10 months.

safety checklist requirements. If we noted any violations, we reviewed 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 45 CFR 98.41 and/or DHS' administrative policies and procedures. Specifically, we found that for 17 of 60 payments made to 17 regulated providers (28%), DHS staff did not conduct a required unannounced quarterly and/or extended hour visit when they were required to do so by internal policy. Management has responded that there is a need for additional training for licensing supervisors and program evaluators.

Condition B: *Staff Conducted but Did Not Complete the Entire Health and Safety Checklist for the Unregulated Providers*

From a population of 392 payments to 18 new unregulated child care providers during fiscal year 2018, we selected a nonstatistical, random payment from each of the 18 providers to obtain reasonable assurance that DHS was compliant with CCDF health and safety requirements. For each payment, we identified the provider and tested whether DHS' CCDF child care specialists performed and completed the required health and safety checklist before the providers received payment during the licensing period.

Based on our testwork, we found that DHS management did not ensure that staff completed all sections of the health and safety checklists for 4 of 18 providers (22%). Specifically, staff did not obtain a signature from 1 of the 4 unregulated provider's health and safety checklists, and the remaining 3 providers had sections on the health and safety checklist that staff did not verify. Management stated that the problem occurred due to a need for additional training for child care specialists.

Condition C: *Licensing Documentation for Out-of-state Providers Was Not Recorded Consistently Due to a Lack of Written Policy*

We identified that DHS paid \$178,063 to 13 regulated child care providers in other states who cared for children who reside in Tennessee. Based on our review, we noted that for 3 of 13 out-of-state regulated providers (23%), DHS staff collected the licenses but did not record all correct licensing information in the Tennessee Licensing Care Systems (TLCS). Specifically, DHS staff did not record current license information in TLCS for 2 of the providers and recorded inaccurate information for the remaining provider based on the license provided. Based on discussion with staff, management agrees that the providers' licenses need to be collected but thinks recording the information in TLCS is less important than obtaining the physical licenses. However, DHS staff stated that they only review TLCS, not the physical license, when verifying a provider's current licensure status. Furthermore, we found that DHS has not developed written policies and procedures for staff to follow when interacting with out-of-state providers.

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.”

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.

Condition A

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, 2017,

- (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. . . .

- (6) Agencies that provide Extended Care should receive at least one (1) unannounced visit during extended hours if, in the discretion of the Supervisor, such a visit can be performed safely and within the Department of Personnel's staff work hours requirements. If the agency offers care beyond 6:00 pm, then an unannounced visit must occur after 6:00 pm. If the agency offers care on the weekends, then an unannounced visit must occur during this timeframe.

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

On April 18, 2018, DHS implemented a Process Update Notification, dated April 16, 2018, which stated,

The Process Update Notification provides modification to the current visitation frequency outlined in Policy 13.02 Monitoring For Compliance Section A.4 and should read as follow [sic]: Staff must continue 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 based on an agency's licensing year and star rating.

Condition B

The contracts between contractors/providers and DHS require DHS staff to complete health and safety inspections in the form of checklists.

Effect

Without performing all site visits as required by federal requirements and internal policy and completing health and safety checklists, the Program Coordinator and the Child Care Certificate Program Director approved child care providers for payments 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 clearly and consistently documenting verification of out-of-state providers' licenses and establishing other formal policies and

procedures governing DHS' business with out-of-state providers, the Program Coordinator and the Child Care Certificate Program Director may pay providers who may no longer meet the requirements necessary to legally provide child care services.

Recommendation

DHS management should ensure that staff perform all child care provider site visits, including health and safety checks, in accordance with federal regulations and internal policy. The Director of Child Care should determine if Strategic Technology Solutions in the Department of Finance and Administration can update TLCS to flag when a provider is getting close to missing their unannounced visit. Finally, management should implement a new policy to ensure staff verify out-of-state providers' compliance with licensing and health and safety requirements and that staff maintain sufficient documentation to support licensure and health and safety compliance.

Management's Comment

Condition A: *Staff did not perform some required site visits timely for regulated providers*

Concur.

The Department acknowledges the condition existed prior to implementation of a Process Update Notification (PUN) on April 18, 2018, which further clarifies the visitation frequency outlined in the Department's Policy 13.02 Monitoring For Compliance. Some providers did not receive a visit during nontraditional hours of operation as required. While the Department did conduct visits as required by policy, these visits did not always occur during nontraditional hours of operation. By June 30, 2019, Program management will conduct additional staff training and clarifications regarding visits to be conducted at least once during nontraditional hours of operation.

Condition B: *Staff conducted but did not complete the entire health and safety checklist for the unregulated providers*

Concur.

The Department agrees that all items were not checked on the health and safety checklist but states that such omissions do not reflect the health and safety of the providers. These minor checklist errors are as follows:

- that the second of two signatures of one unregulated provider's checklist was not obtained upon completion of our annual health and safety visit,
- that 1 of 45 items was not indicated on the health and safety checklist used during our annual health and safety visit of one unregulated provider,
- that 2 of 45 items were not indicated on the health and safety checklist used during our annual health and safety visit of a second unregulated provider, and
- that 12 of 45 items were not indicated on the health and safety checklist used during our annual health and safety visit of a third unregulated provider.

By June 30, 2019, the Department will conduct training reminding staff to satisfy all requirements when completing health and safety inspections for unregulated providers.

Condition C: *Licensing documentation for out-of-state providers was not recorded consistently due to a lack of written policy*

Concur.

The Department implemented a Knowledge Retention Plan (KRP) 2.1.86 Out of State Child Care Agency Procedures on January 22, 2018, to improve documentation processes for agencies licensed by other states. The finding in the current audit related to activities prior to implementation of the KRP with one exception where the out of state license had been obtained but the record had not been updated in the electronic data system (TLCS).

Finding Number	2018-031
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	1801TNCCDF
Federal Award Year	2018
Finding Type	Significant Deficiency and Noncompliance (93.575)
Compliance Requirement	Period of Performance
Repeat Finding	2017-036
Pass-Through Entity	N/A
Questioned Costs	\$122,547 (93.575)

For the fourth consecutive 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 \$122,547

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 program, a state may transfer funds to CCDF. If a state transfers Temporary Assistance for Needy Families 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.

Each manual adjustment could involve moving tens of thousands of CCDF transactions from one federal fiscal year's CCDF grant award to another. We reviewed the supporting documentation fiscal staff used to create manual journal entries, and we traced the details of the supporting documentation to contracts, the original accounting entries, or the original voucher records in the state's accounting system as applicable to determine the obligation dates associated with the CCDF

payments in manual adjustments. We used this information to test 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 Discretionary Funds and all federal and state Matching Funds were obligated in the proper federal fiscal year. Management concurred that there were issues with its adherence to the period of performance requirements for CCDF. Management stated that they were working on correcting the period of performance issues and expected to complete the correction by June 30, 2018.

Condition and Cause

During the current audit, we found that management had made some progress in identifying the obligation dates based on the program expenditure service dates. According to the Department Controller, and based on our review, we found that fiscal staff have a process to determine a transaction's obligation date by identifying the "service date" field in the accounting record. The service date denotes the date services were performed, thus obligating the grant funds. While this process applies to most CCDF expenditures, it does not apply to CCDF expenditures that involved contracts because contract expenditures are obligated when contracts are made, not when services are performed. According to the Department Controller, management intended to exclude contract expenditures from the review process that was based on service dates. Fiscal staff, however, inadvertently included contract expenditures in the review process, which resulted in staff charging contract expenditures to grant awards based on the service date instead of the contract effective date.

To determine whether the department corrected the prior finding and fiscal staff complied with period of performance requirements when making manual adjustments to CCDF grant expenditures, we tested a total of 61 manual adjustment transactions, randomly selected from a population of 2,623 transactions that occurred during the period July 1, 2017, through June 30, 2018, totaling \$108,287,503. To select our sample, we stratified the population into four categories and determined the sample size from each category proportionally by dollar amount. See Table 1 for the breakdown of our sample.

Table 1
Sample Determination

Category	Total Category Transactions	Total Category Dollar Amount	Sample Size	Sample Dollar Amount
<i>\$0-10,000</i>	2,416	\$1,251,930	2	\$219
<i>\$10,000-100,000</i>	114	\$3,994,196	5	\$282,046
<i>\$100,000-1,000,000</i>	63	\$21,289,474	25	\$7,104,875
<i>\$1,000,000+</i>	29	\$81,751,983	29	\$81,751,983

We found that 1 of the 29 transactions that were over \$1 million (3%) included \$229 of CCDF expenditures which was improperly charged to the 2018 Discretionary grant. We also found that 1 of the 25 sampled transactions between \$100,000 and \$1 million (4%) included \$122,318 of

CCDF contract expenditures that was improperly charged to the 2018 Discretionary grant. These transactions related to obligations for the 2017 grant period and should have been charged to that grant award. The transfers were improper because staff did not ensure that based on their obligation date, the expenditures fell within the proper period of performance for each respective federal grant when moving expenditures between grant years. Because the period of performance for the federal fiscal year 2018 grant award did not begin until October 1, 2017, for example, expenditures with obligation dates prior to the start of federal fiscal year 2018 cannot be transferred and charged to the federal fiscal year 2018 award.

Risk Assessment

Given the problems identified during our fieldwork, we also reviewed the Department of Finance and Administration's 2017 Financial Integrity Act Risk Assessment for DHS fiscal operations and determined that top management did not assess the risk of noncompliance 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 45 CFR 98.60(d)(4),

... determination of whether funds have been obligated and liquidated will be based on: (i) State or local law; or, (ii) If there is no applicable State or local law, the regulation at 45 CFR 75.2, Expenditures and Obligations.

We could identify no applicable state or local law that defines "obligation"; therefore, in accordance with 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.

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 that are not obligated during the period of performance in accordance with 45 CFR 98.64(b), obligating Discretionary 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 \$122,547 in federal Discretionary Funds expenditures that the department improperly obligated during the audit period, July 1, 2017, through June 30, 2018. According to 2 CFR 200.516(a)(3), we are required to report known questioned costs greater than \$25,000 for a type of compliance requirement for a major program.

In 2 CFR 200.84, the definition of questioned cost is 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 continue to make corrective action and 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 reviewed 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 Commissioner should ensure the risk assessment and the mitigating controls are adequately documented and approved, as well as 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

Concur.

Following the prior audit, the Department of Finance and Administration accounting office, which staffs the Department of Human Services (DHS), implemented a process to review expenditures to determine a transactions obligation date, which is sufficient for most CCDF expenditures. By March 31, 2019, this process will be modified and supplemented to include that the subset of CCDF expenditures involving contracts are recorded as expenditures of the grant award during which the involved contract was executed. The necessary adjusting entry to correct the expenditure misclassifications will be recorded in the Edison accounting records before June 30, 2019.

In addition, accounting and program office staff are working collaboratively on an initiative to transition the term of CCDF contracts from a state fiscal year (July through June) to a federal fiscal year (October through September). Once fully implemented, the need for moving contract expenditures within the accounting records from one grant award period to another is expected to be greatly diminished.

By September 30, 2019, period of performance requirements will be included in the documentation of the ERM activities of the accounting office; and, monitoring activities will be established and operated to ensure that identified control activities are sufficient and effective. Updates will be made as needed to address the planned (i.e., contract terms), as well as unplanned, changes in the operating environment.

Finding Number	2018-032
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-26421-14-60-A-47, UI-26375-14-60-A-47, UI-27885-16-55-A-47, UI-27930-15-55-A-47, UI-31319-18-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-31622-18-60-A-47, UI-31370-18-55-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2014 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2017-043
Pass-Through Entity	N/A
Questioned Costs	FY 2018: \$50,875 FY 2019: \$ 3,300

Although the Department of Labor and Workforce Development improved key controls for detecting fraudulent unemployment claims, problems persisted for the seventh consecutive year, resulting in the inability to detect and correct improper payments to state employees, 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	Quarterly 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.

In order for staff to use the cross-matches as an effective control for detecting fraudulent unemployment claims, the cross-matches must be programmed correctly, reviewed properly, and acted on timely to determine if an overpayment has occurred or if no further action is required.

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 for recovery.

Condition

Since 2012, we have identified deficiencies with the department's cross-matches in our *Single Audit Report*. For our current audit, department management supplied us with a file of individuals who received UI benefits during the audit period July 1, 2017, through June 30, 2018. We performed our own cross-matches and analytical procedures and compared our results to the department's cross-matches and results. We noted that although the department improved its

cross-match processes overall since the prior year, problems continued with the state employees, state inmates, identity verification, and Tennessee and interstate wages cross-matches.

State Employees

We identified deficiencies with the department's state employees cross-match in our 2012, 2013, 2014, 2016, and 2017 *Single Audit Report*. In January 2018, the department implemented the recommendation in our 2017 *Single Audit Report* to obtain state employee information from Edison, the state's enterprise resource planning system, rather than continuing to obtain state employee information from the applicable state agency personnel. There was a learning curve for department staff using this new process and working directly with Edison time reporting codes and payroll dates. Because the department did not fully implement corrective action, we identified 58 instances where the department did not establish overpayments in the correct amount or at all for state employees who inappropriately received UI benefits. Specifically, we determined that

- the department did not establish overpayments for 52 state employees identified in cross-matches;
- the department did not establish correct overpayment amounts for 2 state employees identified in cross-matches; and
- the department's cross-match did not identify 4 state employees.

Based on our analytical procedures, we determined that the **potential overpayments**⁵⁶ to state employees totaled \$38,463.

State Inmates

We identified deficiencies with the department's state inmates cross-match in each year's *Single Audit Report* since 2012. For fiscal year 2018, we found the department had improved the state inmates cross-match, but it did not establish overpayments for 4 claimants who received UI benefits while incarcerated. We analyzed these 4 instances and determined that the department's cross-match did not identify the inmates.

Based on our analytical procedures, we determined that the **potential overpayments** to state inmates totaled \$1,243.

Identity Verification

We identified deficiencies with the department's identity verification cross-match in our 2012, 2013, 2014, 2015, and 2017 *Single Audit Report*. For fiscal year 2018, we found the department had improved its identity verification practices, but some problems remained. We obtained the population of 21 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

⁵⁶ Cross-match results represent possible benefit overpayments. The department must fully investigate each cross-match result and, if it determines the individual is ineligible for benefits, establish an overpayment.

identification, we found documentation deficiencies for 3 of 21 claimants (14%). Specifically, we noted that

- the department did not retain proof of identity documentation for 1 claimant;
- department staff accepted inadequate proof of identity for 1 claimant; and
- an unauthorized staff member resolved an outstanding documentation issue without reviewing proof of identity for 1 claimant.

Due to the missing or inadequate documentation, we could not determine whether the department properly verified these claimants' identities. Based on our analytical procedures, we determined that the **potential overpayments** to unverified claimants totaled \$14,469 — \$11,169 for fiscal year 2018 and \$3,300 for fiscal year 2019.

Tennessee and Interstate Wages

In our 2016 and 2017 *Single Audit Report*, we noted that management had not implemented cross-match procedures in the department's new UI information system to identify individuals who collected benefits while earning wages in Tennessee or another state. During fiscal year 2018, the department tested a Tennessee wages cross-match. Historically, the Tennessee wages cross-match usually produced at least 17,000 matches; however, the department identified only 800 matches in its June 2018 test. Management performed another Tennessee wages cross-match in September 2018 but could not provide the results of this comparison prior to the completion of our fieldwork in December 2018. As a result, we could not review its effectiveness. In addition, the department still lacked an interstate wages cross-match in fiscal year 2018.

Fictitious Employers

In our 2017 *Single Audit Report*, we stated that the department lacked a process to detect fictitious employer accounts created to facilitate fraudulent claims for UI benefits. In January 2018, the department implemented a fictitious employers cross-match and retroactively searched for potential fictitious employers. This corrected the prior condition.

Criteria

The department is responsible for determining eligibility and disqualification provisions of individuals according to Tennessee Employment Security Laws and Regulations.

Overall Criteria

According to Title 29, *Code of Federal Regulations* (CFR), Part 97, Section 20(a),

A state must expend [*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.

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.

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.

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.

Tennessee and Interstate Wages

Under Section 50-7-301(c)(1), *Tennessee Code Annotated*,

Each eligible claimant who is unemployed in any week shall be paid with respect to the week a benefit in an amount equal to the claimant's weekly benefit amount, less that part of the wages, if any, payable to the claimant with respect to the week that is in excess of the greater of fifty dollars (\$50.00) or twenty-five percent (25%) of the claimant's weekly benefit amount.

Cause

State Employees

Department staff did not always correctly interpret state employee information from Edison to establish an overpayment for state employees who improperly collected UI benefits. After we shared our testwork results, management worked with Edison staff to resolve the issues relating to Edison payroll information. As of December 14, 2018, the department established overpayments for 55 claimants who appeared in our results.

According to the Director of UI Integrity, the department's cross-match did not detect the 4 state employees who did not appear on the department's own cross-match due to data errors such as incorrect Social Security numbers or payroll dates. Consequently, department staff did not investigate and establish overpayments.

State Inmates

All of our results encompassed inmates who did not appear on the department's own cross-match. Consequently, department staff did not investigate and establish overpayments for those inmates. Beginning in October 2017, department staff gained direct access to a Department of Correction information system to confirm inmate status. According to the Director of UI Integrity, the effectiveness of the department's cross-matches was limited by incomplete inmate data because Department of Correction management failed to update the system timely. Despite such limitations to the Department of Correction's data, the department could still design effective cross-matches by performing additional steps, such as regularly comparing both current and old claims to current inmate data.

Tennessee and Interstate Wages

We noted in our 2017 *Single Audit Report* that the Tennessee and interstate wages cross-matches had not worked properly since the department implemented a new UI information system in May 2016. Although department management worked with the system vendor throughout the 2018 fiscal year to refine and test Tennessee wages cross-match processes in the 2016 system, we found that management still had not resolved all problems.

The department must use the Interstate Connection Network (ICON)⁵⁷ to perform the interstate wages cross-match. Initially, the 2016 system could not batch claims for submission to ICON for the cross-match. As of November 20, 2018, the system vendor had developed and successfully

⁵⁷ ICON is a federal information system used to facilitate the exchange of wage and unemployment data amongst the different states.

tested ICON data batching functionality. The Director of UI Integrity anticipated the department would run an interstate wages cross-match by the end of January 2019.

Identity Verification

The three potential overpayments we noted in our identity verification results occurred due to human error. Specifically:

- In one case, the Program Specialist responsible for processing identity verifications stated he obtained sufficient proof of identity but did not upload the documentation to the department's system.
- In one case, the Program Specialist inadvertently accepted a federal tax form provided as proof of identity. This document contained no independent corroboration of the claimant's Social Security number and was on a standard form that the claimant could have generated.
- In one case, the Program Specialist erroneously resolved the result based on a claims agent's case notes, which stated that the claimant provided proof of identity. Because the Program Specialist did not personally view the claimant's proof of identity, he was unaware that the proof was insufficient.

Effect

Without effective and timely cross-matches and prompt follow-up, the risk increases that department personnel will not detect benefits paid to ineligible state employees, state inmates, and individuals who have re-entered the workforce. Furthermore, when the department does not properly verify the identity of all claimants and maintain the necessary documentation, the risk increases that the department will pay UI benefits to ineligible individuals, including those who may have committed identity theft or are in the country illegally.

Ineffective cross-matches hamper the department's efforts to detect and recover improper payments and return the money to the state's UI trust fund. Furthermore, employer UI tax rates depend on claims paid to former employees and the trust fund balance. When improper payments are not detected, the risk that employers are burdened with higher UI tax rates increases.

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 2018		FY 2019		Total
	State	Federal	State	Federal	
Identity Verification	\$11,169	\$ -	\$3,300	\$-	\$14,469
State Employees	37,913	550	-	-	38,463
State Inmates	1,243	-	-	-	1,243
Total	\$50,325	\$550	\$3,300	\$-	\$54,175

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 also ensure that department personnel interpret cross-match results accurately and completely and establish overpayments in the correct amount when necessary.

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. We believe that what was written by the auditors in this finding is fair and accurate.

State Employees

After the *2017 Single Audit* and based on a recommendation from the auditors, the department contacted Edison to inquire about access, in order to get correct information regarding an employee's dates of employment and payment information. This access was denied, but Edison staff did agree that we could send them a list of our crossmatch hits and that they would query the system and provide the required information. With this new procedure in place, the department believed that this year's results would be much improved. Unfortunately that was not the case and more errors were found this year as compared to last year. However, through discovery of those errors and further collaboration with Edison on the process, we believe that the information we are now receiving is much more accurate and that our results will improve going forward.

State Inmates

The Department of Correction is providing us with direct access to their inmate tracking application (i.e., ETOMIS). We now are able to look up each crossmatch hit in their system, which has cut out nearly all of the errors and missed hits associated with the state inmates file. The four errors that resulted in this audit period were caused by retroactive changes made in the ETOMIS application. In order to determine these retroactive changes in the future, the department will run a comprehensive file at the end of each fiscal year, to help ensure that no potential crossmatch hits are missed.

Identity Verification

The *2017 Single Audit* identified some weaknesses in the department's policies and procedures in verifying the identity of claimants following the failure of the Social Security Administration (SSA) check. Because of that, new policies and procedures were put into place for fiscal year 2018 and the new policy and procedures have proven to be successful with this year's audit. However, three errors were detected, and each was in large part due to human error. The department will re-instruct staff on the proper handling of identity verification issues. One error occurred due to a weakness in the GUS system, which allowed an SSA issue to be closed without the staff member accessing and reviewing the issue. SSA work items and issues are protected and are permissions based. However, because the GUS system creates an issue for every potential issue that the system detects, and because many of these are not actual issues that need to be adjudicated and need to be resolved quickly, functionality was developed to be able to close work items without actually accessing the issue. This functionality is critical to processing claims in a timely manner and can't be removed completely. So, the department entered a service ticket with the vendor to prevent closure of SSA issues through this method. The ticket was entered on November 27, 2018, but has not yet been completed. While waiting for this change to be completed, instructions have been given to staff to make sure that these issues are not being closed.

Tennessee and Interstate Wage

The wage crossmatch is a fundamental requirement for the Benefit Payment Control unit and is base functionality for any UI system. Although stated in the request for proposal (RFP) that this functionality was included in GUS, the development of this functionality was not completed and was run effectively for the first time in September of 2018. A service ticket was created in 2016 and remained at a critical priority for many months. The wage crossmatch was run successfully for the third quarter of 2018 and the results are in line with what we would typically expect.

The Interstate (ICON) crossmatch is also a fundamental requirement for the Benefit Payment Control unit. Although stated in the RFP that this functionality was included in GUS, the development has not yet been completed. While the November 2018 test to batch required data and sent to ICON was successful, development continues on functionality within GUS to process potential hits when they are returned.

All of the specific claims mentioned by the auditors have been reviewed and overpayments have been established, when applicable.

Finding Number	2018-033
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-26375-14-60-A-47, UI-26421-14-60-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, UI-31370-18-55-A-47, UI-31319-18-55-A-47, UI-31622-18-60-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2014 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	2017-045
Pass-Through Entity	N/A
Questioned Costs	N/A

Although a repeated issue for the fifth consecutive year, the department has made significant improvements in issuing written notice of 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 did not always send letters to claimants and employers to notify them of claims decisions and their rights to appeal these determinations. In management's comments on these findings, management stated that not all claims required decision letters. Management could not provide consistent explanations about its procedures for issuing decision letters. Moreover, the failure to issue decision letters increases the risk that parties may not be notified of claims decisions and appeal rights.

In the 2017 finding, we also reported that the department did not send request letters to the separating employers advising them to respond within seven days, as required by statute, if they wished to dispute the claims. Management commented that this letter and another notice were combined in one letter. Combining these two letters allowed employers additional time to respond, and the department returned to sending two separate letters due to the confusion about the response deadline.

Condition

From the populations of payments for TUC, UCFE, and UCX claims during fiscal year 2018, we selected 3 random, nonstatistical samples. Based on our testwork, we noted that, although the department still did not issue decision letters for 7 of 70 claims tested (10%), it did reduce the prior audit's error rate by 51%. For one claim, the department failed to send both the employer and the claimant the required decision letters. For the remaining six claims, the department failed to send the employers the decision letters.

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 sometimes was not operating as described by management in the risk assessment.

Criteria

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, when necessary (e.g. excluding mass layoffs or other instances where the employer has verified the claim).

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.

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

According to the Employment Security Manager, the department did not issue decision letters for seven TUC claims in our sample for the following reasons:

- For four claims, employers did not reply to the request for information related to lack of work and therefore the unemployment system (Geographic Solutions Unemployment System, or GUS) auto-approved the lack-of-work claims. (GUS does not generate and send a determination letter to the separating employer for lack-of-work claims without staff action.)
- For two claims, unknown errors with GUS prevented the system from generating decision letters.
- For one claim, the claims agent did not prompt the system to send the decision letter when it should have been sent.

Effect

When division staff do not send written notifications of agency decisions of benefit determinations, claimants and employers may not be fully informed of the reason for the 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, without timely notification, 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 Administrator for the Employment Security Division should continue to evaluate the benefit payment processes and address the system errors that are impacting proper

notification to claimants and employers as identified during the audit. Management should also continue to analyze system data to prevent and detect additional internal control weaknesses. Management should ensure that staff send agency decision letters to claimants and their separating employers when necessary 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.

The current policy exists due to an understanding and suggestions from the Comptroller's office from previous audit findings. The agency saw there was a valid need and points being made; therefore, the policy was changed to incorporate those suggestions.

Because the department does see validity in notifying employers, in certain scenarios, that a lack of work separation has been approved, in February 2018 the department developed and implemented a policy that clearly states when a determination letter is required for lack of work separation and when it is not required. A copy of this policy was provided to the auditors early in the audit process. According to this policy, if an employer fails to respond to a request for separation information, or if the system resolves a lack of work issue due to the lack of an employer response, a determination is to be made and a letter generated to the employer and claimant. If a claim is filed and the lack of work is verified by the employer through either a response to the request for separation information, verbally by phone, or through a mass layoff list or employer filed (partial) claim, no determination is required.

Based on our own policy we agree with the finding on the seven claims listed.

- Six of those claims lacking determination letters were due to an error within the GUS system. This error was identified by staff on February 12, 2018, and corrected on March 7, 2018.
- One of the claims lacking a determination letter was due to staff error. Staff have been reinstructed on the policy and its importance.

Finding Number	2018-034
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	2017-048
Pass-Through Entity	N/A
Questioned Costs	\$5,238

As noted in the prior audit, the Department of Labor and Workforce Development did not properly pay Disaster Unemployment Assistance benefits as a result of difficulties with its unemployment claims system

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, to which it transfers funding for states affected by major disasters.

The Department of Labor and Workforce Development (the department) received DUA funding after the Sevier County wildfires in 2016. 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 people affected 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.

Prior-year Finding

In the prior audit, we noted that the department underpaid claimants' DUA weekly benefit amounts, made improper DUA benefit payments, and did not promptly make first-benefit payments. We found these errors resulted from delays in enabling the new Geographic Solutions Unemployment System (GUS) to process DUA claims and from untrained staff.

Management concurred in part with the prior audit finding, indicating that improper DUA benefit payments resulted from staff mistakes.

Results of Current Audit Work

Condition and Cause

We obtained populations of unemployment insurance benefits paid in fiscal year 2018, including DUA benefits, to perform eligibility testwork procedures. We tested the one DUA claim for fiscal

year 2018 that was included in the population data provided by the department. Based on our testwork related to the claim, we found that, for an unknown reason, the claimant was paid DUA benefits for the same weeks he was paid regular Tennessee Unemployment Compensation benefits.

According to the Claims Center Director, the claimant was not eligible for DUA benefits. However, for reasons the Director could not explain, the GUS system showed evidence that the system automatically recalculated and processed a lump sum payment to the claimant for weeks in which the claimant had already received regular unemployment benefits.

Since GUS erroneously reactivated an existing claim, department staff were unaware and did not receive the standard notice of a DUA claim that needed approval for payment. After we brought this improper payment to management's attention, the department created an overpayment of \$5,238 for the DUA benefits paid to this claimant and contacted the vendor responsible for GUS to notify them of the problem. The Director received a response from the vendor stating that the issue had been corrected but did not obtain any explanation about why the claim was automatically redetermined and improperly paid or what changes the vendor made.

