STATE of TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012


Mockingbird


Honeybee


Tulip Poplar


Raccoon


Passion Flower


Iris

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2012

BILL HASLAM, Governor

DEPARTMENT OF AUDIT
JUSTIN P. WILSON, Comptroller of the Treasury
Division of State Audit
ARTHUR A. HAYES, JR., Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
MARK EMKES, Commissioner
Division of Accounts
JAN I. SYLVIS, CHIEF OF ACCOUNTS

Front Cover: Tennessee State Symbols
Photographs obtained from Tennessee Department of General Services, Photographic Services (Lady Bug, Mockingbird, Passion Flower, and Tulip Poplar), Bill Buchanan/USFWS (Raccoon), and Michelle Earhart (Honeybee).

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STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012

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INTRODUCTORY SECTION

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STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0285

MARK A. EMKES
COMMISSIONER

December 21, 2012

To the Citizens, Governor, and Legislators of the State of Tennessee:

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Tennessee for the fiscal year ended June 30, 2012. This report is prepared and submitted by the Department of Finance and Administration as part of its responsibility under Tennessee Code Annotated 4-3-1007 to maintain a system of general accounts embracing all the financial transactions of state government.

The CAFR is presented in three sections: *Introductory*, *Financial* and *Statistical*. The *Introductory Section* is designed to provide the background and context that readers need to benefit fully from the information contained in the *Financial Section*, and includes this transmittal letter and an organization chart. The *Financial Section* includes the auditor's report, management's discussion and analysis (MD&A), audited government-wide and fund financial statements and related notes thereto, required supplementary information, and the underlying combining and individual fund financial statements and supporting schedules. The *Statistical Section* contains selected unaudited financial, economic and demographic data on a multi-year basis that is useful in evaluating the economic condition of the government.

This report consists of management's representations concerning the financial information of the State of Tennessee. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in the CAFR. To provide a reasonable basis for making these representations, management of the state has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the state's financial statements in conformity with U.S. generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the state's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State statutes require an annual audit of all financial statements of the state. As part of the meeting of this requirement, the Office of the Comptroller of the Treasury, Department of Audit, Division of State Audit has examined the accompanying financial statements, and has issued an unqualified opinion on the state's basic financial statements. The independent auditor's report is located at the front of the *Financial Section* of this report.

Federal regulations also require the state to undergo an annual "Single Audit" in conformance with the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of federal awards, audit findings and recommendations, summary of prior audit findings, and the Office of the Comptroller of the Treasury's report, is issued in a separate report and will be available at a later date.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The state's MD&A can be found immediately following the report of the independent auditors.

Profile of the State of Tennessee

The State of Tennessee is rooted in the Watauga Association, a 1772 frontier pact generally regarded as the first constitutional government west of the Appalachians. What is now Tennessee was initially part of North Carolina, and later part of the Southwest Territory. Tennessee was admitted to the Union as the 16th state on June 1, 1796. It was the first state created from territory under the jurisdiction of the United States federal government. Tennessee has played a critical role in the development of many forms of American popular music, including rock and roll, country and rockabilly, and, of the 50 states, ranks 36th in total area (42,146 square miles) and 19th in the number of persons per square mile, with an estimated population of 6.4 million.

Under the Tennessee Constitution, legislative authority of the state is vested in the General Assembly, which consists of a Senate and a House of Representatives, both popularly elected. The name of the legislative authority may vary from state to state, but usually it is called the Legislature or the General Assembly. The official title in our state is the "General Assembly of the State of Tennessee".

The Senate is composed of 33 members who are elected to four-year terms of office. They are elected by the voters of their Senate legislative district. The House of Representatives is composed of 99 members who are elected to two-year terms of office. They are elected by the voters of their House legislative district. In general, the functions of the Legislature are to enact, amend, and repeal the laws of Tennessee. Some of the specific powers granted to the General Assembly by the State Constitution include: the appropriation of all money to be paid out of the state treasury; the levy and collection of taxes; and the right to authorize counties and incorporated towns to levy taxes.

The state and its component units provide a full range of services to its citizens, including education, health and welfare, transportation, public safety, economic development, culture and recreation, conservation and general government services. The financial statements present information on the financial position and operations of state government associated with these services as a single comprehensive reporting entity. The component units are legally separate entities for which the State of Tennessee has financial responsibility and include state funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Tennessee. Further information about the financial reporting entity can be found in Note 1A. to the financial statements.