Because of the unusual circumstances, neither the department nor the auditors could determine whether this was the only improper benefits payment.

Criteria

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards and is considered best practice for nonfederal entities. Green Book Principle 12.05, "Periodic Review of Control Activities," states,

Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators [and] legislators . . . may also change either an entity's objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review.

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 credit for such week under any other Federal or State law."

Effect

When the department is unaware of changes to claims that occur in the system for unknown reasons, it risks issuing additional improper payments and misuse of state and federal funds.

Questioned Cost Analysis

The \$5,238 of improperly paid DUA benefits represents federal questioned costs. Uniform Guidance (2 CFR 200.516[a][3]) 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 finding 2018-032, meet this threshold.

Recommendation

Management should obtain an understanding of the cause of the improper DUA payment from the vendor responsible for GUS and work with them to prevent future occurrences. Department management should coordinate with the vendor to perform a comprehensive review of the system to ensure no other vulnerabilities exist. The Administrator of Employment Security should also ensure staff perform periodic reviews of benefit payments, including DUA, for unusual transactions.

Management's Comment

We concur.

This was an error caused by the GUS UI system that the department was unaware had taken place. According to a staff member from Geographic solutions,

the defect occurred due to a change in the Payment Exceptions process to allow for customization of the exception for "Attempt to pay on a claim expired more than 2 weeks" to instead be "Attempt to pay on a claim expired more than {configurable value} weeks." When this change was made, there was no check if the configuration was not set to have it fall back to two weeks. To correct this defect, a default of 2 weeks was put in place if the configuration was not set.

This is speaking of a process in the system which allows for additional claims that are filed shortly before the Benefit Year expires, to be paid, even if the approval of the claim occurs after the Benefit Year end date. Geographic Solutions was aware of the problem shortly after it occurred, but failed to notify the department that the system had caused an improper payment. We have asked on more than one occasion to be notified when incidents that affect unemployment claims occur within the system, and while this has improved over the past 2-3 weeks, it remains inconsistent.

The specific claim mentioned by the auditors has been reviewed and an overpayment has been established.

Finding Number	2018-035
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-26421-14-60-A-47, UI-26375-14-60-A-47, UI-27885-16-55-A-47, UI-27930-15-55-A-47, UI-31319-18-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-31622-18-60-A-47, UI-31370-18-55-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2014 through 2018
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Repeat Finding	2017-049
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 and inaccurate reports for the third consecutive year

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 (UCFE/UCX); and the federal-state Extended Benefits (EB) 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.⁵⁸ 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

⁵⁸ SUN is a federal information system used for reporting UI program performance, workload, and financial data.

June 10, 2018: Overpayments Established by Cause, Overpayment Reconciliation Activities, and Age of Overpayments.

Following the 2017 Single Audit, the department created a procedure to compare the amounts pulled from the Geographic Solutions Unemployment System (GUS) for the ETA 227 to entries made in Edison, the state's accounting system. Once department staff prepare the ETA 227 report for submission, the Programmer/Analyst Supervisor requests Edison data from the Controller. According to guidelines established by department management, the total overpayment recovery amount on the report must be within 5% of the Edison amount.

Condition

As of June 7, 2018, the department submitted each of the three populations for data validation for fiscal year 2018. However, because GUS could not produce reliable electronic files, none of these populations passed data validation. Additionally, on November 8, 2018, the company which developed GUS, Geographic Solutions Inc., notified the department that it had discovered an issue in GUS and recommended that the department resubmit the ETA 227 reports. Without reliable 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 with Line 302: *Recovered – Total* on the ETA 227 report. Based on our review of the ETA 227 reports for each quarter of fiscal year 2018, we found significant discrepancies between the reported amounts and those recorded in Edison for the UI, UCFE/UCX, and EB programs. Although the total reported amounts and amounts recorded in Edison for the quarters ending September 30, 2017; March 31, 2018; and June 30, 2018, were within the department's internal guideline of 5%, the amounts for the individual programs (UI, UCFE/UCX, and EB) across all four quarters varied by as much as 282%; see **Table 1** below.

Table 1
Overpayment Recoveries Comparison
Fiscal Year 2018

	Benefits Category	Reported Amount	Edison Amount	\$ Difference	% Difference
Quarter 1	UI	\$415,848	\$429,177	\$(13,269)	-3.2% ●
	UCFE/UCX	\$1,995	\$7,617	\$(5,622)	-281.8% ■
	EB	\$20,020	\$17,620	\$2,400	12.0% ■
	Total	\$437,863	\$454,414	\$(16,551)	-3.8% ●
Quarter 2	UI	\$384,592	\$448,175	\$(63,583)	-16.5% ■
	UCFE/UCX	\$8,646	\$11,119	\$(2,473)	-28.6% ■
	EB	\$19,093	\$19,408	\$(315)	-1.7% ●
	Total	\$412,331	\$478,702	\$(66,371)	-16.1% ■
Quarter 3	UI	\$2,274,507	\$2,271,314	\$3,193	0.1% ●
	UCFE/UCX	\$20,175	\$34,852	\$(14,677)	-72.8% ■
	EB	\$58,231	\$57,226	\$1,005	1.7% ●
	Total	\$2,352,913	\$2,363,393	\$(10,480)	-0.5% ●

	Benefits Category	Reported Amount	Edison Amount	\$ Difference	% Difference
Quarter 4	UI	\$1,427,372	\$1,435,117	\$7,745	-0.5% ●
	UCFE/UCX	\$13,499	\$17,526	\$(4,027)	-29.8% ■
	EB	\$54,098	\$51,222	\$2,876	5.3% ■
	Total	\$1,494,969	\$1,503,865	\$(8,896)	-0.6% ●

● Within acceptable limits ■ Outside acceptable limits

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.

Criteria

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.

Cause

According to the department’s Director of UI Integrity, technical difficulties with GUS prevented the department from submitting populations of overpayments which could pass data validation and accurate ETA 227 reports. He stated that Geographic Solutions and the department are continually working together on the ETA 227 report, and that resolving the reporting errors remains a high priority.

The Director of UI Integrity stated that the quarter ending December 31, 2017, did not meet the department’s new 5% guideline because the department did not implement this procedure until the quarter ending March 31, 2018.

Given the problems identified during our fieldwork, we also reviewed the department’s December 2017 Financial Integrity Act Risk Assessment. Management identified data review as a control that reduced the risk of inaccurate reporting but did not address the risk of reporting errors 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. 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 able to pass data validation;
2. ensure that future ETA 227 reports are accurate;
3. compare the reported unemployment insurance amounts for each program (UI, UCFE/UCX, EB) with Edison entries; and
4. update its risk assessment on an ongoing basis to address known risks, including those associated with GUS.

Management’s Comment

We concur.

The department has had problems with the ETA-227 report and with data validation, since GUS was implemented in May of 2016. Tennessee staff has worked with Geographic Solutions staff, since that time, to correct outstanding problems with the report. In order to produce and submit the report, department staff along with Geographic Solutions staff developed a query of the data in the GUS system, which would produce much more accurate information than the on-demand report feature in the GUS system. While the information produced is more accurate, it often takes department staff members multiple days to review the raw data and extract the correct information to put into the report. Once the report is completed, the next step is to enter the report into the Sun System, where edit checks are completed prior to submission. These edit checks would often result in upwards of 30-40 errors, which would cost the department additional staff time to go back through the data and correct the errors. Each quarter when this report was to be submitted, it took three department staff working multiple days to submit the report. After a rewrite of the overpayments module was completed and launched in July 2018, it was determined that the previous reports the department had submitted were not correct. At that time department staff communicated with USDOL for guidance on resubmitting the reports. The report submitted for the third quarter of 2018 is believed to be correct and was submitted using the on-demand report generated by the GUS system.

While it is believed that the ETA 227 report is now working properly, issues remain with validating the data. A service ticket with critical priority that was entered many months ago remains open and work continues on both sides to resolve these ongoing problems.

Finding Number	2018-036
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-26421-14-60-A-47, UI-26375-14-60-A-47, UI-27885-16-55-A-47, UI-27930-15-55-A-47, UI-31319-18-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-31622-18-60-A-47, UI-31370-18-55-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2014 through 2018
Finding Type	Significant Deficiency
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2017-053
Pass-Through Entity	N/A
Questioned Costs	N/A

For the second year, the Department of Labor and Workforce Development did not send benefit overpayment statements via postal or electronic mail, contributing to a 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.

In our prior audit, we reported that management ceased sending benefit overpayment statements, which notify debtors of overpayment balances and payment instructions, via postal mail and email. Instead, management sent these statements exclusively via an online messaging feature in the department's UI application website. Our prior finding explained that staff mail debtors overpayment determination letters only when the overpayment is first established; therefore, the one-time letter is not an effective tool to collect overpayments from claimants with long outstanding balances. Furthermore, claimants could only access these statements if they had registered with the website and knew how to check messages. We observed that the department's fiscal year 2017 overpayment debt recoveries declined by 58% from the prior year.

Condition

During fiscal year 2018, management again did not mail or email debtors their monthly benefit overpayment statements. In fiscal year 2018, the department's overpayment debt recoveries

received from debtors in response to monthly statements was 8% of the beginning balance of overpayments, a decrease from 13% of the beginning balance of overpayments in fiscal year 2016 (the last year the department mailed and emailed statements). See **Table 1**.

Table 1
Overpayment Collections by Year
Fiscal Year (FY) 2016–2018

	FY 2016	FY 2017	FY 2018
Overpayment balance at beginning of year	\$31,886,777	\$24,259,682	\$19,492,182
Statement recoveries	\$4,066,320	\$1,179,919	\$1,608,189
% of balance collected	13%	5%	8%

Based on discussion with the Director of UI Recovery and a review of the change orders filed with the vendor responsible for the UI information system, the department resumed sending monthly benefit overpayment statements to claimants in November 2018.

Criteria

The U.S. Government Accountability Office’s *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards and is considered best practice for non-federal entities. According to Principle 15, “Communication with External Parties,” of the Green Book,

15.03 Management communicates quality information externally through reporting lines so that external parties can help the entity achieve its objectives and address related risks. Management includes in these communications information relating to the entity’s events and activities that impact the internal control system.

15.08 Based on consideration of the factors, management selects appropriate methods of communication, such as a written document—in hard copy or electronic format—or a face-to-face meeting. Management periodically evaluates the entity’s methods of communication so that the organization has the appropriate tools to communicate quality information throughout and outside of the entity on a timely basis.

Cause

Based on discussion with the Director of UI Recovery, management discontinued the mailed and emailed monthly statements after the department launched its new UI information system in May 2016. The new system initially did not correctly apply monthly interest charges to fraudulent overpayments. Management decided to discontinue mailed monthly statements to avoid confusing or misinforming claimants about their overpayment balances. The new system did not allow management to separately identify the affected claimants.

In January 2018, the system vendor applied correct monthly interest charges to fraudulent overpayments. In February 2018, the Director of UI Recovery filed a change order with the vendor to restore statement mailing and add new functionality to turn statements off for specific debtors, such as bankrupted claimants. After multiple iterations of development and testing, the system vendor completed the change order in November 2018.

Effect

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 continue to take all reasonable steps to notify claimants 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.

Errors in overpayment balances resulting from conversion issues, as well as problems in the GUS system in calculating interest on fraud overpayments, led to the department's decision to stop sending balance statements to overpaid claimants. This decision was made to prevent sending incorrect balances to overpaid claimants, which could have resulted in over or under collection. Since these errors only impacted fraudulent overpayments, prior to making the decision to stop sending statements, we enquired with the GUS vendor as to the possibility of stopping only the fraud statements, but were told that was not possible.

Correcting the incorrect balances had to be done manually by department staff and took several months to complete. Once completed, we requested that the vendor resume sending statements through mail and e-mail. This process resumed in November of 2018.

Finding Number	2018-037
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-26421-14-60-A-47, UI-26375-14-60-A-47, UI-27885-16-55-A-47, UI-27930-15-55-A-47, UI-31319-18-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-31622-18-60-A-47, UI-31370-18-55-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures
Federal Award Year	2014 through 2018
Finding Type	Other
Compliance Requirement	Special Tests and Provisions
Repeat Finding	2017-055
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior three 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 benefits to eligible individuals only. 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 30% or 50%, composed of a federally mandated penalty of 15% and an additional state penalty of 15% (for the first instance of overpaid benefits) or 35% (for the second and each subsequent instance of overpaid benefits). 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. Section 50-7-715(b)(2)(C) requires the department to use state penalties collected to defray the costs of deterring, detecting, and collecting overpayments.

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 three 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 50 of the 2,176 benefit overpayments that were established due to claimant fraud in fiscal year 2018. In total, our testwork encompassed \$84,041 of the \$3,668,935 fraudulent overpayments. The department used the Treasury Offset Program in its collection of two of the overpayments we selected for testwork. The two payments totaled \$2,156 in overpayments, with \$485 in penalties. 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 Director of UI Recovery, 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. On September 21, 2018, the department contacted the USDOL's Office of the Inspector General seeking assistance resolving the conflict. As of January 15, 2019, however, the Office of the Inspector General had not responded to the department's request.

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.

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.

The department is prohibited by *Internal Revenue Code* from providing the detailed federal tax information to the auditors. We also concur that USDOL and IRS need to work together to develop a resolution.

By the end of May 2019, we will communicate this situation again with the USDOL.

Finding Number	2018-038
CFDA Number	17.258, 17.259, and 17.278
Program Name	WIOA Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	AA-25381-14-55-A-47, AA-26807-15-55-A-47, AA-28344-16-55-A-47, AA-30740-17-55-A-47
Federal Award Year	2014 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Workforce Services Division management did not establish written policies to ensure that American Job Center case workers obtained proper support for eligibility decisions or promptly exited participants from the Adult, Dislocated Worker, and Youth programs

Background

The Workforce Innovation and Opportunity Act (WIOA) cluster consists of three core programs: Adult, Dislocated Worker, and Youth. The programs assist participants by providing access to employment, education, training, and support services to succeed in the labor market. The U.S. Department of Labor (USDOL) awards funding through formula grants to the Workforce Services Division within the Tennessee Department of Labor and Workforce Development to administer WIOA's programs.

The division awarded grants to 13 subrecipients who either contracted or directly staffed American Job Centers (AJCs).⁵⁹ Case workers at the AJCs are responsible for determining participants' eligibility and exit⁶⁰ from the Adult, Dislocated Worker, or Youth programs. The case workers must document their conclusions by collecting and verifying information required by federal regulations in Virtual One-Stop (VOS), the division's case management system.

Condition and Effect

Based on discussion with the Workforce Services Development Director and review of guidance available on the division's website, we determined that division management did not provide guidance that required AJC case workers to obtain adequate documentation, such as a copy of government-issued identification to verify citizenship requirements, to include in participants'

⁵⁹ American Job Centers are physical locations in a subrecipient's area where the public may visit to determine if they are eligible and, if so, receive WIOA services.

⁶⁰ On the 90th day after a participant last received services from the Adult, Dislocated Worker, or Youth programs, the AJC case worker should identify in the participant's case file that they are ineligible to receive further program services, known as an exit. The exit should be retroactively applied to the date the participant last received services.

case files. Without such documentation, case workers did not provide enough support for their eligibility or exit determinations for the Adult, Dislocated Worker, and Youth programs.

We selected a nonstatistical, random sample of 60 participants from a total population of 15,136 participants who received services from the core programs between July 1, 2017, through June 30, 2018. We tested these participants for compliance with federal eligibility regulations and found the following:

- A. For 16 of 60 participants tested (27%), case workers did not adequately document participants' eligibility for WIOA services. For these 16 participants, case workers did not
- document in the case files that training for 13 Adult and Dislocated Worker program participants would result in those individuals obtaining work in the local areas and economic self-sufficiency;
 - obtain evidence that 1 Dislocated Worker program participant lost their business as a result of local economic conditions;
 - obtain proof of 1 Youth program participant's low-income status; or
 - obtain government-issued identification as proof of age and citizenship for 1 Adult program participant.

There is an increased risk that ineligible participants will improperly receive Adult, Dislocated Worker, and Youth program services when case workers do not thoroughly document eligibility determinations. If so, the division will have fewer resources to provide services to eligible participants.

- B. For 18 of 60 participants tested (30%), case workers exited participants an average of 226 days late.

When case workers do not promptly exit participants, fewer resources may be available to other eligible participants. In such instances, case workers continue to commit resources to these participants reducing the total available resources for all eligible participants. Additionally, the department may report inaccurate information to USDOL, which relies on these reports to determine the effectiveness of WIOA's programmatic goals.

AJC case workers should have enough documentation to support their compliance with eligibility and exit determination requirements. The level of supporting documentation should allow external parties to evaluate whether these determinations were conducted properly.

Given the problems identified during our fieldwork, we also reviewed the department's December 2017 Financial Integrity Act Risk Assessment. We determined that management identified the risks of inadequate policies, inadequate documentation for participant eligibility determinations, and improper participant exits in its risk assessment. Although department management identified compensating controls for these risks, our testwork revealed that the controls management were not sufficient.

Criteria

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards and is considered best practice for nonfederal entities. Green Book Principle 12.05, "Periodic Review of Control Activities," states,

Management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks. If there is a significant change in an entity's process, management reviews this process in a timely manner after the change to determine that the control activities are designed and implemented appropriately. Changes may occur in personnel, operational processes, or information technology. Regulators [and] legislators . . . may also change either an entity's objectives or how an entity is to achieve an objective. Management considers these changes in its periodic review.

Title 20, *Code of Federal Regulations* (CFR), Chapter 680, Section 210, states that, following an initial evaluation, an AJC case worker can offer training services to Adult and Dislocated Worker participants who, without this training, have challenges finding and keeping an economically self-sufficient job or a job with better wages. Additionally, the participants must have skills and qualifications to participate successfully in the training; must choose career paths that are in demand in their area; or must be willing to relocate or commute to another area where that career is in greater demand.

Pursuant to Title 29, *United States Code* (USC), Chapter 32, Section 3102(15)(C), a dislocated worker may be an individual "who was self-employed (including employment as a farmer, a rancher, or a fisherman) but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters."

According to 20 CFR 681.210(c)(9), the programs may provide training services to an applicant if he or she is "a low-income individual who requires additional assistance to enter or complete an educational program or to secure or hold employment."

29 USC 32.3248 states that WIOA services "shall be available to citizens and nationals of the United States, lawfully admitted permanent resident aliens, refugees, asylees, and parolees, and other immigrants authorized by the Attorney General to work in the United States."

According to USDOL's Training and Employment Guidance Letter 10-16, Change 1, an AJC case worker should determine a participant's exit date 90 calendar days after the last date services are provided when no further services are planned. The exit date should be retroactively applied to the last date a participant received services.

Cause

According to the Workforce Services Development Director, federal regulations do not explicitly state what types of supporting documentation should be obtained and reviewed to determine a participant's eligibility. Therefore, the division did not specify this information in its policies; it notified AJCs of the federal requirements but did not include any further requirements or guidance.

Based on our discussion with the Director and our review of departmental guidance regarding exits, VOS automatically exits a participant 90 calendar days after the case worker records the date of the participant's last planned services in VOS. Case workers often project the date of participants' last planned services when these services are initially offered to participants. As a result, exits often occur 90 calendar days after the projected dates, which does not reflect the actual last date for received services.

Recommendation

Management in the Workforce Services Division should provide further guidance to subrecipients to ensure case workers support eligibility determinations with adequate documentation. Management should also provide additional guidance to ensure case workers record exit dates based on participants' actual last dates for receiving services.

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 act if deficiencies occur.

Management's Comment

We concur in part.

In regards to proper support documentation, Workforce Services has maintained continuous contact with the USDOL Regional Office to ensure compliance. Our latest communication received from the region is that federal requirements for data validation and source documentation will be provided during the summer of 2019. After receipt of this guidance, Workforce Services will be developing and issuing guidance to further clarify requirements and assist American Job Center (AJC) case workers obtaining adequate documentation. In the interim Workforce Services continues to provide training to the Local Workforce Development Boards (LWDBs) on the various types of documentation that would be needed to support eligibility, as well as case management. The most recent training was the Systems Training on November 6, 2018, expanding upon best practices for determining eligibility.

Consistent with 20 CFR 680.216, a guidance titled "*American Job Center Initial Assessment Guidance*" was issued in May 2017 to the LWDBs detailing how the Initial Assessment Process is conducted utilizing current local labor market conditions with the tools and resources available through Jobs4TN. This Assessment Process allows the case manager to analyze the participant's occupational goal to determine whether it is favorable or unfavorable in the labor market and, if unfavorable, offer career development services.

In addition to the Initial Assessment Process, beginning on February 1, 2019, the Workforce Services Division has also implemented an additional tool within the Jobs4TN system that directs the case manager to verify six (6) different conditions have been considered prior to training activities. Examples include self-sufficiency, training being linked to employment opportunities

within the local area, and comparable wages. Technical assistance for this option has been provided through a webinar for all local areas in January of 2019.

The Jobs4TN system automatically exits participants after ninety (90) days without activity. Due to the nature of certain participant training schedules, AJC case managers make informed decisions of the projected end dates for specific activities that do have an impact on the time of exit. During participant training, case managers make every effort and reasonable attempt to keep in contact with participants, to avoid system generated exits. Workforce Services is developing additional guidance clarifying the process AJC case managers should use to determine when a participant has withdrawn from the program. This process will include steps to be taken to exhaust all efforts to reach the respective individuals.

Workforce Services also has a drafted policy, which is currently pending State Board approval, regarding common exits, to provide further guidance clarifying the process on how and when to use a projected end date to extend participation.

Finding Number	2018-039
CFDA Number	17.258, 17.259, and 17.278
Program Name	WIOA Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	AA-25381-14-55-A-47, AA-26807-15-55-A-47, AA-28344-16-55-A-47, AA-30740-17-55-A-47
Federal Award Year	2014 through 2018
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Workforce Services Division lacks written procedures for key Workforce Innovation and Opportunity Act expenditure controls

Background

The Workforce Innovation and Opportunity Act (WIOA) cluster consists of three core programs: Adult, Dislocated Worker, and Youth. Using a variety of methods, states provide employment and training services for adults, youth, and dislocated workers through a network of American Job Centers. In Tennessee, the Workforce Services Division within the Department of Labor and Workforce Development is responsible for administering the federal WIOA grant programs.

Condition

Workforce Services Division management has not developed formal written procedures governing the review and approval processes for WIOA program expenditures. Formal written procedures to ensure the allowability of program costs are a federal requirement. We determined that Workforce Services Division management was responsible for reviewing and approving divisional expenditures, such as payroll and travel claims, and the division's grants analysts review and approve monthly subrecipients' requests for WIOA funds. Since the program is primarily designed to provide funds to subrecipients, the review and approval processes are critical controls to ensure only allowable costs are approved.

Given the WIOA problems identified during our fieldwork, we also reviewed the department's December 2017 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 not documented in written procedures.

Criteria

According to Title 2, *Code of Federal Regulations*, Part 200, Section 302(b), the division's financial management system must include written procedures for determining the allowability of costs.

Cause

The Administrator of the Workforce Services Division stated that division staff knew the correct steps to review and approve divisional and subrecipient expenditures, but the process was not documented in writing. The Administrator added that she felt referencing the federal guidelines for allowability in the division's policies was sufficient to explain the review process for determining allowability. However, because the federal guidelines do not detail the responsibility for the review and approval of expenditures, simply referencing those guidelines is insufficient.

Effect

Without written procedures, management is in violation of federal regulations and increases the risk that management and staff will not prevent or detect unallowable costs within the program and will pass those costs to the federal grantor. In addition, written procedures provide upper management with the tool to achieve continuity of program operations when experienced staff leave state employment.

Recommendation

The Commissioner should ensure that Workforce Services Division management immediately establish written procedures as required by federal regulations. In addition, top management should ensure that the division's controls are implemented and effectively operating to reasonably ensure compliance with the federal allowable cost requirements.

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 act if deficiencies occur.

Management's Comment

We concur in part.

Workforce Services (WFS) has established written policies and/or guidance to support expenditure controls including: Allowable and Unallowable Costs, Cost Classifications, and Correcting Disallowed Costs. To support respective policy/guidance at the subrecipient level, Workforce Services provides monitoring through the Program Accountability Review Team (PAR) utilizing the *Subrecipient Monitoring Guide*, which is approved by the Department of General Services. The policy explains the criteria to consider an expense allowable or disallowable, in addition to establishing necessary and reasonable criteria. This policy also provides instances where state employees, subgrantee employees, and service providers must adhere to this and other respective WFS policies. Cost classification provides guidance on the proper classification of costs to the federally funded programs. Correcting disallowed costs guidance is utilized as a safeguard for correcting questioned/disallowed costs, as a result of a monitoring and/or desktop reviews and to ensure that disallowed costs are not passed on to the federal grantor. Disallowed costs determined

in a PAR review are corrected during the Corrective Action Plan, which follows the monitoring review as evidenced by supplied documents during the audit.

As WFS management is responsible for reviewing and approving divisional expenditures, these are governed by other state policies by respective expense category/agency: employee salaries and benefits are governed by Tennessee Department of Human Resources, travel is governed by Tennessee Department of Finance and Administration's *Comprehensive Travel Regulations*, and procurement is governed by Tennessee Department of General Services' Central Procurement policy. The procedures for review and approval process to determine allowable costs at the subrecipient level is carried out by Grants and Budget Unit's staff; however, this was not formally documented in a written procedure at the time of the Single Audit. The procedure included review of supporting documentation (i.e., general ledgers, etc.) and additional items requested as they relate to the aforementioned policy and guidances regarding allowability.

Workforce Services' 2018 Financial Integrity Risk Assessment has been updated to address the risk of disallowed costs and assess potential oversight regarding allowability. Workforce Services also continually assesses risk throughout the division and has updated the assessment to include the risk of processes going undocumented in written procedures. As a result of this assessment, the Workforce Services Compliance, Policy, and Evaluation Unit has worked with the Grants and Budget Unit to establish the written standard operating procedures to ensure that upper management has a tool to achieve continuity of program operations, as well as program and fiscal integrity. In addition to the actions outlined above, WFS staff also conducts technical assistance visits, as well as onsite programmatic and fiscal reviews of subrecipients, on an as needed or required basis to ensure proper controls are in compliance.

Finding Number	2018-040
CFDA Number	17.258, 17.259, and 17.278
Program Name	WIOA Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	AA-28344-16-55-A-47, AA-30740-17-55-A-47
Federal Award Year	2016 through 2017
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Matching, Level of Effort, and Earmarking (Significant Deficiency) Reporting (Significant Deficiency and Noncompliance)
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Workforce Services Division did not establish adequate internal controls over earmarking and reporting and submitted inaccurate financial reports to the U.S. Department of Labor

Background

The Workforce Innovation and Opportunity Act (WIOA) cluster consists of three core programs: Adult, Dislocated Worker, and Youth. The U.S. Department of Labor (USDOL) awards WIOA funds to the Tennessee Department of Labor and Workforce Development (the department), and the department's Workforce Services Division (the division) awards grants to subrecipients to carry out program activities throughout the state.

USDOL requires state agencies, including the department, to create and submit certain financial reports. For the WIOA programs, the department must submit quarterly Employment Training Administration (ETA)-9130 reports, which provide information on program expenditures for each federal grant award. There are six ETA-9130 reports applicable to the three core WIOA programs, each pertaining to a specific funding stream with specific reporting instructions: Statewide Adult, Statewide Youth, Statewide Dislocated Worker, Local Adult, Local Youth, and Local Dislocated Worker.

The Career Specialist prepares the ETA-9130 reports based on information from Smartlink, the federal system used to draw down grant funds; an expenditures workbook maintained by the Fiscal Division⁶¹ with amounts from subrecipients' monthly expenditure reports; and Edison, the state's accounting system. Once prepared, the Career Specialist provides draft versions of the reports to Workforce Services Division management. After division management review and approve the reports, the department's Fiscal Division submits them to USDOL.

⁶¹ 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.

According to Title 29, *United States Code* (USC), Section 3173, grant funds spent on incumbent worker training must not exceed 20% of the total of funds allocated to the Adult and Dislocated Worker programs. To ensure subrecipients comply with this earmarking requirement, division management must include the cumulative incumbent worker training and total program expenditure amounts on separate lines of the ETA-9130 reports. Each subrecipient includes the amount of incumbent worker training in their monthly expenditure reports.

Condition and Cause

We reviewed the ETA-9130 reports from our audit period, July 1, 2017, through June 30, 2018, and found that division staff did not report incumbent worker training expenditures on line 11g of the ETA-9130, even though subrecipients reported \$387,997 in incumbent worker training expenditures on their monthly expenditure reports. The Career Specialist did not identify the incumbent worker training expenditures when preparing the report because she used the Fiscal Division's expenditures workbook, which does not report incumbent worker training separately from total expenditures. Similarly, division management did not identify the error in its review because it also relied on the Fiscal Division's expenditures workbook.

Additionally, management lacked any controls to ensure the amounts expended for incumbent worker training did not exceed the percentage established by federal law. Instead, division management relied solely on the reports compiled by the Career Specialist to ensure compliance with earmarking; however, these reports were inaccurate.

Given the problems identified during our fieldwork, we also reviewed the department's December 2017 Financial Integrity Act Risk Assessment. Although management identified the risk of inaccurate reporting, it did not identify the risk of noncompliance with the earmarking requirement for incumbent worker training. Management's controls for reporting were ineffective and did not address the earmarking risk.

Criteria

According to the ETA-9130 instructions for the Adult and Dislocated Worker programs, the report must include the cumulative amount of expenditures charged to the Adult or Local Dislocated Worker subaccounts for incumbent worker training costs. The amount reported should represent the total accrued incumbent work training contract expenditures for all subrecipients. This amount must also be included in line 10e, Federal Share of Expenditures, of the ETA-9130 report.

According to Title 29, USC, Section 3173, grant funds spent on incumbent worker training must not exceed 20% of the total of funds allocated to the Adult and Dislocated Worker programs.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards for the federal government and is considered best practice for non-federal entities. Green Book Principle 12.03, "Documentation of Responsibilities Through Policies," states that management must determine the policies necessary to operate based on the objectives and related risks for the unit and must document the policy in the appropriate level of detail to allow management to effectively monitor the control activity.

Effect

Without establishing earmarking controls and implementing effective reporting controls, neither the department nor USDOL can properly track whether subrecipients have exceeded their allotted incumbent worker training maximums. Additionally, the department may risk losing federal funds or other penalties as a result of failing to report accurate financial data.

Recommendation

The Commissioner and the Administrator for the Workforce Services Division should ensure that controls are developed to monitor the incumbent worker training earmarking requirements. Additionally, the Administrator should implement better controls so that division management will take the necessary steps to ensure accuracy of all required data for the ETA-9130 report before submitting it to the Fiscal Division.

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 act if deficiencies occur.

Management's Comment

We concur.

The finding is correct in that the incumbent worker training (IWT) expenditure requirement had not been properly earmarked to ensure thresholds were adequately maintained. IWT expenditures are reported monthly and tracked in the current grants management system. Workforce Services Division staff conducted a quarterly review and reconciliation of the grants management system expenditures to the draft 9130 reports prepared by Fiscal Division staff. Subsequent to significant turnover in staff, this reconciliation practice was interrupted. To remedy this issue, staff has received training on tracking and reporting of IWT expenditures. The Workforce Services Division budget allocations and local area expenditures reports have been modified to earmark and track the 20 percent expenditure threshold. Workforce Services has also established written standard operating procedures to ensure compliance with the applicable requirement is maintained and the Fiscal Division will track reported IWT expenditures via the Monthly Expenditure Report independent of the Workforce Services Division.

Finding Number	2018-041
CFDA Number	17.225, 17.258, 17.259, and 17.278
Program Name	Unemployment Insurance Workforce Innovation and Opportunity Act
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Federal Award Identification Number	UI-26421-14-60-A-47, UI-26375-14-60-A-47, UI-27885-16-55-A-47, UI-27930-15-55-A-47, UI-31319-18-55-A-47, UI-29869-17-55-A-47, UI-30246-17-60-A-47, UI-28004-16-55-A-47, UI-28159-16-60-A-47, UI-29924-17-55-A-47, UI-31622-18-60-A-47, UI-31370-18-55-A-47, FAC Benefits & UI Admin, EUC, Fed EB, UCFE, and UCX, and TUC-State Expenditures, AA-25381-14-55-A-47, AA-26807-15-55-A-47, AA-28344-16-55-A-47, AA-30740-17-55-A-47
Federal Award Year	2014 through 2018
Finding Type	Significant Deficiency
Compliance Requirement	Eligibility (17.225) Other
Repeat Finding	2017-056
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Labor and Workforce Development did not provide adequate internal controls in two specific areas

The Department of Labor and Workforce Development did not provide adequate internal controls in two specific areas related to eight of the department's systems. For one of these areas, we are reporting internal control deficiencies that were repeated from the prior audit because corrective action was not sufficient. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

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

Management's Comment

Department of Labor and Workforce Development

We concur.

The department delivered a confidential response.

Division of Strategic Technology Solutions

We concur. STS is working with the Department of Labor and Workforce Development, and other Executive Branch agencies that fall under the Enterprise IT Transformation, to ensure adherence to revised procedures that will address the identified control weakness.

Finding Number	2018-042
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Federal Award	
Identification Number	Various
Federal Award Year	Various
Finding Type	Noncompliance
Compliance Requirement	Special Test and Provisions
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Construction Division management did not ensure staff complied with established policies and procedures designed to ensure contractors submit certified payrolls timely, to ensure all relevant documentation is maintained, and to withhold contractors' payments until payrolls are submitted

Background and Criteria

The Davis-Bacon Act requires laborers and mechanics employed by contractors or subcontractors on federal contracts to be paid no less than the prevailing wage rate that the U.S. Department of Labor has established for that locale. In order to ensure that contractors and subcontractors are paying workers the applicable prevailing wage rate, federal regulations stipulate that contractors and subcontractors must submit weekly certified payrolls to the Department of Transportation (the department). According to Title 29, *Code of Federal Regulations* (CFR), Section 3.4,

Each weekly statement . . . shall be delivered by the contractor or subcontractor, within seven days after the regular payment date of the payroll period, to a representative of a Federal or State agency in charge at the site of the building or work, or, if there is no representative of a Federal or State agency at the site of the building or work, the statement shall be mailed by the contractor or subcontractor, within such time, to a Federal or State agency contracting for or financing the building or work.

To prevent and detect noncompliance with this federal regulation, the department's Construction Division has implemented Policy No. 301-02, "Davis-Bacon Act and Contractor Payrolls." which specifies, "All certified payrolls (paper or electronic) shall be submitted to the District Operations Supervisor weekly for the previous week in which any contract work is performed. If payrolls are not submitted, progress payments shall be withheld. Payrolls are to be submitted and verified as stated in Departmental Guidance."

Along with Policy 301-02, the department has implemented Circular 1273-02, which details how payrolls are completed and submitted. This circular letter states, "For electronic payrolls, once reviewed for formatting as stated below, the Project Supervisor (or designee) will create a sub

folder labeled with the payroll ending date (Ex: 01/01/01) under the File Management folder labeled 'Payrolls' and save all the payrolls and email sent by the Prime Contractor for each ending date. It will not be necessary to maintain a printed copy in the project records."

Individual construction offices associated with the department's regional headquarters in Knoxville, Chattanooga, Nashville, and Jackson oversee compliance with Davis-Bacon and related acts by documenting receipt of the certified payrolls and verifying the accuracy of the wage scale rates contained therein.

We obtained and analyzed a list of construction contract expenditures for fiscal year 2018, and we ascertained that the expenditures were from 66 unique contracts. We then determined that we would test 2 certified payrolls for each of the 66 contracts.⁶² For each contract, we obtained all certified payrolls submitted for the period July 1, 2017, through June 30, 2018, and tested 127 payroll periods from our haphazard sample.

Condition and Cause

Our testwork revealed that for 58 of the 127 certified payrolls tested (46%), the department did not ensure compliance with federal and state wage rate requirements as noted below:

- For 26 certified payroll periods tested, regional staff did not ensure the contractor complied with the 7-day submission deadline. These payrolls were from 1 to 59 days late. In addition, the department did not withhold progress payments for 3 of the contractors who submitted certified payrolls late.
- For 32 certified payrolls tested, regional staff did not adequately document and/or maintain records to verify when the payrolls were received according to their policies and procedures; therefore, we could not determine if these certified payrolls were received within 7 days.

The errors noted above are documented by region in **Table 1** below:

⁶² Our population consisted of payroll periods for the 66 contracts. Based on a weekly payroll period, an approximate number of 3,432 payroll periods could result (66 contracts x 52 weeks); however, due to factors like weather, holidays, time of completion, and other variables, our population is likely lower than the 3,432 possible payrolls.

Table 1
Certified Payroll Errors by Region

	Region 1	Region 2	Region 3	Region 4	Total
Number of Certified Payrolls Tested	41	18	30	38	127
Number of Payrolls Late	9	4	7	6	26
Range of Days Late	4 to 59	1 to 5	1 to 39	2 to 13	
Payments Not Withheld ⁶³	2	-	1	-	
Receipt of Payroll Not Documented	10	2	6	14	32

Based on inquiry with regional management personnel, we determined that the primary reasons for the errors noted above included lack of contractor oversight, contractors not making timely submissions, or department staff lacking training and understanding of policies and procedures. Specifically, staff either did not understand or were unaware of the policies and procedures requiring that documents be maintained.

Effect

Because Construction Division management did not always maintain or document the date the contractors and subcontractors submitted the certified payrolls, they were unable to ensure compliance with 29 CFR 3.4, including withholding contractors' payments until all required certified payrolls are submitted. Additionally, by failing to ensure contractors and subcontractors submit certified payrolls in compliance with federal regulations, division management and staff increase the risk that they will fail to timely detect workers not receiving the prevailing wage rates.

Recommendation

Construction Division management should ensure that staff are properly trained on policies and procedures for maintaining documentation of communication with all contractors and subcontractors and for withholding payments until contractors or subcontractors submit certified payrolls as required. Additionally, division management should ensure that all contractors and subcontractors understand the contract requirement to submit certified payrolls within seven days of the payroll ending period.

Management's Comment

We concur. Circular Letter 1273-02 will be revised to include when payrolls are not submitted on time, the Project Supervisor (or designee) will notify the Prime Contractor in writing that the payroll is late and ask for a written response acknowledging that the contractors' payment will be withheld until payrolls are submitted. That response will be saved in the payroll file for that month in an issue correspondence folder. In addition, the Circular Letter reference to saving emails will

⁶³ For all other instances of late payments, the department withheld estimated payments until the contractor submitted the applicable payrolls.

be clarified. The Construction Division will discuss Davis-Bacon requirements yearly at the first quarterly Industry meeting at each Region.

Regional Business Development Managers are responsible for Regional training. Each Region will follow up with in-person training sessions with Supervisors and office staff. These sessions will be used to discuss Special Provision 1273, TDOT Policy No. 301-02, and Circular Letters 1273-02 and 1273-02.01 in detail. Record-keeping best practices will again be discussed. As staffing changes, Regional Business Development Managers will review with Project Supervisors and designees the importance of ensuring policy and procedures are adhered to and steps are taken to achieve compliance with the required process. A copy of the Regional training dates will be kept for the Department records. The employee sign-in sheet will also be saved.

The Construction Division will continue to review existing policy and make any amendments accordingly. In addition, the evaluation period has begun for the payroll component of AASHTOWare Civil Rights and labor. The evaluation period will consist of testing importing payrolls that will automatically date and time stamp when the payroll is entered into the system. A system to evaluate contractors on-site vs. payroll received is also being discussed as part of the AASHTOWare project task force.

Finding Number	2018-043
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Federal Award Identification Number	Various
Federal Award Year	Various
Finding Type	Significant Deficiency
Compliance Requirement	Other
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

The Department of Transportation did not provide adequate internal controls in two specific areas

The Department of Transportation did not design and monitor internal controls in two specific areas. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the office with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

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

Management's Comment

We concur. To address the identified control weaknesses, TDOT Divisions will work in partnership with other State agencies to ensure adherence to revised procedures and enforcement of policy requirements by holding accountable those who violate procedures that are in place.

Finding Number	2018-044	
CFDA Number	12.420; 47.041; 93.242; 93.846; and 93.847	
Program Name	Research and Development Cluster	
Federal Agency	Department of Defense	
	National Science Foundation	
	Department of Health and Human Services	
State Agency	University of Tennessee	
Grant/Contract No.	W81XWH-15-1-0023; 1041877; R01MH059839; R01AR064354; R00DK100736	
Federal Award Year	1999 through 2019	
Finding Type	Significant Deficiency and Noncompliance	
Compliance Requirement	Allowable Costs/Cost Principles	
Repeat Finding	N/A	
Pass-Through Entity	N/A	
Questioned Costs		
CFDA	Federal Award	Amount
	Identification Number	
93.846	R01AR064354	\$669.68

Principal investigators at the University of Tennessee at Knoxville and the University of Tennessee Health Science Center did not ensure that obligations charged to federal awards were allowable under federal research and development grants, resulting in federal questioned costs of \$669.68

Condition

The university requested and received reimbursement for unallowable costs at the time of payment. We tested 108 randomly selected transactions charged to federal research and development grants and contracts for the period July 1, 2017, through April 30, 2018. We found that five of the 108 transactions (4.6%) were unallowable. These unallowable costs were (1) a Guava easyCyte System purchased without obtaining prior approval from the grantor, (2) two Dell computers charged as direct costs without justification being included in the grant proposal, (3) sales taxes charged for purchase of supplies, and (4) payments made to a subrecipient for a subaward with the University of Kentucky without obtaining prior approval from the agency for the subaward.

The Guava easyCyte System was purchased under grant number R00DK100736 for \$26,300.00 at the University of Tennessee at Knoxville. A Dell computer was charged to grant number R01MH059839 at a cost of \$4,386.70 plus facilities and administrative charges of \$1,688.88 at the University of Tennessee Health Science Center. Another Dell computer was charged to Cooperative Agreement 1041877 at a cost of \$2,561.00 plus facilities and administrative charges of \$1,254.89 at the University of Tennessee at Knoxville. Sales tax was paid under grant number R01AR064354 on a purchase of supplies in the amount of \$446.45 plus facilities and administrative costs of \$223.23 at the University of Tennessee Health Science Center. Subrecipient payments were made to the University of Kentucky under contract number W81XWH-15-1-0023 in the amount of \$109,488.69 with associated facilities and administrative costs of \$12,500.00 at the University of Tennessee Health Science Center.

None of these costs were questioned with the exception of the \$446.45 of sales tax and associated facilities and administrative costs of \$223.23, as the university was able to obtain retroactive approval of these costs from the grantor or in the case of the Dell computers, statements from the principal investigators that the computers were essential to the project. However, likely questioned costs related to this condition, exceed \$25,000.

Criteria

Equipment

According to 2 CFR 200.439,

Capital expenditures for special purpose equipment are allowable as direct costs, provided that items with a unit cost of \$5,000 or more have the prior written approval of the Federal awarding agency or pass-through entity.

General Purpose Computer Supplies

According to 2 CFR 200.453,

In the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.

University policy states, “If these items are proposed as direct costs, acceptable justification will be required to be included in the proposal submitted to the sponsor. If not previously approved in the proposal budget by the sponsor, purchases made after award will require prior justification and approval from the designated pre or post award campus or institute office. . . .”. No justification or approval was obtained by the appropriate office prior to the purchases. Thus, there was no documentation prior to purchase that the cost of the computers were essential and allocable to the project.

Sales Tax

According to 2 CFR 200.470,

Taxes that a governmental unit is legally required to pay are allowable.

University policy states that “The university is exempt from federal excise taxes, state sales tax on tangible personal property, and other state taxes. Procurement should ensure that this is communicated to the vendor and if applicable, a copy of the university’s tax exemption certificate should be provided at the time of purchase to ensure that tax is not charged.” Sales tax was paid on supplies purchased under the federal award despite the university being exempt. Therefore, this cost is considered unallowable.

Subcontract

According to the terms and conditions for contract number W81XWH-15-1-0023,

Recipients shall request prior written approval from the USAMRAA Grants Officer for the subaward, transfer, or contracting out of any work not approved under the original award.

Cause

Departmental bookkeepers, principal investigators, and grant accountants did not comply with federal requirements and university policy and did not properly monitor charges to these research and development grants.

Effect

Charging unallowable costs to federal programs could result in penalties from the grantor or loss of subsequent grant awards.

Recommendation

Management should ensure that departmental bookkeepers, principal investigators, and grant accountants have the knowledge and expertise to monitor and account for federal grant and contract awards in accordance with award agreements, federal regulations, and university policy. Although the risks noted in this finding were identified and assessed in management's risk assessment activities, management should reassess the design, implementation, and monitoring of controls to prevent noncompliance.

Management's Comment

University of Tennessee, Knoxville (UTK)

The University of Tennessee, Knoxville (UTK) concurs that a Dell computer was purchased on a federal award without the prior approval required by the university's fiscal policy. We also concur that a piece of equipment was purchased on a federal award without the prior approval from the awarding agency as required by 2 CFR 200.439. UTK disagrees with the classification of these purchases as unallowable. UTK obtained after the fact approval from the sponsor for the equipment purchase and per the Expanded Authority Approval process for the purchase of the Dell computer.

University of Tennessee Health Science Center (UTHSC)

UTHSC concurs that a Dell computer was purchased on a federal award without the prior approval required by the university's fiscal policy. The department purchased a replacement computer, which was integral to the project. The department has provided an acceptable justification relating to the purchase.

UTHSC also concurs that payment was made on a subaward prior to receiving formal approval from the federal agency. This is a CDMRP funded subaward issued by UTHSC to St. Jude. When the St. Jude PI transferred to the University of Kentucky, we informed both the CDMRP program officer and the grants management specialist that we needed permission to issue a subaward to the University of Kentucky. Although there were initial conversations and requests for follow-up to

the CDMRP subsequent to the initial request, we were not given official permission to issue the subaward to the University of Kentucky prior to UTHSC being reimbursed for the expenditures on the subaward by the CDMRP.

UTHSC also concurs that sales tax was paid on a purchase of supplies.

Finding Number	2018-045
CFDA Number	12.300, 12.420, 43.002, 47.074, 93.853, and 93.855
Program Name	Research and Development Cluster
Federal Agency	Department of Defense National Aeronautics and Space Administration National Science Foundation Department of Health and Human Services
State Agency	University of Tennessee
Federal Award Identification Number	N00014-15-1-2269; W81XWH-16-1-0778; NNX17AJ95A; 1413990; R01NS094595; R01AI099080
Federal Award Year	2014 through 2022
Finding Type	Noncompliance
Compliance Requirement	Subrecipient Monitoring
Repeat Finding	N/A
Pass-Through Entity	N/A
Questioned Costs	N/A

Office of Sponsored Programs personnel at the University of Tennessee at Knoxville and the University of Tennessee Health Science Center and Research staff at the University of Tennessee Space Institute did not always ensure that subrecipient contracts included information required per federal regulations

Condition

We tested 40 randomly selected subrecipient agreements for research and development grants at the University of Tennessee. All required information was not included in six of the agreements. In two of the agreements, one at Knoxville and one at the Health Science Center, the subrecipient's unique entity identifier was not included. In two of the agreements, both at the Health Science Center, there was no requirement that the subrecipient permit the pass-through entity (the university) and auditors to have access to subrecipient records and financial statements. In two of the agreements, one at Knoxville and one at the University of Tennessee Space Institute, there was no requirement that the subrecipient permit auditors to have access to subrecipient records and financial statements. The requirement that the university would have access was included.

Criteria

The *Code of Federal Regulations*, Title 2, Part 200, Subpart D, paragraph 200.331(a), stated that the subaward must include the "subrecipient's unique entity identifier" and "a requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part...."

Cause

Per university files, the Offices of Sponsored Programs had obtained the subrecipients' DUNS numbers (considered the unique entity identifier) prior to award and saw no reason to include it in

the subaward agreement. The other requirement as to auditor and pass-through entity access to subrecipient records was excluded due to oversight.

Effect

Without the inclusion of the subrecipient's identifying number in the written subaward, there is no written representation by the subrecipient as to its correct identifying number, and this is required by federal regulations. Without guaranteed access to subrecipient financial records, the university and impacted auditors cannot perform their required monitoring and audit functions.

Recommendation

The Offices of Sponsored Programs at Knoxville and the Health Science Center and Research staff at the UT Space Institute should ensure that all subawards contain the above information, as required in the *Code of Federal Regulations*.

Management's Comment

University of Tennessee, Knoxville (UTK)

The University of Tennessee, Knoxville (UTK) concurs that the subaward agreement to Rutgers, Attachment 3B was not included in the UT copy which contained the DUNS number for Rutgers. We agree that a complete copy should have been filed in the university system. We have updated the copy in the UT records to include this completed attachment.

UTK does not concur that the subaward agreements to Texas A&M Engineering (UTSI) and Resources for the Future (Knoxville) did not ensure that subrecipient contracts included information required per federal regulations. The subaward agreements were created using the Federal Demonstration Partnership (FDP) form available at the time. The FDP, which includes ten federal agencies, is a cooperative initiative program whose purpose is to reduce administrative burdens associated with research grants and contracts. As part of their effort to reduce administrative burden, the FDP created subaward template forms used by over 400 universities.

FDP did not have an updated form on the website when the subaward was issued since they were making changes to all of their forms to reflect *Uniform Guidance*. The FDP subaward form version available at the time of the subaward referenced "OMB Circular A-133," which provided records access for the Prime Recipient (which we consider to include auditors working on our behalf as our authorized representatives) to audit information of our subrecipient. Additionally, Uniform Guidance incorporated A-133 as one of the circulars incorporated into the overall CFR document. The rights to audit remain the same as what A-133 allowed even though the Uniform Guidance used different phrasing. The 200.336 section of *Uniform Guidance* requires access of the records of non-federal entities to the Federal agency, Inspector General, the Comptroller General of the United States, and the pass-through entity or any of their authorized representatives.

University of Tennessee Health Science Center (UTHSC)

UTHSC concurs that the standard subcontract agreements contain the appropriate language to include the DUNS number in a standard attachment, but the attachment was not included in the final uploaded subaward.

UTHSC also concurs that the clause regarding access to subrecipient records was not included in two subawards.

The Offices of Sponsored Programs at Knoxville and the Health Science Center and Research staff at the UT Space Institute will add a review step to be sure that all subawards contain all required numbers and records access, as required in the *Code of Federal Regulations*.

Auditor's Comment

As to the use of Federal Demonstration Partnership (FDP) templates, the FDP website states, “the FDP makes no representation or warranties regarding the suitability of these templates for use on any federal or non-federal sponsored projects. The pass-through entity (PTE) is responsible for ensuring all required terms and conditions flow down to a subrecipient. All users utilize these templates at their own risk.” The university is correct that this was a time of transition, in that this was just after the *Uniform Guidance* was effective. However, at this time, the CFR citation referenced above was in effect. The subrecipient agreements in question should have included a requirement that the subrecipient permit auditors to have access to subrecipient records and financial statements.

Finding Number	2018-046
CFDA Number	10.553, 10.555, 10.556, 10.559, 10.558, 84.010, 84.027, 84.173, 84.048, and 84.367
Program Name	Child Nutrition Cluster Child and Adult Food Care Program Title I Grants to Local Educational Agencies Special Education Cluster Career and Technical Education – Basic Grants to States Supporting Effective Instruction
Federal Agency	Department of Agriculture Department of Education
State Agency	Department of Education Department of Human Services
Federal Award Identification Number	201616(15)N109945, 201717N109945, 201818(17)N109945, 201616(15)N109945, 201717N109945, 201818(17)N109945, 201717N109945, 201818(17)N109945, 165TN331N1099, 165TN331N2020, 165TN340N1050, 175TN331N1099, 175TN331N2020, 175TN340N1050, 185TN331N1099, 185TN331N2020, 185TN340N1050, 185TN331N2020, 175TN331N1099, 185TN331N1099, 185TN332L4003S010A120042, S010A130042, S010A140042, S010A150042, S010A160042, S010A170042, H027A100052, H027A130167, H027A140052, H027A150052, H027A160052, H027A170052, V048A130042, V048A140042, V048A150042, V048A160042, V048A170042, H173A150095, H173A160095, H173A170095, S367A130040, S367A140040, S367A150040, S367A160040, and S367A170040
Federal Award Year	2012 through 2018
Finding Type	Significant Deficiency (84.010, 84.027, 84.173, 84.048, and 84.367) Material Weakness (10.553, 10.555, 10.556, 10.559, and 10.558)
Compliance Requirement	Activities Allowed or Unallowed (Significant Deficiency – 84.010, 84.027, 84.173, 84.048, and 84.367; Material Weakness – 10.553, 10.555, 10.556, 10.559, and 10.558) Allowable Costs/Cost Principles (Significant Deficiency – 84.010, 84.027, 84.173, 84.048, and 84.367; Material Weakness – 10.553, 10.555, 10.556, 10.559, and 10.558) Eligibility (Significant Deficiency – 84.010, 84.048, and 84.367; Material Weakness – 10.553, 10.555, 10.556, 10.559, and 10.558) Matching, Level of Effort, Earmarking (Significant Deficiency – 84.010, 84.027, 84.173, and 84.367; Material Weakness – 10.553, 10.555, 10.556, and 10.559) Period of Performance (Significant Deficiency – 84.010, 84.027, 84.173, 84.048, and 84.367; Material Weakness – 10.553, 10.555, 10.556, and 10.559)

	Reporting (Material Weakness – 10.553, 10.555, 10.556, 10.559, and 10.558)
	Subrecipient Monitoring (Significant Deficiency – 84.010, 84.027, 84.173, and 84.367)
	Special Tests and Provisions (Significant Deficiency – 84.010 , 84.027, 84.173, and 84.367)
Repeat Finding	2017-004 2017-064
Pass-Through Entity	N/A
Questioned Costs	N/A

As noted in the prior-year audit, the Department of Education and the Department of Human Services did not ensure the internal controls related to vendor-owned applications used for administering federal programs 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 Software as a Service (SaaS) information technology vendors to establish applications that the departments use to administer federal programs. These SaaS vendors contracted with Infrastructure as a Service (IaaS) information technology vendors to store and process application software and federal program data at data centers in the cloud that are owned and operated by the IaaS vendors.

One SaaS vendor developed and maintains the Tennessee: Meals, Accounting, and Claiming (TMAC) application and the Tennessee Information Payment System (TIPS) application used by TDOE and DHS, respectively. These computer applications are used to process eligibility applications and meal reimbursement claims for the Child Nutrition Cluster⁶⁴ and the Child and Adult Care Food Program. The applications 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.

Two SaaS vendors developed and maintained the Department of Education’s ePlan application and the EasyIEP application. Local educational agencies (LEAs) use ePlan to apply for federal education grants; submit and revise related 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 request reimbursements; and process budget amendments and plan revisions. The LEAs submit, and the department reviews and approves, applications, plans, and reports entirely within ePlan.

⁶⁴ 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.

LEAs use EasyIEP for managing individual education plans (IEPs) for special needs students and for reporting data used in the *Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals with Disabilities Education Act*.

Condition

Although federal regulations require the departments to do so, and as noted in the prior audit, TDOE and DHS management did not evaluate whether department SaaS and IaaS vendors implemented controls over the processing and storage of federal program data or whether the controls implemented were designed and operating effectively to ensure the departments could properly administer federal programs. Except as noted below, management did not consistently evaluate internal controls either internally or by obtaining and reviewing an independent audit, such as a System and Organization Controls (SOC) audit report,⁶⁵ which would adequately describe the SaaS and IaaS vendors' internal controls and the auditor's opinion regarding the effectiveness of controls.

TMAC and TIPS

Even though this was addressed in a prior audit finding, the departments were unable to obtain a SOC audit from the SaaS vendor for TMAC and TIPS covering the vendor's controls that applied to the audit period. The departments were unable to obtain a SOC audit report because the vendor did not have a SOC audit completed. The SaaS vendor did obtain and submit to the departments the most current SOC 2 Type 2 audit report on the controls administered by the IaaS vendor at the data center hosting sites.