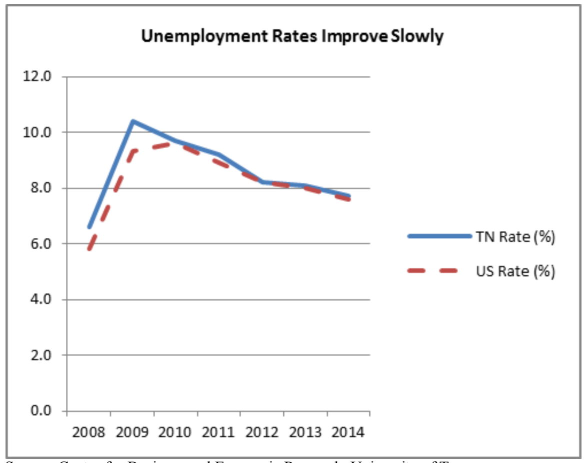
State legislation grants the Governor the authority and duty to develop and submit to the General Assembly a recommended budget. (Annual budgets are adopted for the general, education and highway funds, the special revenue funds (except Fraud and Economic Crime and the Agricultural Promotion Board), and the debt service fund.) The law directs the Commissioner of Finance and Administration to prepare the budget in accordance with the Governor's directives. After receipt of operational and capital budget requests, analysts with the Department of Finance and Administration's Division of Budget begin the process of balancing expenditures against estimated revenues. Within this constraint, funds must be provided for administration initiatives of high priority, activities mandated by state or federal statute, and the day-to-day operation of state government. The budget must be presented to the General Assembly prior to February 1, or prior to March 1 when a newly elected Governor takes office, unless the General Assembly by joint resolution allows submission on a later date. At the time the budget is presented, the appropriation process is initiated. Invariably, there are changes to the budget presented by the Governor to the General Assembly. These changes are made by amending the appropriations act during its adoption process. The Division of Budget establishes an annual allotment for each agency using the appropriations act. This annual allotment, called the official work program, is used for budgetary control. Budgetary control is maintained at the program level by the individual departments and agencies, acting in conjunction with the Department of Finance and Administration. The budget details the separation between payroll and operational funds by program. Any movement of funds between the payroll and operational funds requires approval and a revision to the budget by the Division of Budget on behalf of the Commissioner of Finance and Administration and the Governor. Other budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, require certain executive and legislative branch approval, pursuant to law. Agencies may not expand programs or implement new programs on their own authority. In Tennessee, as in other states, appropriation of funds is a legislative power, not an executive power. No expenditures may be made, and no allotments increased, except pursuant to appropriations made by law.

Information Useful in Assessing Tennessee's Economic Condition

Local economy

The economy remains the number-one topic of conversation throughout the country. Where do we stand, and when is full recovery in sight? Most recessions have only a short-term impact on economic growth. The Great Recession is an exception to this rule. Having started in December, 2007 and ended in the summer of 2009, the last recession continues to influence national and state economic growth. Long-term trend economic growth is primarily affected by growth in the labor force, along with investments in infrastructure capital, private productive capital, and human capital investments in the workforce that enhance productivity. While all of these factors will continue to influence Tennessee's growth in the next ten years, the recession will likewise continue to play a role, although this will certainly diminish as time passes.

The outlook for Tennessee calls for economic growth to accelerate in 2013, with gains in employment (including manufacturing) and continued reductions in the unemployment rate. This growth is expected to be sustained in 2014 and 2015 as the economy moves closer to a restoration of pre-recession levels of an array of economic barometers. The state economy has a long way to go to overcome the setbacks of the last recession, but it is finally on the right track.