TDOE management documented its review of the IaaS vendor SOC audit report and provided this documentation during our audit fieldwork. DHS management, however, did not review the IaaS vendor's SOC audit report until we requested the report and evidence of their review during our audit.

It is important to note that the scope of the IaaS vendor's SOC 2 Type 2 audit report covered the period November 1, 2016, through October 31, 2017, thus ending eight months prior to the end of our audit scope, June 30, 2018. Given the difference in scope periods, we expected the departments to have obtained assurance from the SaaS vendor that controls at the IaaS vendor did not change significantly during that time.⁶⁶

⁶⁵ 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 SaaS vendor and IaaS 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.

⁶⁶ The scope of the SOC report was for the period November 1, 2016, through October 31, 2017, and our audit covered the period July 1, 2017, through June 30, 2018. A gap, or bridge, letter from the IaaS vendor to the SaaS vendor would provide information about whether the IaaS 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.

ePlan

Although the SaaS vendor for ePlan did not have a SOC audit of their controls that applied to the audit period, the SaaS vendor did obtain and submit to TDOE the most current SOC 2 Type 2 audit report on the controls administered by the IaaS vendor at the data center hosting site. Department management reportedly reviewed the IaaS vendor SOC audit report but did not document their review.

EasyIEP

TDOE did not obtain and review a SOC audit report that was available from the EasyIEP SaaS vendor until we asked for it during our audit. This SOC report covered the period March 1, 2017, to August 31, 2017. In addition, the department did not obtain and review a SOC report that was available from the vendor that administered controls at the data center hosting site.

Risk Assessment

In response to the prior year audit finding, TDOE updated its organizational risk assessment to include the risk of not assessing internal controls for third-party information technology contractors. According to the department's risk mitigation strategy documented in the risk assessment, the department would require all new contracts and contract amendments to require SaaS vendors to provide the department with a SOC report that covered the information system services provided by that vendor.

DHS has not updated its risk assessment to address this area.

Criteria

"Standards for Financial and Program Management," Title 2, *Code of Federal Regulations*, Part 200, Section 303, "Internal Controls," states, "The non-federal entity must establish and maintain 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 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,” 2 CFR 600.62, 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 current contract that required an independent audit of the SaaS vendor’s or IaaS vendor’s internal controls. Additionally, the departments’ procedures did not provide for a review of the SaaS vendor’s or IaaS 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.

On September 20, 2018, the state’s Procurement Commission approved updated contract language for third-party SaaS and IaaS vendors that requires them to provide the departments with SOC audit reports. However, because this language was not required when the department executed the current contract with these vendors, the state’s Central Procurement Office and the departments did not include language in the contracts that required an independent audit of their internal controls. During the current audit, managements from both departments were reportedly working with the SaaS vendors to provide the departments with independent audit reports.

Effect

TMAC and TIPS

TDOE and DHS processed approximately \$405 million and \$69 million, respectively, in reimbursements to Child Nutrition and Child and Adult Care Food Program subrecipients in fiscal year 2018. 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 are accurate, complete, and comply with federal requirements. Because the SaaS vendor did not disclose sufficient information about its internal controls during fieldwork, we cannot conclude on whether controls were implemented or operating effectively. Furthermore, without knowing whether the SaaS vendor implemented any controls, we could not rely on the IaaS vendor's audit report. We were unable to achieve our audit objectives related to critical system controls.

ePlan

For the major programs supported by ePlan, TDOE approved approximately \$611 million in reimbursement requests to subrecipients in ePlan for the major programs audited. 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.

EasyIEP

For the major programs supported by EasyIEP, TDOE managed the plans for approximately 128,000 students. Failure to monitor internal controls over EasyIEP prevents department management from ensuring that information collected to comply with federal requirements is accurate and complete. In addition, ineffective controls could compromise the confidentiality of student information.

Recommendation

Each department should ensure that internal controls related to its 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 an SOC 1 Type 2 audit or an SOC 2 Type 2 audit.

Additionally, management should update the department's annual risk assessment to reflect any new controls the department adds to the process for expending federal funds within the time frames specified in the federal award.

Management's Comments

Department of Education

We concur. The department understands the importance of safeguarding state information in a third-party managed system. Therefore, with EasyIEP, the department has established a process to obtain and review the vendor's SOC report annually after its completion. For TMAC and ePlan, the department is working with each vendor to discuss the most appropriate way to obtain an

understanding of the internal controls of their systems. Moving forward, the department will ensure that contracts include the appropriate internal controls language that was adopted by the Central Procurement Office in September 2018.

Department of Human Services

Concur.

The Department understands the importance of safeguarding state information in a third-party managed system. The Department has spoken with the vendor and informed them that while they are not required to provide a SOC 2 Type 2 audit under the current contract, the audit will be a requirement of any new contract.

The current contract will expire in November 2019, if extended, the department would expect to receive a SOC 2 Type 2 audit at the contract's close, and annually thereafter, based on the contract language adopted by the State's Central Procurement Office in September 2018.

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, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Unclustered Programs					
Peace Corps					
8.U01	Peace Corps PC-15-8-053		PC-15-8-053	\$ 20,995.91	\$ -
	Subtotal Peace Corps			\$ 20,995.91	\$ -
Department of Agriculture					
10.001	Agricultural Research_Basic and Applied Research			\$ 2,112,469.74	\$ -
10.025	Plant and Animal Disease, Pest Control, and Animal Care			\$ 1,098,817.81	
		Association of Research Directors	15-5000-1890-CA	157.92	
				1,098,975.73	
10.028	Wildlife Services			(102.52)	-
10.069	Conservation Reserve Program			17,927.50	-
10.156	Federal-State Marketing Improvement Program			4,809.18	-
10.168	Farmers' Market and Local Food Promotion Program			27,318.71	-
10.170	Specialty Crop Block Grant Program - Farm Bill			385,049.50	244,245.20
10.200	Grants for Agricultural Research, Special Research Grants	University of Florida	1600472757	(2,006.94)	-
10.202	Cooperative Forestry Research			760,827.47	-
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act			6,992,115.02	-
10.215	Sustainable Agriculture Research and Education	University of Georgia	2014-38640-22155	\$ 16,151.86	
		University of Georgia	RD309-129/S001037	19,990.58	
		University of Georgia	RD309-134/S001153	5,215.81	
		University of Georgia	RD309-134/S001154	21,169.75	
		University of Georgia	RD309-137/S001471	18,829.09	
		Virginia Polytechnic Institute and State University	2015-38640-23780	3,750.00	
				85,107.09	-
10.216	1890 Institution Capacity Building Grants			354,409.89	-
10.217	Higher Education - Institution Challenge Grants Program			\$ 65,217.66	
		University of Florida	UFDSP00011215	22,063.18	
				87,280.84	-
10.220	Higher Education - Multicultural Scholars Grant Program	North Carolina Agricultural and Technical State University	2014-38413-21797	24,557.79	-
10.226	Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants			116,392.47	61,670.00
10.304	Homeland Security_Agricultural	University of Florida	UFDSP00011548	25,443.51	-

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
10.310	Agriculture and Food Research Initiative (AFRI)	North Carolina State University	0097-17	\$ 18,039.72	
		University of Florida	UFDSP00011147	17,983.13	
		University of Maryland, College Park	25742002	(114.92)	
		University of Maryland	Z5775002	102,872.06	
		Utah State University	151160-00001-90	5,172.42	
		Vanderbilt University	2017-68001-26352	69,001.06	
					212,953.47
10.311	Beginning Farmer and Rancher Development Program				278,931.84
10.326	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)				100,443.97
10.328	National Food Safety Training, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program			\$ 122,149.99	
		University of Florida	2015-70020-24397	67.87	
10.329	Crop Protection and Pest Management Competitive Grants Program			\$ 135,790.11	
		North Carolina State University	0085-29	17,370.32	
					153,160.43
10.351	Rural Business Development Grant			\$ 134,660.87	
		Middle Tennessee Industrial Development Association	C17-0909	40,724.02	
					175,384.89
10.443	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers				127,514.98
10.500	Cooperative Extension Service			\$ 17,710,935.43	
		Kansas State University	S17123	12,516.69	
		Kansas State University	S17171	69,482.10	
		The Pennsylvania State University	5400-UT-USDA-2628	688.20	
		University of Arkansas Little Rock	21666-15	4,801.65	
		University of Arkansas Little Rock	21666-16	2,029.57	
		University of Arkansas Little Rock	21666-22	13,312.94	
		University of Arkansas Little Rock	21667-01	1,754.98	
		University of Arkansas Little Rock	21667-11	36,018.13	
		University of Arkansas Little Rock	21667-17	38,148.39	
		University of Arkansas Little Rock	31000-06	811.24	
		University of Arkansas Little Rock	49200-2428	5,324.25	
		University of Minnesota	2014-41520-22191	137,326.53	
		University of Missouri	C00055873-4	10,929.59	
		University of Missouri	C0005938-4	4,406.33	
					18,048,486.02
					9,858.36

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.541	Child Nutrition-Technology Innovation Grant			24,290.66	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children			108,486,888.45	84,420,811.11
10.558	Child and Adult Care Food Program			69,853,049.23	68,477,475.53
10.560	State Administrative Expenses for Child Nutrition			6,254,657.38	4,237,099.46
10.572	WIC Farmers' Market Nutrition Program (FMNP)			63,006.76	65,981.50
10.576	Senior Farmers Market Nutrition Program			473,311.87	425,633.98
10.578	WIC Grants To States (WGS)			3,753,528.51	(3,748.46)
10.579	Child Nutrition Discretionary Grants Limited Availability			812,790.55	787,960.55
10.582	Fresh Fruit and Vegetable Program			3,106,466.02	3,106,466.02
10.652	Forestry Research			416,841.42	
10.664	Cooperative Forestry Assistance			1,694,105.49	735,355.52
10.675	Urban and Community Forestry Program			193,800.12	70,414.50
10.676	Forest Legacy Program			1,375,570.41	-
10.678	Forest Stewardship Program			125,265.37	-
10.680	Forest Health Protection			321,633.11	9,991.01
10.691	Good Neighbor Authority			32,360.00	-
10.699	Partnership Agreements			13,818.75	-
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship			15,152.67	-
10.861	Public Television Station Digital Transition Grant Program			286,598.00	-
10.874	Delta Health Care Services Grant Program			271,241.85	-
10.902	Soil and Water Conservation			287,841.61	-
10.912	Environmental Quality Incentives Program			196,527.07	-
10.920	Grassland Reserve Program			75,497.42	-
10.950	Agricultural Statistics Reports			26,501.81	-
10.961	Scientific Cooperation and Research			\$ 4.26	-
		Mississippi State University Southern Rural Development Center	183905.31026.01	11,319.87	
				<hr/>	
				11,324.13	-
10.U01	TVA Plant Communities Eradication		2593722	36,759.47	-
10.U02	TVA Tall Fescue Eradication #2		2305511	11,826.07	-
10.U03	TVA Tall Fescue Eradication		11234	8,985.29	-
10.U04	USDA FS Management Tools Cankers		15-CS-11330129-041	14,858.70	-
10.U05	USDA FS Resilient Agriculture		16-CR-11330110-062	6,703.45	-
10.U06	USDA FS Silviculture 2018		NASP 11	133,410.00	-
10.U07	USDA FSA EXT Svcs Farm Bill 2014		58-0510-4-060-N	5,297.48	-
10.U08	USDA RD Dvlpt Opp for Rural TN		48-60-1636	9,745.84	-
Subtotal Department of Agriculture				<hr/> \$ 229,709,323.40	<hr/> \$ 162,664,660.88

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of Commerce					
11.303	Economic Development Technical Assistance			\$ 188,968.22	\$ -
11.549	State and Local Implementation Grant Program			300,546.90	-
11.611	Manufacturing Extension Partnership			3,723,901.11	-
11.620	Science, Technology, Business and/or Education Outreach			12,218.00	-
Subtotal Department of Commerce				<u>\$ 4,225,634.23</u>	<u>\$ -</u>
Department of Defense					
12.002	Procurement Technical Assistance For Business Firms			\$ 357,490.51	\$ -
12.112	Payments to States in Lieu of Real Estate Taxes			939,161.72	939,161.72
12.300	Basic and Applied Scientific Research			207,664.38	96,475.38
12.401	National Guard Military Operations and Maintenance (O&M) Projects			31,713,818.19	-
12.404	National Guard Challenge Program			2,707,228.02	-
12.431	Basic Scientific Research	Morgan State University	W15QKN-14-1-0001	15,288.00	-
12.630	Basic, Applied, and Advanced Research in Science and Engineering	Academy of Applied Sciences	unknown	\$ 19,825.11	-
		American Lightweight Materials Manufacturing Innovation Institute (ALMMII)	N00014-14-2-0002 / PO 0034	(6,210.80)	-
		American Lightweight Materials Manufacturing Innovation Institute (ALMMII)	N00014-14-2-0002 / PO 0066	107,402.22	-
				<u>121,016.53</u>	-
12.903	GenCyber Grants Program			37,112.21	-
12.905	CyberSecurity Core Curriculum			83,180.18	22,812.02
12.U01	Army IPA-18-0002		IPA-18-0002	12,520.56	-
Subtotal Department of Defense				<u>\$ 36,194,480.30</u>	<u>\$ 1,058,449.12</u>
Department of Housing and Urban Development					
14.228	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii			\$ 30,339,887.14	\$ 29,424,492.40
14.231	Emergency Solutions Grant Program			3,057,950.22	2,923,497.19
14.239	Home Investment Partnerships Program			\$ 8,565,222.27	-
		City of Johnson City	Unknown	<u>(207.02)</u>	-
				8,565,015.25	7,958,272.20

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
14.241	Housing Opportunities for Persons with AIDS			1,142,688.90	1,128,938.87
14.267	Continuum of Care Program			161,572.76	-
14.401	Fair Housing Assistance Program_State and Local			383,768.00	-
14.896	Family Self-Sufficiency Program			236,384.96	-
14.U01	Office of Manufactured Housing		DU100K900016709	284,008.14	-
14.U02	City of Knoxville ESG 17-18	City of Knoxville Community Development Division	C-18-0033	15,000.00	-
Subtotal Department of Housing and Urban Development				\$ 44,186,275.37	\$ 41,435,200.66

Department of the Interior					
15.252	Abandoned Mine Land Reclamation (AMLR) Program			\$ 1,887,202.09	\$ 359,610.78
15.608	Fish and Wildlife Management Assistance			131,782.48	-
15.615	Cooperative Endangered Species Conservation Fund			492,705.11	15,012.25
15.616	Clean Vessel Act Program			448,615.29	-
15.622	Sportfishing and Boating Safety Act			258,775.68	-
15.631	Partners for Fish and Wildlife			65,039.09	65,039.09
15.634	State Wildlife Grants			617,845.19	-
15.663	National Fish and Wildlife Foundation	National Fish and Wildlife Foundation	1904.16.052925	12,772.26	-
15.669	Cooperative Landscape Conservation			157,251.14	-
15.808	U.S. Geological Survey_ Research and Data Collection			256,689.57	-
15.810	National Cooperative Geologic Mapping Program			58,464.80	-
15.816	Minerals Resources External Research Program			27,743.00	-
15.904	Historic Preservation Fund Grants-In-Aid			\$ 577,068.46	
		Alabama Historical Commission	C83201250	11,105.35	
15.916	Outdoor Recreation_Acquisition, Development and Planning			588,173.81	399,766.18
				23,924.93	-
15.926	American Battlefield Protection			201,186.39	201,186.39
15.939	National Heritage Area Federal Financial Assistance			344,614.18	82,370.00
15.981	Water Use and Data Research			29,167.67	29,167.67
15.U01	FWS Tennessee NWR Complex		F15AC00277	10,949.86	-
Subtotal Department of the Interior				\$ 5,612,902.54	\$ 1,152,152.36

Department of Justice					
16.017	Sexual Assault Services Formula Program			\$ 371,294.24	\$ -
16.523	Juvenile Accountability Block Grants			42,140.87	42,140.87
16.525	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus			119,024.16	-

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
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States			434,058.21	289,876.56
16.550	State Justice Statistics Program for Statistical Analysis Centers			65,609.49	-
16.554	National Criminal History Improvement Program (NCHIP)			399,335.95	-
16.575	Crime Victim Assistance			21,079,928.94	-
16.576	Crime Victim Compensation			5,203,000.00	-
16.582	Crime Victim Assistance/Discretionary Grants			184,246.89	-
16.585	Drug Court Discretionary Grant Program			320,379.87	311,923.20
16.588	Violence Against Women Formula Grants			2,779,785.29	-
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program			39,259.29	-
16.593	Residential Substance Abuse Treatment for State Prisoners			145,568.45	-
16.603	Corrections_Technical Assistance/Clearinghouse			6,898.21	-
16.710	Public Safety Partnership and Community Policing Grants			519,868.16	-
16.726	Juvenile Mentoring Program	National 4-H Council	4-H NMP 8	\$ 6,061.18	
		National 4-H Council	JU-FX-0022	95,240.94	
				<hr/>	
				101,302.12	-
16.738	Edward Byrne Memorial Justice Assistance Grant Program			\$ 5,554,072.91	
		Shelby County Public Defender	CA1819486	168,793.30	
				<hr/>	
				5,722,866.21	-
16.741	DNA Backlog Reduction Program			1,518,456.98	-
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program			143,699.56	-
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program			28,488.11	25,913.38
16.750	Support for Adam Walsh Act Implementation Grant Program			59,836.87	-
16.754	Harold Rogers Prescription Drug Monitoring Program			162,784.09	-
16.813	NICS Act Record Improvement Program			432,488.77	-
16.833	National Sexual Assault Kit Initiative	City of Memphis	2015-AK-BX-K004	52,437.64	-
16.838	Comprehensive Opioid Abuse Site-Based Program			3,112.84	2,690.15
16.922	Equitable Sharing Program			440,016.31	-
16.U01	Diversion Program Tactical Diversion Squad		Unknown	25,439.00	-
16.U02	Govenor's Task Force Marijuana		2017-114	485,774.25	-
16.U03	Govenor's Task Force Marijuana		2018-110	210,710.25	-
16.U04	Justice Equitable Sharing		Unknown	683,849.86	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
16.U05	Organized Crime Drug Enforcement Task Force		SE-TNM-0188	17,256.91	-
16.U06	State and Local Overtime Program		TN0191800	(1,758.12)	-
16.U07	Task Force OT		DEA MARSHALL OFF	18,008.92	-
16.U08	Task Force OT		ICEJOPS 117N02432	8,627.32	-
16.U09	Task Force OT		ICEJOPS 118N02432	16,573.55	-
16.U10	Task Force OT		JTTF 0511	10,455.00	-
16.U11	Task Force OT		OCDETF SETNE0268	7,798.81	-
16.U12	Task Force OT		OCDETF SETNW0210	5,248.10	-
16.U13	Task Force OT		OCDETF SETNW0214	4,000.30	-
16.U14	Task Force OT		USSJOPS 317173292	1,991.10	-
16.U15	Task Force OT		USSJOPS 317644084	3,954.41	-
16.U16	Task Force OT		USSJOPS 318173292	2,742.20	-
16.U17	Task Force OT		USSJOPS 318644084	6,479.73	-
Subtotal Department of Justice				\$ 41,883,039.11	\$ 672,544.16

Department of Labor					
17.002	Labor Force Statistics			\$ 834,355.44	\$ -
17.005	Compensation and Working Conditions			122,856.37	-
17.225	Unemployment Insurance			\$ 264,259,737.85	
		Southeast Tennessee Development District	LW05F17IRESEA17	11,645.25	
				264,271,383.10	550,035.42
17.235	Senior Community Service Employment Program			1,307,973.42	1,021,652.14
17.245	Trade Adjustment Assistance			2,334,233.66	170,141.07
17.260	WIA Dislocated Workers	East Tennessee Human Resource Agency	WIA-SC-TCAT-Oneida	(7,902.84)	-
17.261	WIA/WIOA Pilots, Demonstrations, and Research Projects			541,665.69	-
17.268	H-1B Job Training Grants			\$ 759,802.54	
		Greater Memphis Alliance for a Competitive Workforce	HG-30131-17-60-A-47	6,866.01	
		Greater Memphis Alliance for a Competitive Workforce	HG-30131-17-60-A-47-GMACWORKFORCE-UofM	60,366.62	
		Memphis Bioworks Foundation	FOA-ETA-16-05	57,315.90	
		Memphis Bioworks Foundation	H-1B-TCAT-W	61,334.55	
		Memphis Bioworks Foundation	HG-22604-12-0-A-47-SW	10,042.00	
		Memphis Bioworks Foundation	HG-26665-15-60-A-47	181,278.74	
				1,137,006.36	189,440.04

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
17.271	Work Opportunity Tax Credit Program (WOTC)			608,485.89	-
17.273	Temporary Labor Certification for Foreign Workers			231,239.72	-
17.277	WIOA National Dislocated Worker Grants / WIA National Emergency Grants			280,582.28	-
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training			127,773.80	-
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants			\$ 1,305,911.06	
		Greater Memphis Alliance for a Competitive Workforce	TC-26495-14-60-12-TCAT	352,634.93	
				<hr/>	
				1,658,545.99	-
17.285	Apprenticeship USA Grants			152,674.16	93,843.54
17.502	Occupational Safety and Health_Susan Harwood Training Grants			32,683.48	-
17.503	Occupational Safety and Health_State Program			4,048,630.40	-
17.504	Consultation Agreements			1,097,497.86	-
17.600	Mine Health and Safety Grants			185,062.60	-
17.720	Disability Employment Policy Development			1,282,005.84	-
Subtotal Department of Labor				<hr/> \$ 280,246,753.22	<hr/> \$ 2,025,112.21

Department of State					
19.009	Academic Exchange Programs - Undergraduate Programs	FHI 360	17002657	\$ 123,284.53	
		FHI 360	18002307	<hr/> 38,165.27	
				\$ 161,449.80	\$ -
19.033	Global Threat Reduction			190,553.18	-
19.040	Public Diplomacy Programs	Partners of the Americas, Inc.	S-CO200-16-GR175	7,063.43	-
19.415	Professional and Cultural Exchange Programs - Citizen Exchanges			1,010,666.82	787,809.25
Subtotal Department of State				<hr/> \$ 1,369,733.23	<hr/> \$ 787,809.25

Department of Transportation					
20.106	Airport Improvement Program			\$ 14,039,692.25	\$ 14,039,692.25
20.215	Highway Training and Education	Knox County Schools	unknown	59,641.17	-
20.218	National Motor Carrier Safety			5,367,682.71	-
20.232	Commercial Driver's License Program Improvement Grant			311,600.79	-
20.237	Commercial Vehicle Information Systems and Networks			77,267.00	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
20.240	Fuel Tax Evasion-Intergovernmental Enforcement Effort			6,128.72	-
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			1,725,884.15	1,323,793.34
20.509	Formula Grants for Rural Areas			2,768,343.36	2,476,487.85
20.514	Public Transportation Research, Technical Assistance, and Training			18,333.68	-
20.520	Paul S. Sarbanes Transit in the Parks			177,387.79	177,387.79
20.528	Rail Fixed Guideway Public Transportation System State Safety Oversight Formula Grant Program			15,231,695.98	14,892,171.50
20.607	Alcohol Open Container Requirements			12,719,345.17	6,146,423.19
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants			\$ 236,334.59	
		National Safety Council	DTNH22-15-H-00473	<u>93,032.77</u>	
				329,367.36	107,843.82
20.700	Pipeline Safety Program State Base Grant			411,488.35	-
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants			432,706.17	232,109.93
Subtotal Department of Transportation				<u>\$ 53,676,564.65</u>	<u>\$ 39,395,909.67</u>
Department of the Treasury					
21.016	Equitable Sharing			\$ 11,965.06	\$ -
21.U01	National Foreclosure Mitigation Counseling (NFMC) Program	Neighborhood Reinvestment Corporation (dba NeighborWorks America)	PL113-76X1350	11,648.28	-
Subtotal Department of the Treasury				<u>\$ 23,613.34</u>	<u>\$ -</u>
Appalachian Regional Commission					
23.001	Appalachian Regional Development (See individual Appalachian Programs)			\$ 244,706.48	\$ -
23.002	Appalachian Area Development			5,019,969.67	4,590,016.11
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects			302,527.22	39,866.92
Subtotal Appalachian Regional Commission				<u>\$ 5,567,203.37</u>	<u>\$ 4,629,883.03</u>
Equal Employment Opportunity Commission					
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts			\$ 174,100.00	\$ -
Subtotal Equal Employment Opportunity Commission				<u>\$ 174,100.00</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
General Services Administration					
39.003	Donation of Federal Surplus Personal Property (Noncash award)			\$ 3,327,355.99	\$ -
39.011	Election Reform Payments			457,924.30	-
Subtotal General Services Administration				\$ 3,785,280.29	\$ -
Library of Congress					
42.U01	Teaching with Primary Sources		GA08C0077	\$ 126,606.83	\$ -
Subtotal Library of Congress				\$ 126,606.83	\$ -
National Aeronautics and Space Administration					
43.001	Science			\$ 7,219.80	
		Association of Universities for Research in Astronomy, Inc.	PO: N815820-N	627.49	
		University of Toledo	NNX16ACS4A	87,661.50	
				\$ 95,508.79	\$ -
43.007	Space Operations			72,531.57	-
43.008	Education			\$ 94,855.97	
		Vanderbilt University	2810-018483	9,198.28	
		Vanderbilt University	2812-018483	10,763.25	
		Vanderbilt University	2813-018493	3,700.32	
		Vanderbilt University	3799-019687	38,805.11	
		Vanderbilt University	3807-019687	10,000.00	
		Vanderbilt University	NNX15AR73H	1,300.00	
		Vanderbilt University	UNIV59308	23,785.63	
				192,408.56	-
Subtotal National Aeronautics and Space Administration				\$ 360,448.92	\$ -
National Endowment for the Arts					
45.024	Promotion of the Arts_Grants to Organizations and Individuals			\$ 15,000.00	\$ -
45.025	Promotion of the Arts_Partnership Agreements			\$ 781,900.00	
		South Arts	5363	2,317.00	
				784,217.00	738,000.00
Subtotal National Endowment for the Arts				\$ 799,217.00	\$ 738,000.00

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Endowment for the Humanities					
45.129	Promotion of the Humanities_Federal/State Partnership	Humanities Tennessee	A1-2543	\$ 1,626.16	\$ -
45.149	Promotion of the Humanities_Division of Preservation and Access			6,000.00	-
45.164	Promotion of the Humanities_Public Programs	American Library Association	C.H. Nash Museum at Chucalisssa	1,665.00	-
Subtotal National Endowment for the Humanities				\$ 9,291.16	\$ -
Institute of Museum and Library Services					
45.310	Grants to States			\$ 3,074,895.18	\$ 225,833.00
45.313	Laura Bush 21st Century Librarian Program			308,737.55	-
Subtotal Institute of Museum and Library Services				\$ 3,383,632.73	\$ 225,833.00
Small Business Administration					
59.037	Small Business Development Centers			\$ 2,431,301.02	\$ 69,708.78
Subtotal Small Business Administration				\$ 2,431,301.02	\$ 69,708.78
Tennessee Valley Authority					
62.004	Tennessee Valley Region_Economic Development			\$ 9,547.29	\$ -
62.U01	TVA - Solar Farm 8500021516			482,498.74	-
62.U02	TVA Diversity-FY18			11,896.18	-
62.U03	TVA PO #3549180 TN River Tr			8,667.25	-
62.U04	Tennessee Valley Authority Emergency Preparedness			1,377,567.42	349,719.78
Subtotal Tennessee Valley Authority				\$ 1,890,176.88	\$ 349,719.78
Department of Veterans Affairs					
64.005	Grants to States for Construction of State Home Facilities			\$ 62,821.10	\$ -
64.009	Veterans Medical Care Benefits			157,348.10	25,941.19
64.015	Veterans State Nursing Home Care			32,726,143.17	-
64.022	Veterans Home Based Primary Care			82,076.26	-
64.101	Burial Expenses Allowance for Veterans			1,205,475.00	-
64.124	All-Volunteer Force Educational Assistance			563,878.36	-
64.203	State Cemetery Grants			7,279,050.16	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
64.U01	Educational Assistance Annual Reporting		ANNUAL REPORTING FEES	550.00	-
64.U02	Support Veterans		11908142	5,887.00	-
64.U03	VA Medical Center IPA Agreements		Unknown	34,374.01	-
Subtotal Department of Veterans Affairs				<u>\$ 42,117,603.16</u>	<u>\$ 25,941.19</u>

Environmental Protection Agency					
66.001	Air Pollution Control Program Support			\$ 78.30	\$ -
66.032	State Indoor Radon Grants			113,146.80	-
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act			228,984.88	-
66.040	State Clean Diesel Grant Program			331,440.43	331,440.43
66.204	Multipurpose Grants to States and Tribes			230,267.50	60,585.00
66.419	Water Pollution Control State, Interstate, and Tribal Program Support			303,845.80	-
66.433	State Underground Water Source Protection			104,307.03	-
66.454	Water Quality Management Planning			229,309.29	62,566.75
66.460	Nonpoint Source Implementation Grants			2,319,798.94	892,044.92
66.461	Regional Wetland Program Development Grants			187,107.04	7,500.00
66.514	Science To Achieve Results (STAR) Fellowship Program			4.71	-
66.605	Performance Partnership Grants			5,729,377.15	354,935.60
66.608	Environmental Information Exchange Network Grant Program and Related Assistance			135,811.94	-
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements			62,978.27	-
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals			391,729.98	-
66.708	Pollution Prevention Grants Program			139,145.97	-
66.716	Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies	eXtensions Foundation	SA-2017-44	11,186.40	-
66.801	Hazardous Waste Management State Program Support			2,076,153.05	-
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements			142,590.07	6,415.08
66.804	Underground Storage Tank Prevention, Detection and Compliance Program			735,302.18	-
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program			1,408,857.31	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements			102,655.16	-
66.817	State and Tribal Response Program Grants			901,936.23	-
66.U01	Wastewater Training Assistance		T1604TC6038	7,661.32	-
	Subtotal Environmental Protection Agency			\$ 15,893,675.75	\$ 1,715,487.78
Nuclear Regulatory Commission					
77.008	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program			\$ 250,107.96	\$ -
	Subtotal Nuclear Regulatory Commission			\$ 250,107.96	\$ -
Department of Energy					
81.041	State Energy Program			\$ 904,972.41	\$ -
81.042	Weatherization Assistance for Low-Income Persons			3,134,877.45	2,687,609.44
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance			515,223.06	-
81.119	State Energy Program Special Projects			447,796.23	365,108.81
81.136	Long-Term Surveillance and Maintenance			4,290,264.27	349,470.19
81.214	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis			2,046,107.13	138,528.70
81.U01	Argonne Natl Lab-Workshops-IESP		9F-31202	12,618.29	-
81.U02	Oak Ridge WMA		REORDOER-3-97-0702	233,167.63	-
81.U03	Natl 4-H Career Pathway Evln	National 4-H Council	unknown	15,585.81	-
	Subtotal Department of Energy			\$ 11,600,612.28	\$ 3,540,717.14
Department of Education					
84.002	Adult Education - Basic Grants to States			\$ 9,432,414.83	\$ 8,377,360.21
84.010	Title I Grants to Local Educational Agencies			\$ 322,239,053.62	
		Hamilton County Department of Education	P54309	175,025.12	
				322,414,078.74	309,300,759.70
84.011	Migrant Education_State Grant Program			852,739.38	852,739.38
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth			178,791.22	454.36
84.031	Higher Education_Institutional Aid			12,851,843.52	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
84.048	Career and Technical Education -- Basic Grants to States			23,104,001.47	21,308,220.78
84.051	Career and Technical Education -- National Programs			4,152.62	-
84.126	Rehabilitation Services_Vocational Rehabilitation Grants to States			50,375,510.44	-
84.129	Rehabilitation Long-Term Training			187,713.96	-
84.144	Migrant Education_Coordination Program			191,713.24	191,713.24
84.177	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind			205,950.32	-
84.181	Special Education-Grants for Infants and Families			12,417,297.89	7,113,514.99
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities			347,868.00	-
84.196	Education for Homeless Children and Youth			1,634,818.20	1,517,789.28
84.200	Graduate Assistance in Areas of National Need			245,232.99	-
84.282	Charter Schools			1,730,156.49	1,505,547.94
84.287	Twenty-First Century Community Learning Centers			22,412,574.25	21,070,482.50
84.323	Special Education - State Personnel Development			926,581.44	98,950.78
84.325	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities			688,418.73	-
84.326	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	California State University	F11-2963-3	3,993.26	-
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)			862,667.31	-
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs			5,921,916.22	4,070,005.05
84.335	Child Care Access Means Parents in School			10,160.99	-
84.358	Rural Education			4,685,102.06	4,317,079.23
84.365	English Language Acquisition State Grants			5,973,616.67	5,579,289.45
84.366	Mathematics and Science Partnerships			\$ 2,401,687.82	
		Hawkins County Schools	S366B150043	25,648.30	
		Hawkins County Schools	S366B160043	109,059.14	
		Murfreesboro City Schools	S366B150043	78,425.08	
				<hr/>	
				2,614,820.34	1,998,378.75
84.367	Supporting Effective Instruction State Grants			\$ 40,286,494.84	
		National Writing Project	05-TN03-SEED2016-ILI	35.59	
		National Writing Project	08-TN04-SEED2014 AMEND 1	(0.01)	
		National Writing Project	08-TN04-SEED2016-ILI	1,799.70	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		National Writing Project	A17-0942-002	2,876.71	
				40,291,206.83	38,005,892.47
84.369	Grants for State Assessments and Related Activities			11,330,130.55	
84.372	Statewide Longitudinal Data Systems			1,546,349.22	180,852.34
84.374	Teacher Incentive Fund			2,355,004.38	2,106,764.68
84.377	School Improvement Grants			7,645,496.26	6,250,411.62
84.382	Strengthening Minority-Serving Institutions			607,577.49	-
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			\$ 332,654.14	
		Vanderbilt University	UNIV59739	8,503.38	
				341,157.52	-
84.411	Investing in Innovation (i3) Fund			\$ 1,720.78	
		National Writing Project	05-TN03-2017I3AI	17,861.44	
		National Writing Project	05-TN03-2018I3C3WP	14,178.24	
				33,760.46	-
84.419	Preschool Development Grants			17,155,322.17	15,203,712.86
84.424	Student Support and Academic Enrichment Program			5,407,609.22	5,234,888.30
84.U01	NAEP State Coordinator/Basic Participation Contract		N/A	136,059.95	-
84.U02	Campbell Cty Sch Math Counts 3	Campbell County Schools	unknown	99,050.11	-
84.U03	Nat'l Writing Project '12 - Prog. Income	National Writing Project	94-TN02	(278.30)	-
84.U04	Tennessee SCORE - State Collab	Tennessee SCORE	unknown	(236.70)	-
Subtotal Department of Education				\$ 567,222,849.95	\$ 454,284,807.91

National Archives and Records Administration

89.003	National Historical Publications and Records Grants			\$ 39,050.76	\$ 34,902.87
Subtotal National Archives and Records Administration				\$ 39,050.76	\$ 34,902.87

Delta Regional Authority

90.201	Delta Area Economic Development			\$ 140,509.98	\$ -
Subtotal Delta Regional Authority				\$ 140,509.98	\$ -

U.S. Election Assistance Commission

90.401	Help America Vote Act Requirements Payments			\$ 680,995.66	\$ 680,541.75
Subtotal U.S. Election Assistance Commission				\$ 680,995.66	\$ 680,541.75

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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			\$ 88,762.60	\$ 74,570.00
93.042	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals			297,371.00	297,371.00
93.043	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services			312,669.00	312,669.00
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects			29,647.26	29,647.26
93.052	National Family Caregiver Support, Title III, Part E			2,654,104.00	2,654,104.00
93.069	Public Health Emergency Preparedness			25,456.17	8,596.66
93.070	Environmental Public Health and Emergency Response			361,683.25	101,613.13
93.071	Medicare Enrollment Assistance Program			581,869.08	580,005.00
93.072	Lifespan Respite Care Program			132,266.80	110,946.19
93.073	Birth Defects and Developmental Disabilities - Prevention and Surveillance			175,448.16	25,089.03
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements			15,882,369.39	7,228,910.27
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance			46,601.04	41,450.00
93.087	Enhance Safety of Children Affected by Substance Abuse			275,884.25	257,334.98
93.090	Guardianship Assistance			7,057,225.83	-
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program			1,132,970.67	-
93.103	Food and Drug Administration_Research			1,122,310.01	-
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)			2,608,288.67	1,881,142.41
93.110	Maternal and Child Health Federal Consolidated Programs			\$ 287,206.19	
		Vanderbilt University	T73 MC00050	(5,992.00)	
		Vanderbilt University	T73MC30767-02-00	11,332.00	
		Vanderbilt University	VUMC59412	120,460.55	
				<u>413,006.74</u>	-

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93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs			1,274,005.91	985,804.16
93.124	Nurse Anesthetist Traineeships			37,171.86	-
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices			234,348.63	-
93.136	Injury Prevention and Control Research and State and Community Based Programs			2,980,066.37	487,259.73
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	University of Cincinnati	011136-002	\$ 436.77	
		University of Cincinnati	5U45ES006184-25	12,213.36	
		University of Cincinnati	5U45ES006184-26	285,425.57	
				298,075.70	-
93.150	Projects for Assistance in Transition from Homelessness (PATH)			907,962.01	808,374.61
93.165	Grants to States for Loan Repayment Program			640,868.00	300,868.00
93.178	Nursing Workforce Diversity			130,481.02	
93.217	Family Planning Services			7,853,964.23	3,151,907.28
93.234	Traumatic Brain Injury State Demonstration Grant Program			250,000.00	250,000.00
93.235	Affordable Care Act (ACA) Abstinence Education Program			1,958,080.79	1,468,750.37
93.240	State Capacity Building			303,084.72	-
93.241	State Rural Hospital Flexibility Program			732,613.20	692,001.02
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance			\$ 11,659,215.76	
		Appalachian Regional Coalition on Homelessness	CABHI-16	178,307.86	
				11,837,523.62	8,938,951.33
93.247	Advanced Nursing Education Grant Program	Walsh University	D09HP28683	\$ 2,061,130.98	
				26,129.92	
				2,087,260.90	-
93.251	Universal Newborn Hearing Screening			360,719.64	138,483.87
93.262	Occupational Safety and Health Program			130,441.30	-
93.268	Immunization Cooperative Agreements (Noncash Award)			83,890,887.02	455,576.50
93.270	Adult Viral Hepatitis Prevention and Control			358,627.48	-
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance			162,661.11	-
93.297	Teenage Pregnancy Prevention Program	Douglas-Cherokee Economic Authority, Inc.	unknown	43,733.44	-

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93.301	Small Rural Hospital Improvement Grant Program			487,997.29	437,754.56
93.305	National State Based Tobacco Control Programs			1,146,371.83	460,763.42
93.317	Emerging Infections Programs			2,082,855.79	1,844,077.71
93.319	Outreach Programs to Reduce the Prevalence of Obesity in High Risk Rural Areas			1,025,237.02	5,051.81
93.323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)			7,210,269.57	136,005.51
93.324	State Health Insurance Assistance Program			990,552.61	761,006.83
93.325	Paralysis Resource Center	Christopher & Dana Reeve Foundation	90PR3002-02-01	6,399.41	-
93.336	Behavioral Risk Factor Surveillance System			304,953.04	-
93.359	Nurse Education, Practice Quality and Retention Grants			283,483.13	-
93.369	ACL Independent Living State Grants			303,332.83	-
93.464	ACL Assistive Technology			441,398.94	-
93.516	Affordable Care Act (ACA) Public Health Training Centers Program	Emory University	T657127	\$ 14,308.82	
		Emory University	T846384	<u>39,528.78</u>	
				53,837.60	-
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			3,813,682.95	1,567,785.40
93.526	Affordable Care Act (ACA) Grants for Capital Development in Health Centers			1,319,546.69	619,701.48
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds			2,854,008.95	905,978.17
93.550	Transitional Living for Homeless Youth	National Safe Place	90-CY6498-01-00	30,119.94	-
93.556	Promoting Safe and Stable Families			7,752,173.97	-
93.563	Child Support Enforcement			49,329,413.39	-
93.564	Child Support Enforcement Research			141,786.70	-
93.568	Low-Income Home Energy Assistance			55,622,061.66	55,102,399.62
93.569	Community Services Block Grant			14,505,846.60	13,857,457.42
93.586	State Court Improvement Program			558,684.85	-
93.590	Community-Based Child Abuse Prevention Grants			568,253.00	-
93.597	Grants to States for Access and Visitation Programs			145,593.00	-
93.599	Chafee Education and Training Vouchers Program (ETV)			861,770.67	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.600	Head Start	Porter-Leath Children's Center	Porter-Leath	\$ 3,603,536.29 489,038.26	4,092,574.55 825,496.45
93.603	Adoption and Legal Guardianship Incentive Payments			465,238.22	-
93.624	ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance			12,545,947.35	1,728,486.64
93.630	Developmental Disabilities Basic Support and Advocacy Grants	Alabama A&M University	G7-467651-UM	\$ 1,317,932.53 10,331.98	1,328,264.51 307,134.09
93.632	University Centers for Excellence in Developmental Disabilities Education, Research, and Service			546,305.89	-
93.643	Children's Justice Grants to States			334,872.00	-
93.645	Stephanie Tubbs Jones Child Welfare Services Program			2,629,930.97	-
93.648	Child Welfare Research Training or Demonstration			700,431.12	-
93.652	Adoption Opportunities	Harmony Family Center	unknown	102,156.11	-
93.658	Foster Care_Title IV-E			73,384,947.87	-
93.659	Adoption Assistance			55,834,375.82	-
93.667	Social Services Block Grant			29,201,755.80	4,194,973.44
93.669	Child Abuse and Neglect State Grants			1,221,067.37	-
93.671	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services			1,990,449.42	-
93.674	Chafee Foster Care Independence Program			2,802,326.14	-
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - financed in part by the Prevention and Public Health Fund (PPHF)			530,594.22	-
93.735	State Public Health Approaches for Ensuring Quitline Capacity - Funded in part by Prevention and Public Health Funds (PPHF)			579,182.91	126,578.73
93.747	Elder Abuse Prevention Interventions Program			112,728.31	-
93.752	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds			20,207.98	3,773.27
93.753	Child Lead Poisoning Prevention Surveillance financed in part by Prevention and Public Health (PPHF) Program			235,173.05	-
93.757	State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)			1,551,055.50	742,324.64

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
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health			2,406,820.82	1,790,593.61
93.764	PPHF- Cooperative Agreements to Implement the National Strategy for Suicide Prevention (Short Title: National Strategy Grants)			169,234.18	151,664.11
93.767	Children's Health Insurance Program			180,435,640.75	-
93.788	Opioid STR			13,507,308.41	11,639,969.48
93.791	Money Follows the Person Rebalancing Demonstration			11,731,236.13	9,939.34
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).			718,969.95	11,119.61
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities			(97,437.10)	-
93.876	Antimicrobial Resistance Surveillance in Retail Food Specimens			107,162.17	-
93.884	Grants for Primary Care Training and Enhancement			406,735.75	-
93.889	National Bioterrorism Hospital Preparedness Program			(77.35)	-
93.898	Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations			3,046,976.97	39,519.80
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	unknown	\$ 68,578.91	
		The Health Wagon, Inc.	18-174	<u>5,889.49</u>	
				74,468.40	-
93.913	Grants to States for Operation of Offices of Rural Health			171,405.37	30,473.92
93.917	HIV Care Formula Grants			40,110,154.36	12,927,249.84
93.940	HIV Prevention Activities_Health Department Based			6,251,279.68	5,393,797.48
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			985,944.56	230,114.97
93.945	Assistance Programs for Chronic Disease Prevention and Control			1,284,053.04	757,399.13
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs			458,734.87	4,444.74
93.958	Block Grants for Community Mental Health Services			10,101,412.59	9,974,805.15
93.959	Block Grants for Prevention and Treatment of Substance Abuse			31,727,412.66	31,555,772.41
93.977	Preventive Health Services_Sexually Transmitted Diseases Control Grants			2,159,877.04	1,452,881.24

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.982	Mental Health Disaster Assistance and Emergency Mental Health			225,006.81	212,035.26
93.991	Preventive Health and Health Services Block Grant			(749.48)	-
93.994	Maternal and Child Health Services Block Grant to the States			13,173,194.37	585,793.12
93.U01	Nat'l Partnership (PETE) 10728	National Partnership for Environmental Technology Education	10728	120,552.57	-
93.U02	National Safe Place	National Safe Place	90-CY6942-01-00	14,557.62	-
93.U03	Univ of Nebraska 24-0520-0227-005	University of Nebraska Omaha	24-0520-0227-005	39,374.90	-
Subtotal Department of Health and Human Services				<u>\$ 811,048,977.45</u>	<u>\$ 191,675,748.20</u>

Corporation for National and Community Service

94.003	State Commissions			\$ 276,556.95	\$ -
94.006	AmeriCorps			3,738,720.91	-
94.007	Program Development and Innovation Grants			177,743.58	-
94.013	Volunteers in Service to America			4,500.00	-
94.021	Volunteer Generation Fund			252,306.80	-
Subtotal Corporation for National and Community Service				<u>\$ 4,449,828.24</u>	<u>\$ -</u>

Executive Office of the President

95.001	High Intensity Drug Trafficking Areas Program			\$ 131,526.12	
		Office of National Drug Control Policy	G17AP0001A	90,391.70	
		Office of National Drug Control Policy	G18AP0001A	85,462.00	
				<u>\$ 307,379.82</u>	<u>\$ -</u>
95.U01	Executive Office President FY17		CEAP7C08	124,696.30	-
Subtotal Executive Office of the President				<u>\$ 432,076.12</u>	<u>\$ -</u>

Department of Homeland Security

97.012	Boating Safety Financial Assistance			\$ 1,484,116.30	\$ -
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)			84,057.45	-
97.029	Flood Mitigation Assistance			1,079,154.62	1,075,463.86
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)			<u>\$ 22,525,307.34</u>	
		Florida Division of Emergency Management	1271-REA-6681-0-1	230,130.12	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Florida Division of Emergency Management	1271-REQA-6479-0-1	208,953.82	
		Florida Division of Emergency Management	1271-REQA-6503-0-1	36,149.66	
		Florida Division of Emergency Management	1271-REQA-6511-0-1	328,722.75	
		Florida Division of Emergency Management	1271-REQA-6512-0-1	305,516.59	
		Florida Division of Emergency Management	1271-REQA-6570-0-1	340,564.85	
		Florida Division of Emergency Management	1271-REQA-6577-0-1	159,932.84	
		Florida Division of Emergency Management	1271-REQA-6724-0-1	15,791.25	
		Florida Division of Emergency Management	1271-REQA-6776-0-1	139,772.21	
		Florida Division of Emergency Management	1271-RR-6670-0-1	2,044.36	
		State of Louisiana	1086-REGA-5097-0-1	31,398.21	
		State of Louisiana	1086-REQA-5099-0-1	58,585.22	
		State of North Carolina	1097-RR-5264	54,207.32	
		State of South Carolina	940-RR-4189	9,472.01	
		State of South Carolina	940-RR-4190	34,512.87	
		State of South Carolina	940-RR-4219	95,596.57	
		Texas Department of Public Safety	1262-REQA-6397-01-1	160,807.24	
		Texas Department of Public Safety	1262-REQA-6425-0-1	275,517.60	
		Texas Department of Public Safety	1262-REQA-6439-0-1	5,807.03	
		VITEMA Virgin Island Ter Emg Mgmt Agency	1274-REQA-6672-0-1	620,609.02	
		VITEMA Virgin Island Ter Emg Mgmt Agency	1274-REQA-6735-0-1	528,852.69	
		VITEMA Virgin Island Ter Emg Mgmt Agency	1274-REQA-6740-0-1	654,631.08	
				<hr/>	
				26,822,882.65	19,363,522.91
97.039	Hazard Mitigation Grant			3,326,434.08	2,936,895.00
97.041	National Dam Safety Program			87,783.23	-
97.042	Emergency Management Performance Grants			7,260,284.91	3,182,226.84
97.043	State Fire Training Systems Grants			5,483.82	-
97.044	Assistance to Firefighters Grant			456,997.54	-
97.045	Cooperating Technical Partners			75,000.00	-
97.046	Fire Management Assistance Grant			550,680.20	819,184.84
97.047	Pre-Disaster Mitigation			90,767.43	8,221.75

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
97.067	Homeland Security Grant Program			3,821,377.93	2,721,031.36
97.082	Earthquake Consortium			857.68	-
Subtotal Department of Homeland Security				<u>\$ 45,145,877.84</u>	<u>\$ 30,106,546.56</u>
Agency for International Development					
98.U01	Borlaug Higher Education for Agricultural Research & Development (BHEARD)	Michigan State University	RC102095	\$ 43,554.35	\$ -
Subtotal Agency for International Development				<u>\$ 43,554.35</u>	<u>\$ -</u>
State Justice Institute					
99.U01	Court Technical Assistance		SJI-16-T-146	\$ 1,137.85	\$ -
Subtotal State Justice Institute				<u>\$ 1,137.85</u>	<u>\$ -</u>
Total Unclustered Programs				<u>\$ 2,214,743,430.85</u>	<u>\$ 937,269,676.30</u>
Research and Development Cluster					
Department of Agriculture					
AGRICULTURAL MARKETING SERVICE					
10.156	Federal-State Marketing Improvement Program			\$ 17,889.66	\$ -
10.167	Transportation Services			126,576.73	-
Subtotal AGRICULTURAL MARKETING SERVICE				<u>\$ 144,466.39</u>	<u>\$ -</u>
AGRICULTURAL RESEARCH SERVICE					
10.001	Agricultural Research_Basic and Applied Research			\$ 1,700,857.79	\$ -
Subtotal AGRICULTURAL RESEARCH SERVICE				<u>\$ 1,700,857.79</u>	<u>\$ -</u>
ANIMAL AND PLANT HEALTH INSPECTION SERVICE					
10.025	Plant and Animal Disease, Pest Control, and Animal Care			\$ 222,988.07	\$ -
Subtotal ANIMAL AND PLANT HEALTH INSPECTION SERVICE				<u>\$ 222,988.07</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
ECONOMIC RESEARCH SERVICE					
10.253	Consumer Data and Nutrition Research	Duke University	343-0559	\$ 17,020.99 5,521.72	
				\$ 22,542.71	\$ -
Subtotal ECONOMIC RESEARCH SERVICE				\$ 22,542.71	\$ -
FARM SERVICE AGENCY					
10.069	Conservation Reserve Program			\$ 21,017.95	\$ 4,878.83
10.451	Noninsured Assistance			25,610.81	-
Subtotal FARM SERVICE AGENCY				\$ 46,628.76	\$ 4,878.83
FOREIGN AGRICULTURAL SERVICE					
10.606	Food for Progress	North Carolina State University	3927851	\$ 5,000.00	\$ -
10.777	Norman E. Borlaug International Agricultural Science and Technology Fellowship			33,134.56	-
10.960	Technical Agricultural Assistance			171,065.29	-
Subtotal FOREIGN AGRICULTURAL SERVICE				\$ 209,199.85	\$ -
FOREST SERVICE					
10.652	Forestry Research			\$ 87,320.67	\$ -
10.664	Cooperative Forestry Assistance			\$ 203,146.19	
		National Fish and Wildlife Foundation	1904.16.052925	70,980.58	
		National Fish and Wildlife Foundation	1905.14.042215	4,595.71	
		University of Kentucky	3000013495	15,560.63	
				294,283.11	6,588.17
10.675	Urban and Community Forestry Program			86,766.58	270.82
10.680	Forest Health Protection			166,687.11	-
Subtotal FOREST SERVICE				\$ 635,057.47	\$ 6,858.99

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
NATIONAL INSTITUTE OF FOOD AND AGRICULTURE					
10.200	Grants for Agricultural Research, Special Research Grants	University of Florida	1800575085	\$ 2,000.00	
		University of Florida	2015-34383-23708	<u>5,023.81</u>	
				\$ 7,023.81	\$ -
10.202	Cooperative Forestry Research			115,817.62	-
10.205	Payments to 1890 Land-Grant Colleges and Tuskegee University			2,931,446.71	-
10.207	Animal Health and Disease Research			21,186.82	-
10.210	Higher Education - Graduate Fellowships Grant Program			74,965.00	-
10.215	Sustainable Agriculture Research and Education	University of Georgia	2013-38640-20856	\$ 9,160.08	
		University of Georgia	2015-38640-23780	6,591.84	
		University of Georgia	2016-38640-25382	18,141.94	
		University of Kentucky	320000614-16-255	<u>26,235.41</u>	
				60,129.27	-
10.216	1890 Institution Capacity Building Grants			\$ 438,417.27	
		Alabama A&M University	2017-38821-26426	30,367.69	
		Kentucky State University	Unknown	<u>393.68</u>	
				469,178.64	(1,338.44)
10.217	Higher Education - Institution Challenge Grants Program			\$ 57,419.38	
		Cornell University Center for Radiophysics & Space Research	73365-10457	<u>7,927.85</u>	
				65,347.23	-
10.219	Biotechnology Risk Assessment Research			298,790.82	66,783.17
10.220	Higher Education - Multicultural Scholars Grant Program			4,106.46	-
10.303	Integrated Programs			\$ 278,791.32	
		The Ohio State University	60057824	<u>45,832.36</u>	
				324,623.68	33,473.91
10.307	Organic Agriculture Research and Extension Initiative			\$ 451,086.86	
		Rutgers, The State University of New Jersey	4828	<u>(2,504.48)</u>	
				448,582.38	213,358.09
10.309	Specialty Crop Research Initiative			\$ 1,015,290.21	
		Cornell University	79598-10782	63,037.14	
		Texas Agriculture Extension Services	06-S150656	162,868.25	
		The University of Central Florida	63016071-02	194,430.45	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
10.310	Agriculture and Food Research Initiative (AFRI)	University of California	A18-0425S006P0671357	5,621.25	1,441,247.30 675,633.92
		American Chestnut Foundation	1008426	\$ 6,499,093.50	
		Kansas State University	S18002	11,333.60	
		North Carolina State University	0494-22	91,327.57	
		Resources for the Future	unknown	(2,092.38)	
		The Ohio State University	60049624	21,514.19	
		The Ohio State University	60050076	34,388.95	
		The University of Maine	UM-5878	1,877.06	
		University of Georgia	84	27,696.74	
		University of Kentucky	320000379-17-187	3,661.44	
		Washington State University	126319_G003583	20,489.49	
				32,771.72	
				6,742,061.88	
10.312	Biomass Research and Development Initiative Competitive Grants Program (BRDI)	University of California, Riverside	S-000844	182,558.72	2,129,345.72 -
10.319	Farm Business Management and Benchmarking Competitive Grants Program			11,923.92	-
10.320	Sun Grant Program			\$ 90,656.35	803,039.38 542,049.43
		South Dakota State University	3TF640	676,825.55	
		University of Georgia	RR645-491/S001628	524.58	
		Virginia Polytechnic Institute and State University	417962-1912	35,032.90	
10.326	Capacity Building for Non-Land Grant Colleges of Agriculture (NLGCA)			384,386.26	116,679.80
10.329	Crop Protection and Pest Management Competitive Grants Program	Purdue University	800007119-AG	10,250.99	-
10.330	Alfalfa and Forage Research Program			47,677.71	14,018.17
10.331	Food Insecurity Nutrition Incentive Grants Program	AARP Foundation	2015-70018-23332	154,988.16	-
10.336	Veterinary Services Grant Program			3,076.92	-
Subtotal NATIONAL INSTITUTE OF FOOD AND AGRICULTURE				\$ 14,602,409.68	\$ 3,790,003.77
NATURAL RESOURCES CONSERVATION SERVICE					
10.902	Soil and Water Conservation			\$ 65,839.51	\$ -
10.903	Soil Survey			31,857.99	-
10.912	Environmental Quality Incentives Program			70,114.02	-
Subtotal NATURAL RESOURCES CONSERVATION SERVICE				\$ 167,811.52	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
RURAL BUSINESS COOPERATIVE SERVICE					
10.351	Rural Business Development Grant			\$ 18,986.36	\$ 9,446.85
10.868	Rural Energy for America Program			63,465.57	-
Subtotal RURAL BUSINESS COOPERATIVE SERVICE				\$ 82,451.93	\$ 9,446.85
Other Programs					
10.RD	USDA 16-JV-11221636-104		16-JV-11221636-104	\$ 43,521.13	\$ -
10.RD	USDA 2016-CS-11081000-018		CS-11081000-018	236.00	-
10.RD	USDA Forest Serv Land Between the Lakes Botany		15-PA-11086002-006	658.08	-
10.RD	USDA FS 14CS11080400010		14CS11080400010	5,186.91	-
10.RD	USDA FS 14JV11330144059		14-JV-11330144-059	8,119.08	-
10.RD	USDA FS 17-CR-11330145-057		17-CR-11330145-057	54,307.14	-
10.RD	USDA FS AG4568C140036 SRS Support		AG-4568-C-14-0036	85,192.42	-
10.RD	USDA FS American Chestnut		14-JV-11242316-148	1,183.92	-
10.RD	USDA FS Cherokee Song Birds		16-CS-11080400-009	6,046.61	-
10.RD	USDA FS Forestland Ownership		16-JV-11242305-106	(13.40)	-
10.RD	USDA FS FPL Analysis Lumber		16-JV-11111137-047	24,631.35	-
10.RD	USDA FS Genetic Specialist 14		14-CS-11083133-001	38,404.65	-
10.RD	USDA FS Land Between the Lakes		16-PA-11086002-015	1,204.36	-
10.RD	USDA FS Mgt & Ecological Processes		15-CR-11330134-007	3,169.28	-
10.RD	USDA FS Mill Dynamics Exploring		17-CR-11330145-060	2,479.92	-
10.RD	USDA FS Natural Disaster BioSAT		15-CR-11330136-098	(1,396.64)	-
10.RD	USDA FS NVUM -013		16-CS-11086001-013	21,936.00	-
10.RD	USDA FS NVUM 028		17-CS-11081114-028	67,915.61	-
10.RD	USDA FS NVUM		16-CS-11080400-007	36,939.03	-
10.RD	USDA FS Tick Screening-Trout		AG-4660-C-17-0009	6,051.66	-
10.RD	USDA FS Yr 3 Thousand Canker		17-JV-11272139-081	27,932.89	-
10.RD	Univ of Central FL 63017009-01	University of Central Florida	63017009-01	135,981.87	-
Subtotal Other Programs				\$ 569,687.87	\$ -
Subtotal Department of Agriculture				\$ 18,404,102.04	\$ 3,811,188.44