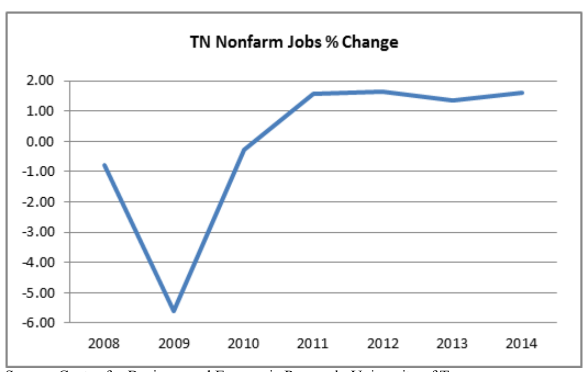


Source: Center for Business and Economic Research, University of Tennessee

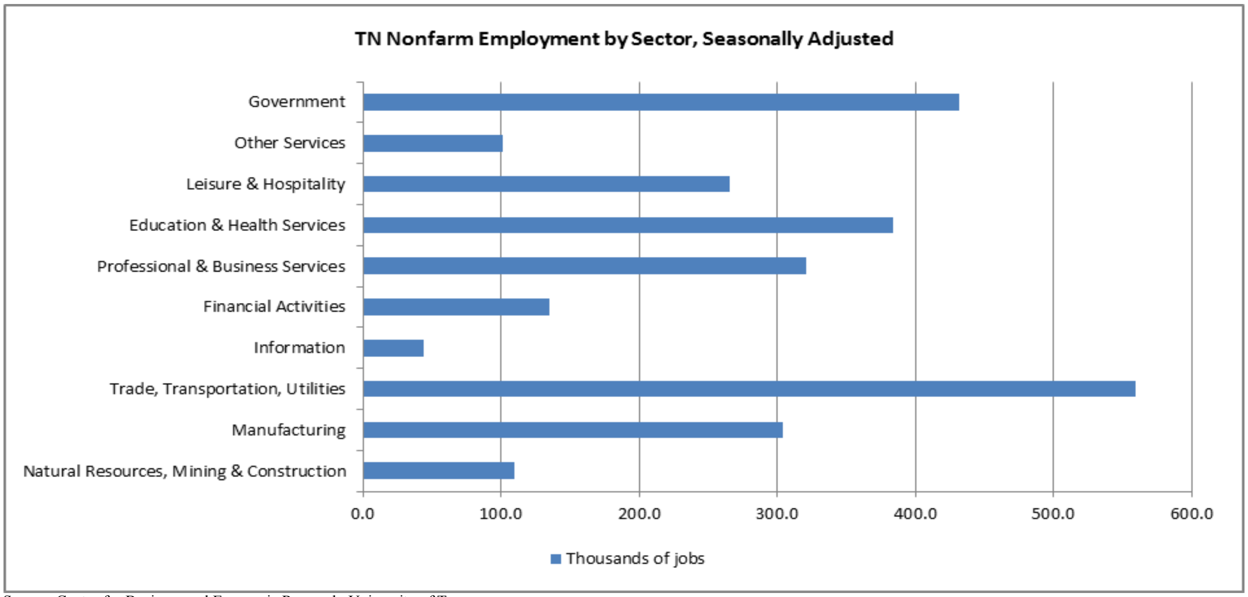
Situated in the eastern south-central United States, Tennessee's location places it within a day's drive from nearly 75 percent of the major markets that represent approximately 50 percent of the entire United States population. Maintaining a temperate climate with warm summers and mild winters, Tennessee is a strategic business choice because of its central location and a strong transportation infrastructure. Recently released census data reveals that Tennessee grew at a faster pace than the nation as a whole, achieving an 11.5 percent increase in population as compared with a 9.7 percent rise for the U.S. since Census 2000.

Although Tennessee is now primarily industrial with most of its people residing in urban areas, many Tennesseans still derive their livelihood from the land. The state's leading crops are cotton, soybeans, and tobacco; cattle, dairy products, and hogs are also principal farm commodities. Tennessee has been very aggressive in attracting new industry, and as a result industry in the state is being continually diversified. Leading manufactures are chemicals and related products, foods, electrical machinery, primary metals, automobiles, textiles and apparel, and stone, clay, and glass items. Tennessee has also long been a major tourist destination, owing largely to its beautiful scenery and music legacy.

Tennessee's nonfarm employment outlook and composition is presented in the following charts. The overall outlook remains largely positive, with most sectors showing growth prospects. The strongest growth will take place in natural resources, mining and construction, which will be buoyed by an improving outlook in the housing sector. Professional and business services are also expected to see strong growth, while the information, trade, transportation and utilities and financial activities sectors will display a more mixed pattern of growth. Manufacturing will enjoy its second consecutive year of employment gains this year, the first time such back-to-back gains have been seen since the 1990s.