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Department of Commerce					
ECONOMIC DEVELOPMENT ADMINISTRATION					
11.020	Cluster Grants			\$ 221,063.92	\$ 43,180.84
11.030	Science and Research Park Development Grants			526,363.23	-
Subtotal ECONOMIC DEVELOPMENT ADMINISTRATION				\$ 747,427.15	\$ 43,180.84
NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY					
11.609	Measurement and Engineering Research and Standards			\$ 17,387.28	
		Michigan Technological University	P0099710	73,833.19	
				\$ 91,220.47	\$ -
Subtotal NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY				\$ 91,220.47	\$ -
NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION					
11.459	Weather and Air Quality Research			\$ 220,069.78	\$ -
11.463	Habitat Conservation			92.83	-
Subtotal NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION				\$ 220,162.61	\$ -
Other Programs					
11.003	Census Geography			\$ 15,333.59	\$ -
11.RD	LSU PO-0000041309	Louisiana State University	41309	6,819.98	-
Subtotal Other Programs				\$ 22,153.57	\$ -
Subtotal Department of Commerce				\$ 1,080,963.80	\$ 43,180.84

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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			\$ 908,221.30	\$ 45,565.25
Subtotal Advanced Research Projects Agency				\$ 908,221.30	\$ 45,565.25
Defense Threat Reduction Agency					
12.351	Basic Scientific Research - Combating Weapons of Mass Destruction			\$ 580,331.32	
		Vanderbilt University	UNIV 59030	96,680.86	
				\$ 677,012.18	\$ 244,657.13
Subtotal Defense Threat Reduction Agency				\$ 677,012.18	\$ 244,657.13
DEPT OF THE AIR FORCE					
12.800	Air Force Defense Research Sciences Program			\$ 715,190.00	
		Iowa State University	421-21-03B	109,415.17	
		Seoul National University	FA2386-17-1-4081	12,825.40	
		The University of Texas at Arlington	12602014461	5,333.18	
		The University of Texas at Arlington	1.2602E+11	7,420.16	
		University of Virginia	GG11578 146629	(9,571.63)	
		Virginia Polytechnic Institute and State University	450174-19121-06	32,547.04	
				\$ 873,159.32	\$ 74,710.45
Subtotal DEPT OF THE AIR FORCE				\$ 873,159.32	\$ 74,710.45
DEPT OF THE ARMY					
12.010	Youth Conservation Services			\$ 173,630.00	\$ -
12.420	Military Medical Research and Development			\$ 2,700,330.22	
		American Burn Association	W81XWH0920194	1,305.86	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Children's Research Institute	17SFRN33670451	69,411.23	
		National Trauma Institute	NTRR15-08	(336.93)	
		The University of Texas at San Antonio	159413/155536	219,186.89	
		University of Arkansas Little Rock	253279	699,045.67	
		University of Pittsburgh	W81XWH-12-2-0023	105,869.81	
		University of Virginia	GG12052.157875	40,751.11	
				3,835,563.86	239,030.33
12.431	Basic Scientific Research			1,421,625.78	60,555.30
	Subtotal DEPT OF THE ARMY			\$ 5,430,819.64	\$ 299,585.63
DEPT OF THE NAVY					
12.300	Basic and Applied Scientific Research			\$ 4,751,731.47	
		American Lightweight Materials Manufacturing Innovation Institute (ALMMII)	unknown	9,825.83	
		United States Air Force	SUB-FA8750-15-2-0106-MTSU	43,119.17	
		University of North Texas	GF2707-3	37,022.73	
		University of Texas at San Antonio	1000001169	4,627.78	
				\$ 4,846,326.98	\$ 796,311.83
	Subtotal DEPT OF THE NAVY			\$ 4,846,326.98	\$ 796,311.83
NATIONAL SECURITY AGENCY					
12.901	Mathematical Sciences Grants Program			\$ 11,192.95	\$ -
12.902	Information Security Grants			\$ 74,778.10	
		Purdue University	SUBAWARD 4104-84250 AMEND 1	2,127.61	
				76,905.71	-
12.903	GenCyber Grants Program			98,588.35	-
12.905	CyberSecurity Core Curriculum	Prairie View A & M University	S170503-M1702524	39,488.55	-
	Subtotal NATIONAL SECURITY AGENCY			\$ 226,175.56	\$ -

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
Office of the Secretary of Defense					
12.630	Basic, Applied, and Advanced Research in Science and Engineering			\$ 568,062.16	
		Battelle Memorial Institute	PO US001-0000504972 CO	<u>120,570.58</u>	
				\$ 688,632.74	\$ -
Subtotal Office of the Secretary of Defense				<u>\$ 688,632.74</u>	<u>\$ -</u>
UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES (USUHS)					
12.750	Uniformed Services University Medical Research Projects	The Henry M Jackson Foundation for Advancement of Military Medicine	3733	\$ 10,020.00	\$ -
Subtotal UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES (USUHS)				<u>\$ 10,020.00</u>	<u>\$ -</u>
Other Programs					
12.RD	ADL PAL Learning Science Community		W911QY-17-C-0034	\$ 221,362.98	\$ -
12.RD	AF AEDC FA9101-15-D-0002/17-F-0052		FA9101-15-D-0002	291,430.30	-
12.RD	AF AEDC FA9101-15-D-0002		FA9101-15-D-0002	17,812.15	-
12.RD	AF AEDC FA9101-15-D-0002		FA9101-15-D-0002	834.31	-
12.RD	AF AFTC FA9101-15-D-0002/17-F-0035		FA9101-15-D-0002	148,393.41	-
12.RD	AF AFTC FA9101-15-D-0002/18-F-0017		FA9101-15-D-0002	24,520.56	-
12.RD	AF F40600-00-D-0001/0026		F40600-00-D-00010026	(11,080.87)	-
12.RD	AF FA9101-15-D-0002/F-0012		FA9101-15-D-0002	11,282.98	-
12.RD	AF-FA9101-15-D-0002		AF-FA9101-15-D-0002	21,162.57	-
12.RD	AF FA9101-15-D-0002		FA9101-15-D-0002	59,532.24	-
12.RD	Air Force FA8650-13-C-2326		FA8650-13-C-2326	5,457.36	-
12.RD	Air Force FA8650-15-C-5205		FA8650-15-C-5205	47,558.04	-
12.RD	Defenses and Countermeasures of Jamming Attacks in Wireless Mesh Networks 2016-19		N00174-16-C-0015	89,761.63	-
12.RD	DLA SP4701-17-C-0062		SP4701-17-C-0062	159,347.33	-
12.RD	DLA SP4701-18-C-0025		SP4701-18-C-0025	7,603.83	-
12.RD	DLA-SPE300-15-G-0001		SPE300-15-G-0001	6,830.14	-
12.RD	DOD - Install Species Bat		W912HZ-17-2-0020	72,361.87	-
12.RD	DOD SOCOM H92222-17-C-0006		H92222-17-C-0006	156,028.96	59,308.23
12.RD	DOD USUHS TSNRP HU0001-15-1-TS12		HU0001-15-1-TS12	2,846.86	-
12.RD	DTRA-HDTRA117C0044		HDTRA117C0044	296,412.59	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
12.RD	MOSAIC mPerf		2017-17042800006	4,126,578.99	2,426,657.94
12.RD	Sandia Natl Lab PO1445803		1445803	14,010.75	-
12.RD	Sandia Natl Lab PO18648959		18648959	50,697.10	-
12.RD	TSNRP Grant HU0001-15-1-TS08-N15-P01		HU0001101TS08-N15P01	315,508.50	98,693.51
12.RD	USACE W912DW-17-P-0043		W912DW-17-P-0043	130,477.16	-
12.RD	USACE W912HQ-13-C-0055		W912HQ-13-C-0055	157,244.32	-
12.RD	USACE W912HQ-13-C-0069		W912HQ-13-C-0069	45,513.16	40,806.70
12.RD	Advanced Distributed Engine Control	Ohio Aerospace Institute	FA8650-14-D-2410	3,630.25	-
12.RD	ALMMII Joining R2-4 0004D-9	American Lightweight Materials Manufacturing Innovation Institute (ALMMII)	0004D-9 JOINING R2-4	36,860.75	-
12.RD	ALMMII - LIFT TEMP5 R2 0003C-7	American Lightweight Materials Manufacturing Innovation Institute (ALMMII)	0003C-7 TMP5 R2 LIFT	79,594.31	-
12.RD	Penn State Univ. 5722-UT-DOE-8717	The Pennsylvania State University	5722-UT-DOE-8717	7,194.43	-
12.RD	Penn State Univ SA17-07	The Pennsylvania State University	SA17-07	6,505.32	-
12.RD	Penn State Univ VLRCOE Task 6.2	The Pennsylvania State University	5583-UT-ACC-0003	134,960.47	-
12.RD	Research on Computer-Based Methodologies	University of Southern California	89865992	444,262.25	-
12.RD	Research Services	MIT Lincoln Laboratory	PO 7000293007 CHANGE ORDER 09	400,746.63	-
12.RD	Riverside ResDRC.1265.000.17-00077	Riverside Research Institute	DRC.1265.000.17-0007	45,348.82	-
12.RD	Smart Separators with Imbedded Sensors and Superior Thermal Conductivity	Fisk University	N00174-16-C-0008	11,763.89	-
12.RD	Southern Methodist Univ-AS107	Southern Methodist University	GA00140-7500 AS107/T	39,434.58	-
12.RD	Univ of Connecticut 121617/5635390	University of Connecticut	121617 / 5635390	22,817.74	-
12.RD	Univ of Dayton Res RSC17067	University of Dayton	RSC17067	384,472.47	-
12.RD	Univ of Dayton Res RSC18026	University of Dayton	RCS18026	1,683.33	-
12.RD	Univ of Maryland43324-Z8192001	University of Maryland, College Park	43324-Z8192001	58,072.12	-
12.RD	Update of UFC 3-220-01N Soil Mechanics (DM7.1)	Virginia Polytechnic Institute and State University	SUBAWARD # 418357- 19C95	9,400.05	-
12.RD	UR-PAL3	University of Southern California	95837461	217,834.82	-
12.RD	White-Tailed Deer Assessment	American Ordnance, LLC	ML17C024	46,080.00	-
Subtotal Other Programs				\$ 8,420,151.45	\$ 2,625,466.38
Subtotal Department of Defense				\$ 22,080,519.17	\$ 4,086,296.67

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of Housing and Urban Development					
OFFICE OF LEAD HAZARD CONTROL AND HEALTHY HOMES					
14.906	Healthy Homes Technical Studies Grants	Columbia University	2(GG010683)	\$ 9,231.59	\$ -
Subtotal OFFICE OF LEAD HAZARD CONTROL AND HEALTHY HOMES				9,231.59	-
Subtotal Department of Housing and Urban Development				\$ 9,231.59	\$ -
Department of the Interior					
BUREAU OF LAND MANAGEMENT					
15.232	Wildland Fire Research and Studies Program			\$ 24,464.78	\$ 26,598.09
Subtotal BUREAU OF LAND MANAGEMENT				\$ 24,464.78	\$ 26,598.09
NATIONAL PARK SERVICE					
15.926	American Battlefield Protection			\$ 1,537.82	\$ -
15.945	Cooperative Research and Training Programs - Resources of the National Park System			457,607.21	-
15.946	Cultural Resources Management			5,243.29	-
Subtotal NATIONAL PARK SERVICE				\$ 464,388.32	\$ -
OFFICE OF SURFACE MINING, RECLAMATION AND ENFORCEMENT					
15.255	Science and Technology Projects Related to Coal Mining and Reclamation			\$ 60,512.41	\$ -
Subtotal OFFICE OF SURFACE MINING, RECLAMATION AND ENFORCEMENT				\$ 60,512.41	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
U.S. FISH AND WILDLIFE SERVICE					
15.608	Fish and Wildlife Management Assistance	State of Louisiana	2000091935	\$ 39,394.95	
		State of Louisiana	2000310113	35,716.50	
		State of Louisiana	Unknown	478.61	
				<u>\$ 75,590.06</u>	\$ -
15.615	Cooperative Endangered Species Conservation Fund			838.96	-
15.634	State Wildlife Grants			\$ 69,710.16	
		Oklahoma State University	2-561030	20,593.02	
		Southeastern Association of Fish and Wildlife Agencies	SEAFWA 2017-2020-MTSU	1,395.97	
		Southeastern Association of Fish and Wildlife Agencies	SE-U2-17AP00752	4,992.55	
				<u>96,691.70</u>	-
15.655	Migratory Bird Monitoring, Assessment and Conservation			26,267.78	-
15.657	Endangered Species Conservation - Recovery Implementation Funds			\$ 109,190.21	
		Commonwealth of Kentucky	424311130000D2	4,859.13	
		Commonwealth of Kentucky	F15AC00372	96,304.80	
				<u>210,354.14</u>	-
15.660	Endangered Species - Candidate Conservation Action Funds			18,368.93	-
15.664	Fish and Wildlife Coordination and Assistance Programs	The Nature Conservancy	1041 UT 070116 01	\$ 106,568.56	
		Wildlife Management Institute, Incorporated	NALCC2011-17	0.06	
				<u>106,568.62</u>	-
15.678	Cooperative Ecosystem Studies Units			16,979.99	-
				<u>\$ 551,660.18</u>	\$ -
Subtotal U.S. FISH AND WILDLIFE SERVICE					
U.S. Geological Survey					
15.805	Assistance to State Water Resources Research Institutes			\$ 47,068.32	\$ 3,391.54
15.807	Earthquake Hazards Research and Monitoring Grants			979,149.45	22,000.00
15.808	U.S. Geological Survey_ Research and Data Collection			137,004.26	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
15.810	National Cooperative Geologic Mapping Program	Iowa State University	424-17-03	\$ (1,666.16) 31,248.04	-
15.812	Cooperative Research Units Program			29,581.88 42,865.49	-
Subtotal U.S. Geological Survey				\$ 1,235,669.40	\$ 25,391.54
Other Programs					
15.RD	Assessment of Benthic Macroinvertebrate Response to Antimycin During Brook Trout Restoration in Little Cataloochee of Great Smoky Mountains National Park		P17PX01962	\$ 3,620.01	\$ -
15.RD	DNA sequencing for population genetic assessment of MacGillivray's Seaside Sparrow (Ammodramus maritimus macgillivrayi)		140F0418P0034	3,000.00	-
15.RD	USDI-NPS-GSMNP Case		Unknown	462.00	-
15.RD	USDI-USGS G17AC00039		G17AC00039	4,027.11	-
15.RD	Climate Change-Mediated Expansion of Utah Juniper Across the Bighorn Canyon Recreation Area	BICA of the National Park Service	WNPA AWARD	1,969.39	-
15.RD	NC State Univ 2017-1878-03 Yr1	North Carolina State University	1878-03	7,532.82	-
Subtotal Other Programs				\$ 20,611.33	\$ -
Subtotal Department of the Interior				\$ 2,357,306.42	\$ 51,989.63
Department of Justice					
Bureau of Justice Assistance					
16.738	Edward Byrne Memorial Justice Assistance Grant Program	City of Memphis	2016-DG-BX-K143	\$ 30,583.83	\$ -
16.833	National Sexual Assault Kit Initiative	City of Memphis	33271	108,589.74	-
Subtotal Bureau of Justice Assistance				\$ 139,173.57	\$ -

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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	VF-GX-K011	\$ 29,411.39	\$ 14,345.75
Subtotal Office for Victims of Crime				\$ 29,411.39	\$ 14,345.75
National Institute of Justice					
16.560	National Institute of Justice Research, Evaluation, and Development Project Grants			\$ 696,572.40	
		Lincoln Memorial University	2018010101	25,014.46	
		Lincoln Memorial University	LMU 004	1,651.67	
		Sam Houston State University	22092B	2,266.29	
		University of Minnesota	A004374201	18,033.92	
				\$ 743,538.74	\$ 177,808.64
16.562	Criminal Justice Research and Development_Graduate Research Fellowships			24,766.20	-
Subtotal National Institute of Justice				\$ 768,304.94	\$ 177,808.64
Other Programs					
16.RD	Ambassadors for Christ Proj REACH	Ambassadors for Christ	PROJECT REACH 001	\$ 7,879.50	\$ -
16.RD	West VA Univ Sub 09-097GGG-UT	West Virginia University	09-097GGG-UT	1,717.41	-
16.RD	West VA Univ Sub 09-097VV-UT	West Virginia University	09-097VV-UT	149,844.52	-
Subtotal Other Programs				\$ 159,441.43	\$ -
Subtotal Department of Justice				\$ 1,096,331.33	\$ 192,154.39

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Department of Labor					
EMPLOYMENT AND TRAINING ADMINISTRATION					
17.268	H-1B Job Training Grants	Memphis Bioworks Foundation	HG-26665-15-60-A-47	\$ 92,985.71	\$ -
Subtotal EMPLOYMENT AND TRAINING ADMINISTRATION				\$ 92,985.71	\$ -
Subtotal Department of Labor				\$ 92,985.71	\$ -
Department of State					
BUREAU OF INTERNATIONAL SECURITY AND NONPROLIFERATION					
19.033	Global Threat Reduction			\$ 1,218,553.44	\$ -
Subtotal BUREAU OF INTERNATIONAL SECURITY AND NONPROLIFERATION				\$ 1,218,553.44	\$ -
OFFICE OF THE UNDER SECRETARY FOR PUBLIC DIPLOMACY AND PUBLIC AFFAIRS					
19.040	Public Diplomacy Programs			\$ 13,310.32	\$ -
Subtotal OFFICE OF THE UNDER SECRETARY FOR PUBLIC DIPLOMACY AND PUBLIC AFFAIRS				\$ 13,310.32	\$ -
Subtotal Department of State				\$ 1,231,863.76	\$ -
Department of Transportation					
FEDERAL AVIATION ADMINISTRATION					
20.109	Air Transportation Centers of Excellence			\$ 279,413.53	\$ -
Subtotal FEDERAL AVIATION ADMINISTRATION				\$ 279,413.53	\$ -
FEDERAL HIGHWAY ADMINISTRATION					
20.200	Highway Research and Development Program			\$ 242,603.58	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
20.215	Highway Training and Education	National Academy of Sciences	NCHRP-183	12,729.73	
				\$ 255,333.31	\$ -
		California State University Long Beach Research Foundation	SG99416100	\$ 7,406.00	
				97,011.54	
				104,417.54	-
Subtotal FEDERAL HIGHWAY ADMINISTRATION				\$ 359,750.85	\$ -
FEDERAL TRANSIT ADMINISTRATION					
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	University of South Florida	2117-1773-00-B	\$ 31,457.80	\$ -
Subtotal FEDERAL TRANSIT ADMINISTRATION				\$ 31,457.80	\$ -
OFFICE OF THE SECRETARY					
20.701	University Transportation Centers Program			\$ 1,218,665.67	
		Florida Atlantic University	UR-K69	55,056.22	
		University of Florida	SUBAWARD	14,486.91	
			UFDSP00011677 AMEND 3		
		University of Illinois	05178-05	44,167.14	
		University of Maryland	36696-Z9600007	1,826.29	
		University of Wisconsin-Madison	396K594	(557.26)	
		Western Michigan University	DTRT-13-G-UTC60	76,019.49	
				\$ 1,409,664.46	\$ 745,889.56
Subtotal OFFICE OF THE SECRETARY				\$ 1,409,664.46	\$ 745,889.56
Other Programs					
20.RD	Iowa Dept of Transport	Iowa Department of Transportation	16635	\$ 3,222.95	\$ -
20.RD	UNC-Chapel 5106576 Tech	The University of North Carolina at Chapel Hill	5106576	250,344.28	-
20.RD	Washington St DOT- GCB 1930	State of Washington	GCB 1930	23,961.19	-
Subtotal Other Programs				\$ 277,528.42	\$ -
Subtotal Department of Transportation				\$ 2,357,815.06	\$ 745,889.56

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Department of the Treasury					
Other Programs					
21.RD	IPA PJ		IPA PJ	\$ 78,952.40	\$ -
Subtotal Other Programs				\$ 78,952.40	\$ -
Subtotal Department of the Treasury				\$ 78,952.40	\$ -
Appalachian Regional Commission					
Other Programs					
23.011	Appalachian Research, Technical Assistance, and Demonstration Projects			\$ 80,383.22	\$ -
23.RD	West Virginia Univ 17-110-UT	West Virginia University	Unknown	23,434.77	-
Subtotal Other Programs				\$ 103,817.99	\$ -
Subtotal Appalachian Regional Commission				\$ 103,817.99	\$ -
General Services Administration					
Other Programs					
39.RD	GSA BBD GS05Q17BMP0026 (Labor)		GS05Q17BMP0026	\$ 263,202.27	\$ -
Subtotal Other Programs				\$ 263,202.27	\$ -
Subtotal General Services Administration				\$ 263,202.27	\$ -
National Aeronautics and Space Administration					
Other Programs					
43.001	Science	Arizona State University	01-082	\$ 1,447,393.98	
				47,623.76	

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		Arizona State University	10-254	47,259.77	
		Arizona State University	16-829	34,248.42	
		Brown University	1184	17,263.24	
		Colgate University	CU-201501	48,286.82	
		Johns Hopkins University	124810	31,194.79	
		Johns Hopkins University	125677	8,404.50	
		Mercyhurst University	M0250-UTK-201731	2,531.06	
		SETI Institute	SC3132	47,801.55	
		SETI Institute	SC 3264	6,860.52	
		Smithsonian Astrophysical Observatory	AR6-17009X	17,248.37	
		Smithsonian Astrophysical Observatory	G05-16013A	8,043.23	
		Smithsonian Astrophysical Observatory	G06-17017X	7,879.28	
		Smithsonian Astrophysical Observatory	G07-18014X	607.15	
		Space Telescope Science Institute	HST-GO-14180.007-A	0.04	
		The University of North Carolina at Chapel Hill	SUBAWARD: 5107129	31,895.94	
		University of Washington	UWSC9720	59,044.83	
		Vanderbilt University	21603-S2	(23,602.40)	
		Vanderbilt University	3801-019687	48,023.01	
		Vanderbilt University	UNIV60010	4,951.28	
				<hr/>	
43.002	Aeronautics			\$ 1,174,771.56	\$ 1,892,959.14
		University of California, Los Angeles	2090-S-JB694	79,726.59	
		University of Wyoming	1002956A	64,160.17	
				<hr/>	
43.003	Exploration			\$ 95,189.22	1,318,658.32
		University of Alabama in Huntsville	SUBAWARD 2018-020	1,941.26	
				<hr/>	
43.007	Space Operations				97,130.48
43.008	Education				69,815.03
		National Institute of Aerospace	C17-2931	\$ 13,705.02	-
		National Institute of Aerospace	C17-2D00	17,339.93	-
		Vanderbilt University	3795-019687	34,680.58	
		Vanderbilt University	3800-019687	69,287.40	
		Vanderbilt University	3855-019687	47,709.08	
		Vanderbilt University	SUBAWARD 21603-S8	(6,461.89)	
			AMEND 8		
		Vanderbilt University	SUBAWARD UNIV59412	29,773.25	
			AMEND 3		

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Vanderbilt University	UNIV59415-3798-019687	52,442.91	
		Vanderbilt University	UNIV59434	10,739.58	
		Vanderbilt University	UNIV59438	5,000.00	
					274,215.86
43.009	Cross Agency Support			6,685.95	-
43.RD	JPL-NASA 1534944		1534944	5,999.62	-
43.RD	NASA 80NSSC17K0508		80NSSC17K0508	159,413.98	-
43.RD	NASA 80NSSC18K0615		80NSSC18K0615	20,474.25	-
43.RD	NASA-JPL 1564519		1564519	3,718.85	-
43.RD	NASA NNX17AI10A		NNX17AI10A	231,038.72	-
43.RD	New FUV Diagnostics of the Atmosphere of the Hot-Jupiter HD 209458b with HST/COS 2016-19	Space Telescope Science Institute	NAS5-26555	69,863.96	-
43.RD	Research Support Agreement	California Institute of Technology	RSA No. 1556214	3,774.48	3,774.48
43.RD	Southwest Research K99062JRG	Southwest Research Institute	K99062JRG	23,731.11	-
43.RD	Univ of Arizona PO 30948 Phase E	University of Arizona	30948	56,571.03	-
43.RD	Univ of New Hampshire 11-107-10	University of New Hampshire	11-107	98,364.18	-
Subtotal Other Programs				\$ 4,332,414.96	\$ 996,044.92
Subtotal National Aeronautics and Space Administration				\$ 4,332,414.96	\$ 996,044.92
National Endowment for the Humanities					
Other Programs					
45.161	Promotion of the Humanities_Research			\$ 2,977.81	\$ -
Subtotal Other Programs				\$ 2,977.81	\$ -
Subtotal National Endowment for the Humanities				\$ 2,977.81	\$ -
Institute of Museum and Library Services					
Other Programs					
45.313	Laura Bush 21st Century Librarian Program			\$ 53,923.45	\$ -
Subtotal Other Programs				\$ 53,923.45	\$ -
Subtotal Institute of Museum and Library Services				\$ 53,923.45	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
National Science Foundation					
Other Programs					
47.041	Engineering Grants	American Society for Engineering Education	unknown	\$ 8,903,422.19	
		Clemson University	1958-206-2010979	15,000.00	
		Fisk University	1462329	13,180.43	
		Lehigh University	543406-78001	32,786.60	
		Syracuse University	28250-04301-S10	59,983.16	
		University of Washington	UWSC7874 (PO763076)	5,399.97	
				68,151.55	
				\$ 9,097,923.90	\$ 1,335,567.72
47.049	Mathematical and Physical Sciences	Old Dominion University	18-189-100501-010	\$ 5,166,464.65	
		The Ohio State University	60046595	6,912.00	
		University of Delaware	47797	18,305.06	
		University of Louisville	ULRF 15-0672-01	11,466.41	
		University of Louisville	ULRF-15-0672-02	1,126.46	
		University of Nebraska-Lincoln	unknown	77,556.15	
		Vanderbilt University	DMR-1507505	949.00	
				14,636.85	
				5,297,416.58	-
47.050	Geosciences	Columbia University in the City of New York	63(GG009393)	\$ 720,079.17	
		Michigan State University	G151-15-W5033	19,847.12	
		Southern California Earthquake Center	91267407	13.86	
		State University of New York	R1041551	6,569.84	
		University of Alaska	524336	129,561.55	
		University of Illinois	072212-14705	30,193.13	
				43,538.04	
				949,802.71	69,108.14
47.070	Computer and Information Science and Engineering	Asheville-Buncombe Technical Community College	1501535	\$ 5,589,274.72	
		Carnegie Mellon University	1122183-333033	7,091.45	
		University of Illinois	00318-04	129,009.71	
		University of Illinois	083842-16054	(41,220.54)	
		University of Michigan	3004628719	1,726,076.81	
		University of New Mexico	063045-87H2	76,643.50	
		University of Southern California	65744092	393,916.79	
				57,047.99	