Source: Center for Business and Economic Research, University of Tennessee



Source: Center for Business and Economic Research, University of Tennessee

Long-term financial planning

- Tennessee enacted its Governmental Accountability Act in 2002. This law altered the budget law to require strategic planning and performance based budgeting. In addition to setting forth program objectives, strategic plans must include performance measures and standards for each program, partly defined as a budgetary unit. With the state's strategic planning unit being part of the central budget office, and the definition of programs as budgetary units, planning and budgeting are closely linked for the state's executive branch. Annual budget documents must include a program statement and performance measures, and annual reporting on compliance with strategic plans and performance measures is required. The act also provides for performance reviews by the state's Comptroller of the Treasury. These reviews include consideration of the efficient use of state and federal funds, additional non-state revenue or cost savings that could be achieved and the extent to which strategic plan objectives are achieved.

- Over the years, Tennessee has consistently maintained a relatively low debt burden. This has been accomplished through the use of sound, prudent, and conservative debt management practices adopted by the executive and legislative branches of government.

  Such practices include funding a portion of the state's capital program with surplus cash, cancellation of bond authorizations in lieu of issuing debt, creating and maintaining a "rainy day fund" to offset unanticipated revenue shortfalls, and the adoption of state statutes designed to control the issuance of excessive debt. The state continues to maintain a relative low debt burden, and access to the capital markets remains strong.

- An Interagency Cash Flow Committee was created by the General Assembly in 2011 for the purpose of establishing, compiling, and maintaining an eighteen month forward rolling cash flow projection. The goal is to utilize departmental and programmatic specific forecasting data to project cash flow and earnings information relative to the various interest-bearing funds and accounts within the state's pooled investment fund. These projections are intended to enhance cash flows based on historical data alone, and help the state better plan and position itself for fluctuations in available cash balances.

Relevant financial policies

- The State Constitution requires, for current operations, that expenditures for any fiscal year not exceed the state's revenues and reserves, including the proceeds of any debt obligation, for that year. In addition, the Constitution forbids the expenditure of any debt obligation for a purpose other than the purpose for which it was authorized. Under state law, the term of bonds authorized and issued cannot exceed the expected life of the projects being financed. The state is authorized to issue general obligation tax revenue anticipation notes in anticipation of tax revenues in the then current fiscal year of the state. The State Constitution prohibits, however, the issuance of debt for operating purposes maturing beyond the end of a fiscal year.

- In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent of the estimated state tax revenues to be allocated to the general fund and education trust fund. The revenue fluctuation reserve, or the “rainy day fund”, allows services to be maintained when revenue growth is slower than estimated in the budget. Amounts in the revenue fluctuation reserve may be utilized to meet state tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of $100 million or one-half (1/2) of the amount available in the reserve may be used to meet expenditure requirements in excess of budgeted appropriation levels.

- Monthly reports comparing budgeted to actual revenues and expenditures (month and year-to-date, including prior year comparative data) are distributed to the Governor and agency heads. Significant variations are researched and followed up on by the Department of Finance and Administration’s Division of Budget. The Governor may affect spending reductions to offset unforeseen revenue shortfalls or unanticipated expenditure requirements for particular programs. These spending reductions can take the form of deferred equipment purchases, hiring freezes, and similar cutbacks. The Governor may also call special sessions of the General Assembly at any time to address financial or other emergencies.

Major initiatives

The 2012 legislative agenda was designed to move Tennessee forward by supporting an overarching goal of making Tennessee the No. 1 location in the Southeast for high quality jobs through economic development efforts, meaningful education reform, a more efficient and effective state government and improved public safety.

The actions taken were highlighted by significant reforms of how the state operates, and a responsible budget that encompassed strategic investments, reductions and savings for the future, and included:

- Reform of the state’s outdated employment system
- Decreases in the inheritance tax and the state’s portion of the sales tax on food
- A complete rewrite of Tennessee’s school accountability system
- An expansion of the FastTrack grant program
- Bills to improve public safety as part of a multi-year public safety action plan

The budget restored more than $133 million of a total of $160 million in reductions to “core services” first identified as cuts in the FY 2010-2011 budget but delayed through the use of one-time money, and included:

- $3.9 billion to fully fund the Basic Education Program
- $342.6 million for higher education capital improvements and maintenance
- $5 million for Tennessee career centers
- $29.6 million for Tennessee state parks
- $40 million in payments to local jails
- $50 million to rebuild the “rainy day fund”

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2011. This was the thirty-second year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The state also received GFOA's Distinguished Budget Presentation Award for its Annual Budget beginning July 1, 2011. Prepared by the Department of Finance and Administration's Division of Budget, this was the twentieth time the state's budget publications have received this award by meeting program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This CAFR is an example of state leadership's continuing commitment to maintaining the highest standards of accountability in financial reporting. We express our appreciation to the Department of Finance and Administration, Division of Accounts personnel who participated in its preparation, as well as to the personnel of all state agencies, for their interest in planning and conducting the financial operations of Tennessee in a professional, responsible, and progressive manner.