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47.074	Biological Sciences	Washington State University	123507_G003407	28,752.64	7,966,593.07	791,539.86				
				\$ 7,131,670.95						
		Dartmouth College	R823	130,823.96						
		Portland State University	201REY307	24,302.06						
		University of Florida	UFDSP00010128	3,187.10						
		University of Georgia	RR182-466/S001303	62,031.47						
		University of Maryland, College Park	58600-Z4808002	15,712.04						
		University of Wisconsin-Madison	697K734	20,221.62						
		Wake Forest University	18-001	2,818.02						
		Washington State University	123664-G003629	201,439.62						
47.075	Social, Behavioral, and Economic Sciences				7,592,206.84	238,421.57				
				\$ 781,043.95						
		Southern Illinois University	18-02	3,827.29						
		The Pennsylvania State University	5634-UT-NSF-0274	5,285.00						
		University of Colorado	1548373	25,282.41						
47.076	Education and Human Resources				815,438.65	113,458.93				
				\$ 8,281,745.13						
		Auburn University	17-VP-200591-MTSU	6,000.00						
		Fisk University	2035	7,859.97						
		Howard University	DUE-1255441	10,511.45						
		Indian River State College	1600558	86,104.25						
		Kentucky Community and Technical College Madisonville	KCT-PS-698	69,658.20						
		National Center for Science and Civic Engagement	73299-1128962-3	2,100.00						
		National Cyberwatch Center	UNKNOWN	1,284.59						
		Prairie View A & M University	S180501-M1800172	1,440.28						
		Purdue University	SUBAWARD: 4101-79545	11,662.36						
		Radford University	F21023	15,023.19						
		Rochester Institute of Technology	31587-01	11,016.75						
		University Auxiliary and Research Services Corporation	92240/85026-TTU	73,508.30						
		University of Pittsburgh	0052307 (011908-01)	119,445.48						
		University of the District of Columbia	2017DC001	8,322.28						
		University of Tulsa	DUE-0856482	11,154.18						
		University of Wisconsin-Madison	565K950	366,501.18						
		47.078	Polar Programs						9,083,337.59	1,898,174.96
		47.079	Office of International Science and Engineering					\$ 68,426.23	11,806.05	-

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		University of South Dakota	SUBAWARD NO. UP1700296-TTU1	21,531.57	
				89,957.80	
47.080	Office of Cyberinfrastructure			25,610.83	21,960.49
47.083	Office of Integrative Activities	University of Southern California	72782937	(11,428.95)	-
47.RD	CURRENT Membership Admin - Federal		unknown	15,716.64	-
47.RD	IPA with NSF- J		DUE-1352047	30,380.92	-
47.RD	IUCRC Federal Membership		Unknown	22,035.44	-
47.RD	NSF 1650390		1650390	51,926.31	-
47.RD	NSF 1738262		1738262	24,572.77	-
47.RD	NSF Noyce Repayment Fund		Unknown	(8,500.00)	-
47.RD	Auburn Univ 17-VP-200591-UTK	Auburn University	17-VP-200591-UTK	10,115.88	-
47.RD	Georgia Tech RH188-G2	Georgia Institute of Technology CEE	RH188-G2	64,043.14	-
47.RD	Univ of Buffalo PO # 962937	University of Buffalo	962937	41,773.83	-
47.RD	Univ of MN 2018 Barrett Lecture	University of Minnesota	Unknown	5,000.00	-
47.RD	Univ of Notre Dame QuarkNet	University of Notre Dame	Unknown	2,017.14	-
Subtotal Other Programs				\$ 41,177,747.14	\$ 4,468,231.67
Subtotal National Science Foundation				\$ 41,177,747.14	\$ 4,468,231.67
Smithsonian Institution					
Other Programs					
60.RD	SSEC Colorado LASER		17-PO-620-0000381000	\$ 8,176.98	\$ -
Subtotal Other Programs				\$ 8,176.98	\$ -
Subtotal Smithsonian Institution				\$ 8,176.98	\$ -
Tennessee Valley Authority					
Other Programs					
62.RD	Effects of Prescribed Fire on Vegetation			\$ 2,508.07	\$ -
62.RD	Study of Selected Military Bases in TN			74.62	-
62.RD	TVA PB Dashboard 3000044 17			21,157.43	-
62.RD	TVA PO#2538669 (Contract 7493)			(3,645.37)	-
62.RD	TVA PO#2705772 (Contract 7493)			138.84	-

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62.RD	TVA PO#2749142 (Contract 7493)			2,465.79	-
62.RD	TVA PO#3024664 (Contract 7493)			2,631.63	-
62.RD	TVA PO#3110516 (99998950)			61,164.47	-
62.RD	TVA PO# 3180287 (Contract 7493)			6,207.23	-
62.RD	TVA PO# 3180289 (Contract 7493)			8,004.00	-
62.RD	TVA PO# 3282456 (Contract 7493)			12,318.52	-
62.RD	TVA PO#3384674 (Contract 99998950)			31,044.69	-
62.RD	TVA PO #3569737 Henson Branch			21,316.72	-
62.RD	TVA PO #3614689 (Contract 7493)			13,801.01	-
62.RD	TVA PO #3768259 (7493)			4,070.94	-
62.RD	TVA PO #3814523 (7493)			4,236.18	-
62.RD	TVA PO3036837 Water Trails 17			39,447.81	-
62.RD	TVA PO 3095478 (Contract 99998950)			4,892.40	-
62.RD	TVA Seed Prop of Lilium			(0.90)	-
62.RD	TVA Tree Improvement FY 17			47,891.28	-
62.RD	TVA Visitor Impact on Reservoirs			(1,965.34)	-
Subtotal Other Programs				\$ 277,760.02	\$ -
Subtotal Tennessee Valley Authority				\$ 277,760.02	\$ -
Department of Veterans Affairs					
Other Programs					
64.022	Veterans Home Based Primary Care			\$ 73,105.02	\$ -
64.034	VA Assistance to United States Paralympic			51,354.02	-
64.RD	VA Medical Center IPA Agreements		Unknown	25,504.30	-
Subtotal Other Programs				\$ 149,963.34	\$ -
Subtotal Department of Veterans Affairs				\$ 149,963.34	\$ -
Environmental Protection Agency					
ASSISTANT ADMINISTRATOR FOR AIR AND RADIATION					
66.034	Surveys, Studies, Research, Investigations,	Shelby County Health Department	CA1620060-1	\$ 208,826.49	\$ -
Subtotal ASSISTANT ADMINISTRATOR FOR AIR AND RADIATION				\$ 208,826.49	\$ -

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ASSISTANT ADMINISTRATOR FOR RESEARCH AND DEVELOPMENT					
66.509	Science To Achieve Results (STAR) Research Program	East Carolina University Greenville Centre	A17-0322-S001	\$ 43,226.95	
		Emory University	T602415	97,536.21	
		Johns Hopkins University	2003148196	68,089.90	
		Kansas State University	S18012	1,654.17	
		Meharry Medical College	170207PJ027-02	18,549.64	
		University of California, San Francisco	9353SC	(9,255.32)	
				<u>\$ 219,801.55</u>	<u>\$ -</u>
Subtotal ASSISTANT ADMINISTRATOR FOR RESEARCH AND DEVELOPMENT				<u>\$ 219,801.55</u>	<u>\$ -</u>
ASSISTANT ADMINISTRATOR FOR WATER					
66.440	Urban Waters Small Grants			\$ 29,214.77	\$ -
66.461	Regional Wetland Program Development Grants			<u>95,563.88</u>	<u>-</u>
Subtotal ASSISTANT ADMINISTRATOR FOR WATER				<u>\$ 124,778.65</u>	<u>\$ -</u>
Other Programs					
66.RD	US EPA IPA NC-0304-16-17N		NC-0304-16-17N	\$ 12,318.92	\$ -
66.RD	US EPA IPA NC-0304-18-18E		0304-18-18E	29,971.09	-
66.RD	Alaska -DEC (ClnupCalc)Task4	Alaska Department of Environmental Conservation Contaminated Sites Program	Unknown	71,530.98	-
Subtotal Other Programs				<u>\$ 113,820.99</u>	<u>\$ -</u>
Subtotal Environmental Protection Agency				<u>\$ 667,227.68</u>	<u>\$ -</u>

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Nuclear Regulatory Commission					
Other Programs					
77.008	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program			\$ 204,670.75	\$ -
Subtotal Other Programs				\$ 204,670.75	\$ -
Subtotal Nuclear Regulatory Commission				\$ 204,670.75	\$ -
Department of Energy					
Other Programs					
81.049	Office of Science Financial Assistance Program			\$ 8,448,313.97	
		Carnegie Institution of Washington	4-10114-12	13,394.97	
		Case Western Reserve University	RES512388	39,601.01	
		Rainbow Babies Children's Hospital			
		Louisiana State University	44159 2016-2018	120,973.08	
		Purdue University	4105-65002	159,094.04	
		University of California, Davis	A18-0253-S001	214,220.01	
		University of Notre Dame	202373	206,394.45	
		University of Notre Dame	203132	3,438.24	
				\$ 9,205,429.77	\$ 2,046,874.40
81.057	University Coal Research			\$ 69,215.18	
		University of Illinois	072224-14710	26,285.62	
				95,500.80	-
81.079	Regional Biomass Energy Programs	South Dakota State University	3TA157	(679.79)	-
81.086	Conservation Research and Development			\$ 146,229.94	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.1	5,576,494.43	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.11	59,968.98	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.2	(48.01)	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.2-02	570,155.01	

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		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.4	4,880.33	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.5	34,566.50	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.7	120,655.46	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.8	37,275.99	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-3.9	71,765.82	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-4.2	553,385.56	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-5.1-01	382,079.38	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-5.2	295,828.65	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-5.3	187,146.37	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-5.4	9,480.16	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-5.5	24,603.95	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-6.1	476,617.66	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-6.1-IIP	2,470,585.80	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-6.7	314,307.45	
		Institute for Advanced Composites Manufacturing Innovation	PA16-0349-7.1-01	2,534,116.97	
		North Carolina State University	0654-72	237,373.25	
81.087	Renewable Energy Research and Development			\$ 978,080.65	14,107,469.65
		Texas A&M University	06-S140675	(6,011.98)	
		Texas A&M University	06-S170617	171,439.80	
		University of California, Riverside	S000768	189,434.59	
81.089	Fossil Energy Research and Development				1,332,943.06
81.112	Stewardship Science Grant Program			\$ 1,026,068.22	93,583.83
					653,195.76
					43,402.89

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		Rutgers, The State University of New Jersey	5110	422,574.73	
81.113	Defense Nuclear Nonproliferation Research			\$ 142,220.11	1,448,642.95
		North Carolina State University	0501-10F1	140,378.57	
		University of California	9335	860,153.76	
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance				1,142,752.44
81.121	Nuclear Energy Research, Development and Demonstration			\$ 1,652,236.77	1,295,495.64
		Lehigh University	543167-78001	64,270.29	
		Oregon State University	G0150A-A	35,952.27	
		University of Michigan	3002964739-A	23,235.11	
81.122	Electricity Delivery and Energy Reliability, Research, Development and Analysis	University of Illinois	DE-OE0000780		1,775,694.44
81.123	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	Florida Agricultural and Mechanical University	DE-NA0002630	\$ 31,492.67	25,839.43
		Florida Agricultural and Mechanical University	DE-NA0003679	207,540.88	
81.135	Advanced Research Projects Agency - Energy				239,033.55
		University of Minnesota, Twin Cities	A005223301	\$ 1,553,762.10	
				55,608.50	
81.RD	Alliance Sustainable XEU-6-62565		XEU-6-62565		1,609,370.60
81.RD	Alliance Sustainable XEU-6-62566		XEC-6-62566-01		6,396.87
81.RD	Argonne 6F-30521		6F-30521		46,719.96
81.RD	Argonne National Lab 7F-30144		7F-30144		34,335.63
81.RD	Argonne Natl Lab 4F-30621		4F-30621		42,585.32
81.RD	Battelle Energy Alliance 00126625		126625		25,930.27
81.RD	Battelle Energy Alliance 0159482		159482		96,670.80
81.RD	Brookhaven National Lab 312946		312946		125,553.45
81.RD	BWX Technologies, 4900011486		4900011486-0		114,931.00
81.RD	CNS, LLC - 4300095878		4300095878		9,660.20
81.RD	CNS, LLC 4300099382		4300099382		81,182.34
81.RD	CNS, LLC4300101241		4300101241		24,801.49
81.RD	CNS, LLC4300101264		4300101264		926.74
81.RD	CNS, LLC 4300102376		4300102376		19,492.38
81.RD	CNS, LLC 4300102524		4300102524		4,621.76
81.RD	CNS, LLC 4300102658		4300102658		28,429.85
				(5,786.78)	-
					762,209.63

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81.RD	CNS, LLC 4300103770		4300103770	80,218.24	-
81.RD	CNS, LLC 4300103904		4300103904	54,771.45	-
81.RD	CNS, LLC 4300105381		4300105381	17,285.01	-
81.RD	CNS, LLC 4300105431		4300105431	39,528.41	-
81.RD	CNS, LLC 4300105484		4300105484	216,245.97	-
81.RD	CNS, LLC 4300105533		4300105533	341,157.48	-
81.RD	CNS, LLC 4300105559		4300105559	68,699.74	-
81.RD	CNS, LLC 4300105758		4300105758	53,084.84	-
81.RD	CNS, LLC 4300106563		4300106563	6,623.29	-
81.RD	CNS, LLC 4300106564		4300106564	21,977.37	-
81.RD	CNS, LLC 4300106652		4300106652	81,889.12	-
81.RD	CNS, LLC 4300150930		4300150930	35,334.06	-
81.RD	CNS, LLC 4300151362		4300151362	74,171.82	-
81.RD	CNS, LLC 4300151365		4300151365	94,500.64	-
81.RD	CNS, LLC 4300151881		4300151881	32,202.97	-
81.RD	CNS, LLC 4300151978		4300151978	11,906.86	-
81.RD	CNS, LLC 4300152172		4300152172	11,494.60	-
81.RD	CNS, LLC PanTex 0000050657		50657	74,671.24	-
81.RD	CNS 4300101183		4300101183	25,405.91	-
81.RD	Consolidated Nuclear Sec 4300094840		4300094840	15,307.65	-
81.RD	FERMI Research Alliance 626582		626582	28,424.14	-
81.RD	Honeywell FM&T LLC N000178639		N000178639	48,186.22	-
81.RD	Honeywell FM&T LLC N000180951		N000180951	52,674.23	-
81.RD	Honeywell FM&T LLC N000230945		N000230945	31,501.44	-
81.RD	Honeywell FM&T LLC N000266797		N000266797	78,974.88	-
81.RD	Honeywell FM&T LLC N000267021		N000267021	64,043.32	-
81.RD	Honeywell FM&T LLC N000267026		N000267026	93,939.89	-
81.RD	Lawrence Berkeley NatLab7229788(51)		7229788	136,562.77	-
81.RD	LLNL B621559		B621559	159,082.36	-
81.RD	Los Alamos National Lab 400518		400518	50,796.67	-
81.RD	Los Alamos National Lab 428764		428764	96,819.22	-
81.RD	Los Alamos Natl Lab 425211		425211	180,835.52	-
81.RD	NREL XFC-7-70061-01		XFC-7-70061-01	78,923.27	-
81.RD	PNNL Battelle 398740		398740	7,523.41	-
81.RD	Sandia National Lab PO 1790512		1790512	283,675.10	-
81.RD	Sandia National Lab PO 1790519		1790519	255,133.56	-
81.RD	UCOR SC-16-024688, Rev.0		SC-16-024688	16,000.84	-
81.RD	UT-Battelle		B0199BTL	26,949,818.34	-
81.RD	Applied Signal Processing and Advanced Communications Techniques	UT Battelle, LLC	4000140763 MOD 5	1.64	-
81.RD	Battelle Memorial PNNL 339110	Battelle Memorial Institute Pacific Northwest National	339110	34,159.15	-

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81.RD	Battelle Memorial 248092 (51%)	Battelle Memorial Institute Pacific Northwest National	248092	19,346.64	-
81.RD	Benchmark and Analyze Open Source Paralles XX Libraries on Different High Performance Computing Architectures for Performance Prediction	UT Battelle, LLC	4000151414 MOD 1	8,711.42	-
81.RD	Carnegie Institution of Washington	Carnegie Institution of Washington	4-10469-27	78,957.56	-
81.RD	Detection and Analysis of Malware in Critical Infrastructure	UT Battelle, LLC	4000158354 MOD 3	64,240.49	-
81.RD	Dry Cooling Using Materials	Los Alamos National Laboratory	428790	53,577.06	-
81.RD	Evaluation of the Mutual Benefits of Deep Learning and Never-Ending Learning to Support Cancer Surveillance and Precision Oncology	UT Battelle, LLC	4000158788 MOD 2	27,284.95	-
81.RD	Improving Strength of 3-D Printed ABS Weld Lines: Compatibilized Stripe" Deposition"	UT Battelle, LLC	4000145173 MOD 02	1,487.90	-
81.RD	Microbial Enzyme Decomposition	UT-Battelle, LLC For the Department of Energy	DE-AC05-00OR22725	32,992.73	-
81.RD	NC State Univ. - 2016-2122-01	North Carolina State University	2122-01	75,012.71	-
81.RD	Nuclear Hybrid Energy Systems: Desalination Case Study	UT Battelle, LLC	4000153274 MOD 1	60,422.24	-
81.RD	UF6 Enrichment Levels	Argonne National Laboratory	8F-30063	143,104.18	-
81.RD	Univ of North Carolina Chapel	The University of North Carolina at Chapel Hill	5107500	74,249.76	-
Subtotal Other Programs				\$ 63,670,467.93	\$ 15,615,752.31
Subtotal Department of Energy				\$ 63,670,467.93	\$ 15,615,752.31
Department of Education					
INSTITUTE OF EDUCATION SCIENCES					
84.305	Education Research, Development and	Brown University	R305E150005	\$ 135,444.15	
		Georgia State University	SP00010952-03	495,189.02	
		University of Michigan	R305H140028	24,584.93	
		University of Pittsburg	R305H140112	51.80	
		University of Wisconsin-Madison	480K303	(1,202.86)	
				\$ 654,067.04	\$ -
84.324	Research in Special Education			400,451.99	189,781.03
Subtotal INSTITUTE OF EDUCATION SCIENCES				\$ 1,054,519.03	\$ 189,781.03

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Office of Career, Technical, and Adult Education					
84.051	Career and Technical Education -- National	Shelby County Schools	2017-0406	\$ 2,899.58	\$ -
Subtotal Office of Career, Technical, and Adult Education				\$ 2,899.58	\$ -
OFFICE OF ELEMENTARY AND SECONDARY EDUCATION					
84.287	Twenty-First Century Community Learning Centers	Commonwealth of Virginia	780-86788-S287C150047	\$ 7,909.39	
		Commonwealth of Virginia	780-86788-S287C160047	70,513.26	
				\$ 78,422.65	\$ -
84.365	English Language Acquisition State Grants			438,220.42	283,432.09
84.366	Mathematics and Science Partnerships	Bedford County	S366B130043	\$ 3,220.53	
		Bedford County	Unknown	222,992.25	
				226,212.78	-
Subtotal OFFICE OF ELEMENTARY AND SECONDARY EDUCATION				\$ 742,855.85	\$ 283,432.09
OFFICE OF POSTSECONDARY EDUCATION					
84.407	Transition Programs for Students with Intellectual Disabilities into Higher Education	Vanderbilt University	P407A150058-17	\$ 9,863.33	\$ -
Subtotal OFFICE OF POSTSECONDARY EDUCATION				\$ 9,863.33	\$ -
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES					
84.325	Special Education - Personnel Development to	Salus University	88402 16-17	\$ 6,000.00	
		Salus University	88403 17-18	165,335.19	
				\$ 171,335.19	\$ -
Subtotal OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES				\$ 171,335.19	\$ -
OII - OFFICE OF INNOVATION AND IMPROVEMENT					
84.411	Investing in Innovation (i3) Fund	National Board for Professional	ATLAS	\$ 5,742.58	\$ -
Subtotal OII - OFFICE OF INNOVATION AND IMPROVEMENT				\$ 5,742.58	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Other Programs					
84.116	Fund for the Improvement of Postsecondary Education	University of Minnesota	A004497004	\$ 75,365.24	\$ -
84.396	State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act	Smithsonian Institution	U396B100097	24,075.81	-
Subtotal Other Programs				\$ 99,441.05	\$ -
Subtotal Department of Education				\$ 2,086,656.61	\$ 473,213.12
National Archives and Records Administration					
Other Programs					
89.003	National Historical Publications and Records Grants			\$ 170,127.14	\$ -
Subtotal Other Programs				\$ 170,127.14	\$ -
Subtotal National Archives and Records Administration				\$ 170,127.14	\$ -
Department of Health and Human Services					
ADMINISTRATION FOR CHILDREN AND FAMILIES					
93.060	Sexual Risk Avoidance Education	Ambassadors for Christ	41091	\$ 42,507.80	\$ -
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	Ambassadors for Christ	41091	61,515.90	-
93.670	Child Abuse and Neglect Discretionary Activities	Community Alliance for the Homeless	90CA1792	84,492.21	-
Subtotal ADMINISTRATION FOR CHILDREN AND FAMILIES				\$ 188,515.91	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
ADMINISTRATION FOR COMMUNITY LIVING (ACL)					
93.632	University Centers for Excellence in Developmental			\$ 5,699.18	\$ -
Subtotal ADMINISTRATION FOR COMMUNITY LIVING (ACL)				\$ 5,699.18	\$ -
AGENCY FOR HEALTHCARE RESEARCH AND QUALITY					
93.226	Research on Healthcare Costs, Quality and Outcomes			\$ 82,488.03	
		University of Missouri	C00058197-1	44,664.28	
				\$ 127,152.31	\$ 42,008.49
Subtotal AGENCY FOR HEALTHCARE RESEARCH AND QUALITY				\$ 127,152.31	\$ 42,008.49
CENTERS FOR DISEASE CONTROL AND PREVENTION					
93.080	Blood Disorder Program: Prevention, Surveillance,	University of North Carolina Chapel	5106856	\$ 3,241.82	
		University of North Carolina Chapel	5108669	46,307.47	
		Hill			
		University of North Carolina Chapel	5108968	11,815.02	
		Hill			
				\$ 61,364.31	\$ -
93.136	Injury Prevention and Control Research and State and Community Based Programs			\$ 174,838.78	
		University of North Carolina Chapel	5110034	15,775.32	
		Hill			
				190,614.10	-
93.262	Occupational Safety and Health Program			\$ 171,929.87	
		Colorado State University	G-41108-1	78,667.46	
				250,597.33	-
93.315	Rare Disorders: Research, Surveillance, Health Promotion, and Education	University of South Carolina	18-3430	7,912.60	-
93.942	Research, Prevention, and Education Programs on Lyme Disease in the United States			-	(140.32)

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Shelby County Government	S010327	18,000.00	-
Subtotal CENTERS FOR DISEASE CONTROL AND PREVENTION				\$ 528,488.34	\$ (140.32)
CENTERS FOR MEDICARE AND MEDICAID SERVICES					
93.611	Strong Start for Mothers and Newborns			\$ (620.44)	\$ -
Subtotal CENTERS FOR MEDICARE AND MEDICAID SERVICES				\$ (620.44)	\$ -
FOOD AND DRUG ADMINISTRATION					
93.103	Food and Drug Administration_Research			\$ 46,715.54	\$ 40,099.35
Subtotal FOOD AND DRUG ADMINISTRATION				\$ 46,715.54	\$ 40,099.35
HEALTH RESOURCES AND SERVICES ADMINISTRATION					
93.110	Maternal and Child Health Federal Consolidated Programs			\$ 571.24	
		Hemophilia of Georgia, Inc.	5 H30 MC24046-02	9,199.44	
		University of North Carolina Chapel Hill	5109840	16,414.06	
93.247	Advanced Nursing Education Grant Program			\$ 26,184.74	\$ -
93.732	Mental and Behavioral Health Education and Training Grants			173,808.55	-
93.822	Health Careers Opportunity Program			229,720.23	-
				221,312.01	-
Subtotal HEALTH RESOURCES AND SERVICES ADMINISTRATION				\$ 651,025.53	\$ -