Respectfully submitted,

Mark A. Emkes
Commissioner

Jan Sylvis
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2012

- General Assembly
  - Speaker of The House Beth Harwell
  - Speaker of The Senate Ron Ramsey
  - Secretary of State Tre Hargett
  - Comptroller of the Treasury Justin P. Wilson
  - State Treasurer David H. Lillard, Jr.
- Governor Bill Haslam
  - Department of Agriculture Julius Johnson
  - Department of Children's Services Kathryn O'Day
  - Department of Commerce and Insurance Julie Mix McPeak
  - Department of Correction Derrick D. Schofield
  - Department of Economic and Community Development Bill Hagerty
  - Department of Education Kevin Huffman
  - Department of Environment and Conservation Robert Martineau
  - Department of Finance and Administration Mark Emkes
  - Department of Financial Institutions Greg Gonzales
  - Department of General Services Steven G. Cates
  - Department of Health John J. Dreyzehner
  - Department of' Human Resources Rebecca Hunter
  - Department of Human Services Dr. Raquel Hatter
  - Department of Labor And Workforce Development Karla Davis
  - Department of Mental Health E. Douglas Varney
  - Department of Military Max Haston
  - Department of Revenue Richard H. Roberts
  - Department of Safety and Homeland Security Bill Gibbons
  - Department of Tourist Development Susan Whitaker
  - Department of Transportation John Schroer
  - Department of Veterans' Affairs Many-Bears Grinder
  - Agencies, Boards, Commissions, and Councils
- Supreme Court Chief Justice Cornelia A. Clark
  - Attorney General Robert E. Cooper, Jr.
  - Court of Appeals
  - Court of Criminal Appeals
    - Chancery Courts
    - Probate Courts
    - Circuit Courts
    - Criminal Courts

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897 FAX (615) 532-2765

Independent Auditor's Report

December 21, 2012

Members of the General Assembly
and
The Honorable Bill Haslam, Governor

Ladies and Gentlemen:

We have audited the accompanying 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, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Baccalaureate Education System Trust, Board of Claims, Board of Standards, Chairs of Excellence, Local Education Insurance Committee, Local Government Insurance Committee, State Building Commission, State Funding Board, State Insurance Committee, Tennessee Consolidated Retirement System, Tennessee Housing Development Agency, Tennessee Local Development Authority, Tennessee Student Assistance Corporation, and the Tennessee State School Bond Authority. We do not believe that the Comptroller's service in these capacities affected our ability to conduct an independent audit of the State of Tennessee.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The other supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory section, statistical section, and the supplementary schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with generally accepted government auditing standards, we will issue our report dated December 21, 2012, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report.* The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the state's) financial performance provides an overview of the state's financial activities for the year ended June 30, 2012. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-8 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Assets - The assets of the state exceeded its liabilities at June 30, 2012, by $29.9 billion (reported as net assets). Of this amount, $3.1 billion represents unrestricted net assets, which may be used to meet the state's ongoing obligations to citizens and creditors while $25.6 billion represents *invested in capital assets, net of related debt.*

  Changes in Net Assets - The state's net assets increased by $1.4 billion. This increase was largely the result of an increase in capital assets.

  Component units - Component units reported net assets of $6.5 billion, an increase of $213.7 million.

- **Fund Level:**

  At June 30, 2012, the state's governmental funds reported combined ending fund balances of $4.5 billion, an increase of $435.10 million (see discussion on page 20) compared to the prior year. Of the combined fund balance, approximately $3.25 billion is spendable unrestricted (committed, assigned or unassigned fund balance) and is available for spending at the government's discretion or upon legislative approval; however, $306 million of this amount is set aside in a revenue fluctuation account (Rainy Day fund).