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
IMMEDIATE OFFICE OF THE SECRETARY OF HEALTH AND HUMAN SERVICES					
93.500	Pregnancy Assistance Fund Program	University of South Carolina	16-2943	\$ 823.01	\$ -
Subtotal IMMEDIATE OFFICE OF THE SECRETARY OF HEALTH AND HUMAN SERVICES				\$ 823.01	\$ -
NATIONAL INSTITUTES OF HEALTH					
93.077	Family Smoking Prevention and Tobacco Control Act Regulatory Research			\$ 139,038.09	\$ -
93.113	Environmental Health			1,339,884.02	-
93.121	Oral Diseases and Disorders Research			\$ 470,194.86	
		University of California	1350 G TB091	92,029.31	
				562,224.17	58,061.24
93.142	NIEHS Hazardous Waste Worker Health and Safety Training	National Partnership for Environmental Technology Education	10694	\$ 34,556.53	
		National Partnership for Environmental Technology Education	10704	20,024.52	
				54,581.05	-
93.143	NIEHS Superfund Hazardous Substances_Basic Research and Education			\$ 153,851.77	
		Louisiana State University	79218	40,281.84	
		Louisiana State University	PH-17-114-003	5,116.71	
		University of Maryland	15348	48,882.00	
				248,132.32	-
93.172	Human Genome Research	European Molecular Biology Laboratory	HG003345	24,551.76	-
93.173	Research Related to Deafness and Communication Disorders			1,262,929.25	54,249.98
93.213	Research and Training in Complementary and Integrative Health	Texas Tech University	21F096-01	29,559.67	-
93.233	National Center on Sleep Disorders Research			141,051.18	-
93.242	Mental Health Research Grants			\$ 902,612.43	
		Vanderbilt University	UNIV59261	2.57	
		Yale University	GK000701	47,154.78	
				949,769.78	-
93.273	Alcohol Research Programs			\$ 2,181,694.49	
		Jackson Laboratory	207434	(3,451.63)	
		McMaster University	20007625	222,671.99	
		State University of New York	75764	73,777.57	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		State University of New York	AA 017823-09	176,104.62	
93.279	Drug Abuse and Addiction Research Programs			\$ 1,103,862.30	2,650,797.04
		Dartmouth College	R847	74,425.67	
		Dartmouth College	R957	76,781.82	
		Oregon Social Learning Center	R01DA040416	37,745.00	
		University of California, San Diego	73257613	339,719.02	
		Virginia Commonwealth University	FP00003517_SA003	28,472.08	
93.286	Discovery and Applied Research for Technological Innovations to Improve Human Health			\$ 2,709,558.21	1,661,005.89
		University of California, San Francisco	10555sc	41,860.49	
93.307	Minority Health and Health Disparities Research				2,751,418.70
		Bayou Clinic	U54MD008602-001MTSU	\$ 335,655.42	
		H. Lee Moffitt Cancer Center and Research Institute, Inc.	11-19002-99-01-G1	43,012.15	
		Johns Hopkins University	2002898159	148,381.66	
		Meharry Medical College	5U54MD007593-08	5,349.67	
		University of Pittsburgh	1 R01 MD011678-01	8,355.03	
		University of Utah	10044779-03	239,240.14	
93.310	Trans-NIH Research Support			\$ 200,611.32	779,994.07
		Louisiana State University	16-91-033	5,391.45	
		University of Washington	OD-023271-02	403,787.76	
		University of Washington	UWSC9515	11,752.22	
93.351	Research Infrastructure Programs				621,542.75
93.361	Nursing Research			\$ 0.67	651,678.71
		Dana-Farber Cancer Institute	1283502	31,658.86	
		University of Rochester	NR014451-416553G	194.80	
		University of Rochester	NR 014451 416553G	125,683.81	
93.393	Cancer Cause and Prevention Research			\$ 990,736.55	157,538.14
		H. Lee Moffitt Cancer Center and Research Institute, Inc	CA189184	13,872.43	
		St. Jude Children's Research Hospital	150354100-7809259	7,195.44	
		University of Utah	10044693-01	209,729.23	
		University of Utah	10045740-02	13,443.69	
		University of Virginia	CA 193245-03	169,831.88	
		University of Virginia	CA 193245-04	285,369.40	
		Washington University	WU-18-83	63,354.90	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.394	Cancer Detection and Diagnosis Research	Beckman Research Institute of the City of Hope	522422.200145.669302	\$ 806,945.22	1,753,533.52
		Beckman Research Institute of the City of Hope	524222001475	12,159.14	156,949.11
		Fred Hutchinson Cancer Research Center	872125	91,785.91	
		Fred Hutchinson Cancer Research Center	899630	(72.87)	
		Rutgers, The State University of New Jersey	Subaward 0370	17,346.51	
		State University of New York	75819-1134514-2	20,733.05	
		University of North Carolina Chapel Hill	5110003	157,891.70	
				32,596.93	
93.395	Cancer Treatment Research	St. Jude Children's Research Hospital	5 UM 1 CA 081457	\$ 1,895,820.15	1,139,385.59
		University of North Carolina Chapel Hill	5110178	33,464.84	145,403.48
				21,205.67	
93.396	Cancer Biology Research	University of Minnesota, Twin Cities	4798801	\$ 58,416.76	1,950,490.66
				35,388.88	116,348.86
93.397	Cancer Centers Support Grants				93,805.64
93.398	Cancer Research Manpower				1,062,260.89
93.837	Cardiovascular Diseases Research				79,316.05
		Children's Hospital Research Foundation	138511	\$ 5,078,871.42	-
		Temple University	260339	15,260.85	-
		University of California, San Francisco	9322SC	28,106.24	10,435.85
		University of Michigan	3001621714	5,902.73	
		University of Pittsburgh	5 R01 HL 122144-04	6,335.32	
		University of Pittsburgh	HL122144	22,454.28	
		University of Virginia	GG12052.157876	29,435.25	
		Vanderbilt University Medical Center	2 R01 HL-132338	39,993.53	
		Vanderbilt University Medical Center	VUMC 62247	189,797.54	
				165,227.67	
93.838	Lung Diseases Research	Seattle Children's Hospital	1U01 HL 114623-01	\$ 1,356,616.55	5,581,384.83
				30,307.61	11,219.58
					1,386,924.16
					792,704.22

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.839	Blood Diseases and Resources Research	St. Jude Children's Research Hospital	112246010-775050		147,639.72
93.846	Arthritis, Musculoskeletal and Skin Diseases Research			\$ 2,299,779.13	
		Children's Research Institute	1 P50 AR 060836	2,284.93	
		Wayne State University	5 R01 HL111459-05	21,099.79	
					2,323,163.85
93.847	Diabetes, Digestive, and Kidney Diseases			\$ 5,426,276.82	
		Case Western Reserve University	4U01DK094157-06	(5,888.95)	
		Rainbow Babies Children's Hospital			
		Case Western Reserve University	DK104438	9,901.75	
		Rainbow Babies Children's Hospital			
		Case Western Reserve University	RES508615	(6,027.89)	
		Rainbow Babies Children's Hospital			
		Case Western Reserve University	RES512223	149,098.88	
		Rainbow Babies Children's Hospital			
		Case Western Reserve University	RES512838	7,189.93	
		Rainbow Babies Children's Hospital			
		Eastern Virginia Medical School	S27141-20	1,543.50	
		Jackson Laboratory	210260	82,828.83	
		Johns Hopkins University	2003007321	21,392.02	
		Johns Hopkins University	DK109163	(8,754.14)	
		Kaiser Foundation Institute	RNG200628	2,839.78	
		Kaiser Foundation Institute	RNG 200628	20,330.41	
		Nationwide Children's Hospital	82107815	0.06	
		Purdue University	4102-78590	12,140.06	
		Rutgers, The State University of New Jersey	278	69,130.19	
		Tufts Medical Center	5008763-SERV	76,908.95	
		University of Alabama at Birmingham	000504038-001	(476.74)	
		University of Alabama at Birmingham	00050438-001	25,769.67	
		University of California, Irvine	3099	67,966.36	
		University of California, Irvine	5 U01 DK102163-05	35,532.73	
		University of California, San Francisco	9962CS	(7,260.86)	
		University of Miami School of Medicine	SPC-000681	28,542.36	
		University of Miami School of Medicine	Unknown	7,170.93	
		University of Missouri, Kansas City	0056364-00043157	128,919.93	
		University of Pennsylvania	5 UH3 DK 102384-05	1,831.62	

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders	University of South Carolina	16-2994	5,577.40	6,152,483.60
				\$ 3,060,705.23	
		Cincinnati Children's Hospital Medical Center	3100494941	(2,191.93)	
		Massachusetts General Hospital	1 U01 NS 090259-01	73,879.07	
93.855	Allergy and Infectious Diseases Research	Vanderbilt University Medical Center	VUMC 60094	72,595.20	3,204,987.57
				\$ 6,242,023.59	
		Colorado State University	G-45858-1	217,240.62	
		Columbia University in the City of New York	12 GG011896-21	3,611.27	
		LSU Health Science Center	SOD-16-136-006	72,800.68	
		St. Jude Children's Research Hospital	112213019-7705195	6,625.82	
		St. Jude Children's Research Hospital	5 R01 AI 111449-03	97,560.15	
		St. Jude Children's Research Hospital	5 R01 AI 111449-05	1,757.82	
		University of California, San Diego	46049851	14,684.60	
		University of California, San Diego	UM1A069536	21,100.02	
		University of Louisville	ULRF-15-0382	2,032.34	
		University of Louisville	ULRF 15-0382-01	70,063.42	
		University of Oklahoma	13	413.43	
		Vanderbilt University	VUMC59336	60,969.47	
				6,810,883.23	
				\$ (6,002.38)	
93.856	Microbiology and Infectious Diseases Research	University of Mississippi	EY022020	25,592.41	19,590.03
93.859	Biomedical Research and Research Training			\$ 6,269,521.03	
93.865	Child Health and Human Development Extramural Research	California Institute of Technology	GM-114611	(1,378.27)	6,729,043.31
		Jackson Laboratory	5 R01 GM 070683-11	24,512.58	
		Memorial Sloan-Kettering Institute for Cancer Research	BD521943	70,330.35	
		North Carolina State University	2097-02	76,870.47	
		University of Notre Dame	202870	43,959.71	
		University of Pittsburgh	0040632 (124394-4)	245,227.44	
				\$ 1,521,819.98	
		Leland Stanford Junior University	HD070795	12,331.02	
		Vanderbilt University Medical Center	VUMC 53269	2,495.38	
		Vanderbilt University Medical Center	VUMC64370	44,346.08	
				1,580,992.46	284,557.68

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93.866	Aging Research	Jackson Laboratory	1 R01 AG 054180 01	\$ 2,877,143.05	
		Jackson Laboratory	1 R01 AG-054180-02	18,667.13	
		Minneapolis Medical Research Foundation	AG029824	3,954.80	
		The Ohio State University	60053797	3,914.03	
		University of Massachussetts	OSP2018024	(2,588.88)	
		University of Michigan	3003764327	9,596.23	
				12,508.89	
					2,923,195.25
93.867	Vision Research	Emory University	T289010	\$ 2,472,666.66	490,764.21
		University of Mississippi	15-03-031	(3,830.94)	
		University of Oklahoma Health Science	RS20142345-02	48,955.56	
				(8,640.25)	
					2,509,151.03
93.879	Medical Library Assistance	University of Maryland, College Park	1600679	\$ (1,205.08)	237,042.15
		University of Maryland, College Park	1UG4LM012340-01	(1,212.89)	
					(2,417.97)
93.989	International Research and Research Training	Florida International University	800007920-04UG	43,694.48	-
					-
Subtotal NATIONAL INSTITUTES OF HEALTH				\$ 59,515,204.49	\$ 6,730,819.67

SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION

93.243	Substance Abuse and Mental Health	Buffalo Valley, Incorporated	1H79TI080553-01	\$ 256,815.89	
		Buffalo Valley, Incorporated	TI025630	56,734.58	
		Rutherford County	SAMHSA 17	(24,476.34)	
				44,089.39	
				\$ 333,163.52	\$ -
Subtotal SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION				\$ 333,163.52	\$ -

Other Programs

93.999	Test for Suppression Effects of Advanced Energy	University of Notre Dame	208115	\$ 22,501.14	\$ -
93.RD	IPA LK		IPA Lk	57,397.57	-
93.RD	Jackson Lab 207469	Jackson Laboratory	208792	16,325.76	-
93.RD	USF TrialNet Sub HHSN267200800019C	University of South Florida	HHSN267200800019C	3,827.67	-

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93.RD	Wake Forest Sub HHSN268200900040C	Wake Forest University	WFUHS 330181	35,947.12	-
Subtotal Other Programs				\$ 135,999.26	\$ -
Subtotal Department of Health and Human Services				\$ 61,532,166.65	\$ 6,812,787.19
Department of Homeland Security					
DOMESTIC NUCLEAR DETECTION OFFICE					
97.077	Homeland Security Research, Development, Testing,			\$ 1,993,270.18	\$ 102,058.47
Subtotal DOMESTIC NUCLEAR DETECTION OFFICE				\$ 1,993,270.18	\$ 102,058.47
FEDERAL EMERGENCY MANAGEMENT AGENCY					
97.005	State and Local Homeland Security National Training Program	Norwich University Applied Research Institutes	SA 2015-014	\$ 64,989.69	
		The Center for Rural Development	00097-SOI	144,588.91	
		The Center for Rural Development	00190-03	51,253.81	
		The Center for Rural Development	EMW-2017-CA-0052-S01	4,483.31	
		The University of Texas	326080005B	47,403.57	
		The University of Texas at San Antonio	1000001516	96,221.26	
		University of Arkansas at Little Rock	18002-3	82,926.93	
				\$ 491,867.48	\$ -
Subtotal FEDERAL EMERGENCY MANAGEMENT AGENCY				\$ 491,867.48	\$ -
SCIENCE AND TECHNOLOGY					
97.061	Centers for Homeland Security	University of Maryland, College Park	41631 Z9373010	\$ 18,552.16	\$ -
97.062	Scientific Leadership Awards			78,883.44	-

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CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
97.104	Homeland Security-related Science, Technology, Engineering and Mathematics (HS STEM) Career Development Program			77,599.47	-
Subtotal SCIENCE AND TECHNOLOGY				\$ 175,035.07	\$ -
Subtotal Department of Homeland Security				\$ 2,660,172.73	\$ 102,058.47
Agency for International Development					
Other Programs					
98.001	USAID Foreign Assistance for Programs Overseas			\$ 201,616.24	
		Michigan State University	RC102095	34,618.44	
		The Pennsylvania State University	5587-UT-KSU-6056	19,243.22	
		University of Florida	AID-OAA-L-15-00003	42,364.13	
98.RD	Genome-Wide MicroRNAs & Single Gamete Based Genetic Profiling of Sweet Sorghum Varieties for Biofuel Production	National Academy of Sciences	ESP-A-00-05-00001-00	\$ 297,842.03	\$ 35,984.33
				106,320.84	-
Subtotal Other Programs				\$ 404,162.87	\$ 35,984.33
Subtotal Agency for International Development				\$ 404,162.87	\$ 35,984.33
Total Research and Development Cluster				\$ 226,555,707.60	\$ 37,434,771.54
Student Financial Assistance Cluster					
Department of Education					
84.007	Federal Supplemental Educational Opportunity			\$ 7,649,413.97	\$ -
84.033	Federal Work-Study Program			6,848,940.76	-
84.038	Federal Perkins Loan Program_Federal Capital			26,133,525.25	-
84.063	Federal Pell Grant Program			378,053,911.05	-
84.268	Federal Direct Student Loans			771,659,898.00	-
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)			435,466.00	-
84.408	Postsecondary Education Scholarships for Veteran's			5,511.00	-
Subtotal Department of Education				\$ 1,190,786,666.03	\$ -

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Department of Health and Human Services					
93.264	Nurse Faculty Loan Program (NFLP)			\$ 1,385,412.35	\$ -
93.342	Health Professions Student Loans, Including Primary Care Loan/Loans for Disadvantaged Students			1,117,897.14	
93.364	Nursing Student Loans			52,701.28	
Subtotal Department of Health and Human Services				<u>\$ 2,556,010.77</u>	<u>\$ -</u>
Total Student Financial Assistance Cluster				<u>\$ 1,193,342,676.80</u>	<u>\$ -</u>
SNAP Cluster					
Department of Agriculture					
10.551	Supplemental Nutrition Assistance Program			\$ 1,475,866,930.22	\$ -
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program			\$ 81,075,716.34	
		Southeast Tennessee Development	LW05F171QSNAP17	<u>3,022.05</u>	
Subtotal Department of Agriculture				<u>\$ 1,556,945,668.61</u>	<u>\$ 524,738.66</u>
Total SNAP Cluster				<u>\$ 1,556,945,668.61</u>	<u>\$ 524,738.66</u>
Child Nutrition Cluster					
Department of Agriculture					
10.553	School Breakfast Program			\$ 116,159,291.21	\$ 115,971,959.50
10.555	National School Lunch Program			328,410,930.33	328,020,338.43
10.556	Special Milk Program for Children			21,346.78	21,346.78
10.559	Summer Food Service Program for Children			<u>11,011,403.77</u>	<u>9,802,124.94</u>
Subtotal Department of Agriculture				<u>\$ 455,602,972.09</u>	<u>\$ 453,815,769.65</u>
Total Child Nutrition Cluster				<u>\$ 455,602,972.09</u>	<u>\$ 453,815,769.65</u>

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Food Distribution Cluster					
Department of Agriculture					
10.565	Commodity Supplemental Food Program			\$ 3,765,051.83	\$ 903,151.36
10.568	Emergency Food Assistance Program			1,418,328.33	1,364,491.60
10.569	Emergency Food Assistance Program (Food Commodities) (Noncash Award)			10,107,708.54	10,107,708.54
Subtotal Department of Agriculture				\$ 15,291,088.70	\$ 12,375,351.50
Total Food Distribution Cluster				\$ 15,291,088.70	\$ 12,375,351.50
Forest Service Schools and Roads Cluster					
Department of Agriculture					
10.665	Schools and Roads - Grants to States			\$ 959,954.48	\$ 959,954.48
Subtotal Department of Agriculture				\$ 959,954.48	\$ 959,954.48
Total Forest Service Schools and Roads Cluster				\$ 959,954.48	\$ 959,954.48
Section 8 Project-Based Cluster					
Department of Housing and Urban Development					
14.195	Section 8 Housing Assistance Payments Program			\$ 185,500,780.09	\$ -
Subtotal Department of Housing and Urban Development				\$ 185,500,780.09	\$ -
Total Section 8 Project-Based Cluster				\$ 185,500,780.09	\$ -
CDBG - Entitlement Grants Cluster					
Department of Housing and Urban Development					
14.218	Community Development Block Grants/Entitlement	Knox County Community	CDBG 2017-2018	\$ 9,016.78	\$ -
Subtotal Department of Housing and Urban Development				\$ 9,016.78	\$ -
Total CDBG - Entitlement Grants Cluster				\$ 9,016.78	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster					
Department of Housing and Urban Development					
14.269	Hurricane Sandy Community Development Block			\$ 993,231.09	\$ 984,342.24
14.272	National Disaster Resilience Competition			2,175,291.22	1,858,134.60
Subtotal Department of Housing and Urban Development				\$ 3,168,522.31	\$ 2,842,476.84
Total CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster				\$ 3,168,522.31	\$ 2,842,476.84
Housing Voucher Cluster					
Department of Housing and Urban Development					
14.871	Section 8 Housing Choice Vouchers			\$ 40,963,196.39	\$ -
14.879	Mainstream Vouchers			265,349.00	-
Subtotal Department of Housing and Urban Development				\$ 41,228,545.39	\$ -
Total Housing Voucher Cluster				\$ 41,228,545.39	\$ -
Fish and Wildlife Cluster					
Department of the Interior					
15.605	Sport Fish Restoration Program			\$ 6,697,192.53	\$ -
15.611	Wildlife Restoration and Basic Hunter Education			\$ 15,000,560.93	
	Arkansas Game and Fish Commission	unknown		74,999.50	
	Commonwealth of Kentucky	2660 16000029471		73,809.77	
	Commonwealth of Virginia	14942		26,262.99	
	Florida Fish & Wildlife Conservation Commission	15116		80,896.22	
	Kansas Department of Wildlife, Parks and Tourism	Unknown		24,597.25	
	Nebraska Game and Parks Commission	W-117-T-1		87,785.40	
	New Jersey Public Broadcasting	8510579		15,000.00	
	North Carolina Wildlife Resources	CA WM-0328		110,531.91	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Oklahoma Department of Wildlife Conservation	F17AF01293 W-176-C-2	24,999.66	
		Pennsylvania Game Commission	NBWCI	14,140.81	
		State of Delaware	280474	279.01	
		State of Delaware	415020	5,000.37	
		State of Georgia	unknown	117,048.07	
		State of South Carolina	SCDNR FY2017-FY2022	51,999.45	
		State of Texas	463245	79,335.67	
				<u>15,787,247.01</u>	<u>13,748,093.41</u>
	Subtotal Department of the Interior			<u>\$ 22,484,439.54</u>	<u>\$ 13,748,093.41</u>
	Total Fish and Wildlife Cluster			<u>\$ 22,484,439.54</u>	<u>\$ 13,748,093.41</u>
Employment Service Cluster					
Department of Labor					
17.207	Employment Service/Wagner-Peyser Funded Activities			\$ 12,265,627.35	\$ 218,855.49
17.801	Disabled Veterans' Outreach Program (DVOP)			3,580,853.52	-
	Subtotal Department of Labor			<u>\$ 15,846,480.87</u>	<u>\$ 218,855.49</u>
	Total Employment Service Cluster			<u>\$ 15,846,480.87</u>	<u>\$ 218,855.49</u>
WIOA Cluster					
Department of Labor					
17.258	WIA/WIOA Adult Program			\$ 16,886,343.71	
		Southeast Tennessee Development	LW05F171ADULT17	19,476.62	
		Southeast Tennessee Development District	LW05F181ADULT18	166,615.15	
		Workforce Investment Network	WIN - American Job Center	<u>205,079.83</u>	
				<u>\$ 17,277,515.31</u>	<u>\$ 14,076,427.51</u>
17.259	WIA/WIOA Youth Activities			\$ 16,588,713.98	
		Alliance for Business & Training	LW01P151YOUTH16	(0.11)	
		Alliance for Business & Training	LW01P161YOUTH17	462,019.28	
		Southeast Tennessee Development	LW05P161YOUTH17	102,667.64	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
		Southeast Tennessee Development District	LW05P171YOUTH18	100,797.84	
17.278	WIA/WIOA Dislocated Worker Formula Grants			\$ 20,461,564.37	
		Southeast Tennessee Development District	LW05F171DSLWK17	180,817.41	
		Southeast Tennessee Development District	LW05F181DSLWK18	162,483.65	
		Upper Cumberland Human Resource Workforce Investment Network	WORKFORCE	38,230.19	
			WIN - American Job Center (AJC)	495,000.00	
				21,338,095.62	16,725,418.76
	Subtotal Department of Labor			\$ 55,869,809.56	\$ 45,687,053.01
	Total WIOA Cluster			\$ 55,869,809.56	\$ 45,687,053.01

Highway Planning and Construction Cluster

Department of Transportation

20.205	Highway Planning and Construction			\$ 822,266,884.93	
		Vanderbilt University	UNIV59708	59,837.77	
				\$ 822,326,722.70	\$ 74,284,025.74
20.219	Recreational Trails Program			1,483,965.59	925,319.49
	Subtotal Department of Transportation			\$ 823,810,688.29	\$ 75,209,345.23
	Total Highway Planning and Construction Cluster			\$ 823,810,688.29	\$ 75,209,345.23

Federal Transit Cluster

Department of Transportation

20.500	Federal Transit_Capital Investment Grants			\$ 635,943.21	\$ 635,943.21
20.526	Bus and Bus Facilities Formula Program			2,396,052.13	2,396,052.13
	Subtotal Department of Transportation			\$ 3,031,995.34	\$ 3,031,995.34
	Total Federal Transit Cluster			\$ 3,031,995.34	\$ 3,031,995.34

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Transit Services Programs Cluster					
Department of Transportation					
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities			\$ 5,736,570.87	\$ 5,618,079.52
20.516	Job Access And Reverse Commute Program			1,658,506.38	1,658,506.38
20.521	New Freedom Program			211,914.12	202,293.76
Subtotal Department of Transportation				<u>\$ 7,606,991.37</u>	<u>\$ 7,478,879.66</u>
Total Transit Services Programs Cluster				<u>\$ 7,606,991.37</u>	<u>\$ 7,478,879.66</u>
Highway Safety Cluster					
Department of Transportation					
20.600	State and Community Highway Safety			\$ 4,721,471.93	\$ 2,444,936.01
20.616	National Priority Safety Programs			3,709,050.81	1,349,047.96
Subtotal Department of Transportation				<u>\$ 8,430,522.74</u>	<u>\$ 3,793,983.97</u>
Total Highway Safety Cluster				<u>\$ 8,430,522.74</u>	<u>\$ 3,793,983.97</u>
Clean Water State Revolving Fund Cluster					
Environmental Protection Agency					
66.458	Capitalization Grants for Clean Water State Revolving Funds			\$ 42,914,688.17	\$ -
Subtotal Environmental Protection Agency				<u>\$ 42,914,688.17</u>	<u>\$ -</u>
Total Clean Water State Revolving Fund Cluster				<u>\$ 42,914,688.17</u>	<u>\$ -</u>

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Drinking Water State Revolving Fund Cluster					
Environmental Protection Agency					
66.468	Capitalization Grants for Drinking Water State Revolving Funds			\$ 8,129,728.37	\$ -
Subtotal Environmental Protection Agency				\$ 8,129,728.37	\$ -
Total Drinking Water State Revolving Fund Cluster				\$ 8,129,728.37	\$ -
Special Education Cluster (IDEA)					
Department of Education					
84.027	Special Education_Grants to States			\$ 253,015,559.23	\$ 235,093,453.05
84.173	Special Education_Preschool Grants			6,670,614.17	6,069,208.26
Subtotal Department of Education				\$ 259,686,173.40	\$ 241,162,661.31
Total Special Education Cluster (IDEA)				\$ 259,686,173.40	\$ 241,162,661.31
TRIO Cluster					
Department of Education					
84.042	TRIO_Student Support Services			\$ 3,292,735.07	\$ -
84.044	TRIO_Talent Search			850,959.39	-
84.047	TRIO_Upward Bound			4,823,801.34	-
84.066	TRIO_Educational Opportunity Centers			1,402,200.73	-
84.217	TRIO_McNair Post-Baccalaureate Achievement			361,447.49	-
Subtotal Department of Education				\$ 10,731,144.02	\$ -
Total TRIO Cluster				\$ 10,731,144.02	\$ -

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
Aging Cluster					
Department of Health and Human Services					
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers			\$ 6,664,901.57	\$ 6,664,901.57
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services			11,716,326.67	10,964,658.22
93.053	Nutrition Services Incentive Program			1,493,205.00	1,493,205.00
Subtotal Department of Health and Human Services				\$ 19,874,433.24	\$ 19,122,764.79
Total Aging Cluster				\$ 19,874,433.24	\$ 19,122,764.79
Health Center Program Cluster					
Department of Health and Human Services					
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)			\$ 9,423,302.45	\$ 623,234.29
Subtotal Department of Health and Human Services				\$ 9,423,302.45	\$ 623,234.29
Total Health Center Program Cluster				\$ 9,423,302.45	\$ 623,234.29
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			\$ 3,039,846.80	\$ 2,412,050.41
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	University of South Carolina	PO#2000029878	9,875.90	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.870	Maternal, Infant and Early Childhood Homevisiting Grant Program			6,714,145.43	5,358,960.82
Subtotal Department of Health and Human Services				<u>\$ 9,763,868.13</u>	<u>\$ 7,771,011.23</u>
Total Maternal, Infant, and Early Childhood Home Visiting Cluster				<u>\$ 9,763,868.13</u>	<u>\$ 7,771,011.23</u>
TANF Cluster					
Department of Health and Human Services					
93.558	Temporary Assistance for Needy Families			\$ 68,895,490.46	\$ -
Subtotal Department of Health and Human Services				<u>\$ 68,895,490.46</u>	<u>\$ -</u>
Total TANF Cluster				<u>\$ 68,895,490.46</u>	<u>\$ -</u>
CCDF Cluster					
Department of Health and Human Services					
93.575	Child Care and Development Block Grant			\$ 84,876,346.82	\$ 7,814,572.88
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund			32,889,962.39	-
Subtotal Department of Health and Human Services				<u>\$ 117,766,309.21</u>	<u>\$ 7,814,572.88</u>
Total CCDF Cluster				<u>\$ 117,766,309.21</u>	<u>\$ 7,814,572.88</u>
Medicaid Cluster					
Department of Health and Human Services					
93.775	State Medicaid Fraud Control Units			\$ 3,707,063.22	\$ -
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare			11,633,565.47	-

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

CFDA	Program Name	Passed Through From	Other Identifying Number	Total Expenditures/Issues	Expenditures/Issues Passed Through to Subrecipients
93.778	Medical Assistance Program			\$ 6,968,190,574.73	
		University Health System, Inc.	GMEP	35,497,000.99	
					18,089,559.57
	Subtotal Department of Health and Human Services			\$ 7,019,028,204.41	\$ 18,089,559.57
	Total Medicaid Cluster			\$ 7,019,028,204.41	\$ 18,089,559.57
Disability Insurance/SSI Cluster					
Social Security Administration					
96.001	Social Security_Disability Insurance			\$ 52,164,683.55	\$ -
	Subtotal Social Security Administration			\$ 52,164,683.55	\$ -
	Total Disability Insurance/SSI Cluster			\$ 52,164,683.55	\$ -
	Grand Total Federal Assistance			\$ 14,448,807,316.82	\$ 1,888,974,749.15

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, 2018

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 2018 was conducted in accordance with the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (contained in Title 2 of the *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.
- **Assistance Listing** – The Schedule presents total expenditures for each federal assistance listing as identified on June 30, 2018. Assistance Listings are 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 Assistance Listing is assigned a five-digit program identification number (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

State of Tennessee
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018
(continued)

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 \$ 213,848,824.90 and \$ 50,422,558.20, respectively.

State of Tennessee
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

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	\$ 26,133,525.25
Nurse Faculty Loan Program (NFLP)	93.264	\$ 1,385,412.35
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	\$ 1,117,897.14
Nursing Student Loans	93.364	\$ 52,701.28

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.