- **Long-Term Debt:**

  The state's total debt increased by $341.95 million during the fiscal year to total $2.310 billion. This change primarily results from the state's decision to issue general obligation bonds during the fiscal year to obtain long-term financing for capital projects.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The s*tatement of net assets and the statement of activities* (on pages 27 and 28-29) provide information about the activities of the state as a whole (government-wide statements) and present a longer-term view of the state's finances. Fund financial statements start on page 32. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the state's operations in more detail than the government-wide statements by providing information about the state's most significant funds. The remaining statements provide financial information about activities for which the state acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the state as a whole begins on page 17. One of the most important questions asked about the state's finances is, "Is the state as a whole better off or worse off as a result of the year's activities?" The *statement of net assets* and the *statement of activities* report information about the state as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The s*tatement of net assets* displays all the state's financial and capital resources in the format of assets minus liabilities equal net assets. The s*tatement of activities* reports the state's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or general revenue) funds the government operations. The state functions that are identified on this statement correspond to the functions used for budgetary purposes:

- Governmental activities–general government; education; health and social services; law, justice and public safety; recreation and resources development; regulation of business and professions; transportation; intergovernmental revenue sharing; payments to fiduciary funds and interest on long-term debt.

- Business-type activities–employment security, insurance programs, loan programs and other.

- Component units–significant component units include the Tennessee Housing Development Agency, the Tennessee Education Lottery Corporation, the Tennessee Board of Regents, and the University of Tennessee. Although these and other smaller entities are legally separate, these "component units" are important because the state is financially accountable for them.

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the state's major funds begins on page 20. The fund financial statements begin on page 32 and provide detailed information about the most significant funds–not the state as a whole. Some funds are required to be established by state law and by bond covenants. However, the state establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The state's two kinds of funds–governmental and proprietary–use different accounting approaches.

Governmental funds focus on the near–term inflows and outflows of funds and the balances left at year–end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the state's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in *the statement of net assets* are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

Proprietary funds report the government services that charge service fees to its customers. Proprietary funds include enterprise funds (serving citizens) and internal service funds (serving state agencies). The enterprise funds are the same as the business-type activities reported in the government-wide statements, but provide more detail; whereas, the internal service funds are included in the governmental activities.

Notes to the financial statements. Notes to the financial statements are also included and provide necessary information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units.

The State as Trustee

Reporting the State's Fiduciary Responsibility

Fiduciary funds are used to report resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the state cannot use these assets to finance its operations. Instead, the state is responsible for using the fiduciary assets for the fiduciary fund's intended purposes.

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the state, combined assets exceeded liabilities by $29.87 billion as of June 30, 2012.

By far, the largest portion of the state's net assets (86%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment, construction in progress and software in development), less any related debt used to acquire those assets that is still outstanding. The state uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee
Net Assets as of June 30
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 6,943,239	$ 6,081,500	$ 1,969,082	$ 1,675,676	$ 8,912,321	$ 7,757,176
Capital assets	26,173,249	25,149,111			26,173,249	25,149,111
Total assets	33,116,488	31,230,611	1,969,082	1,675,676	35,085,570	32,906,287
Current and other liabilities	1,685,069	1,340,386	81,098	93,765	1,766,167	1,434,151
Noncurrent liabilities	3,446,303	2,959,097	7,172	7,247	3,453,475	2,966,344
Total liabilities	5,131,372	4,299,483	88,270	101,012	5,219,642	4,400,495
Net assets:						
Invested in capital assets, net of related debt	25,628,600	24,420,662			25,628,600	24,420,662
Restricted net assets	1,172,812	1,179,519			1,172,812	1,179,519
Unrestricted net assets	1,183,704	1,330,947	1,880,812	1,574,664	3,064,516	2,905,611
Total net assets	$ 27,985,116	$ 26,931,128	$ 1,880,812	$ 1,574,664	$ 29,865,928	$ 28,505,792

An additional portion of the state's net assets (3.93%) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets ($3.06 billion) and may be used to meet the state's ongoing obligations to citizens and creditors not funded by resources that are restricted.

At the end of the current fiscal year, the state was able to report positive balances in all three categories of net assets, for the government as a whole, and for its separate governmental and business-type activities.

The state's net assets increased by $1.36 billion during the year ended June 30, 2012. A significant portion of this increase was attributable to the improvement of tax collections compared to the prior year and base budget reductions in the fiscal year's spending.

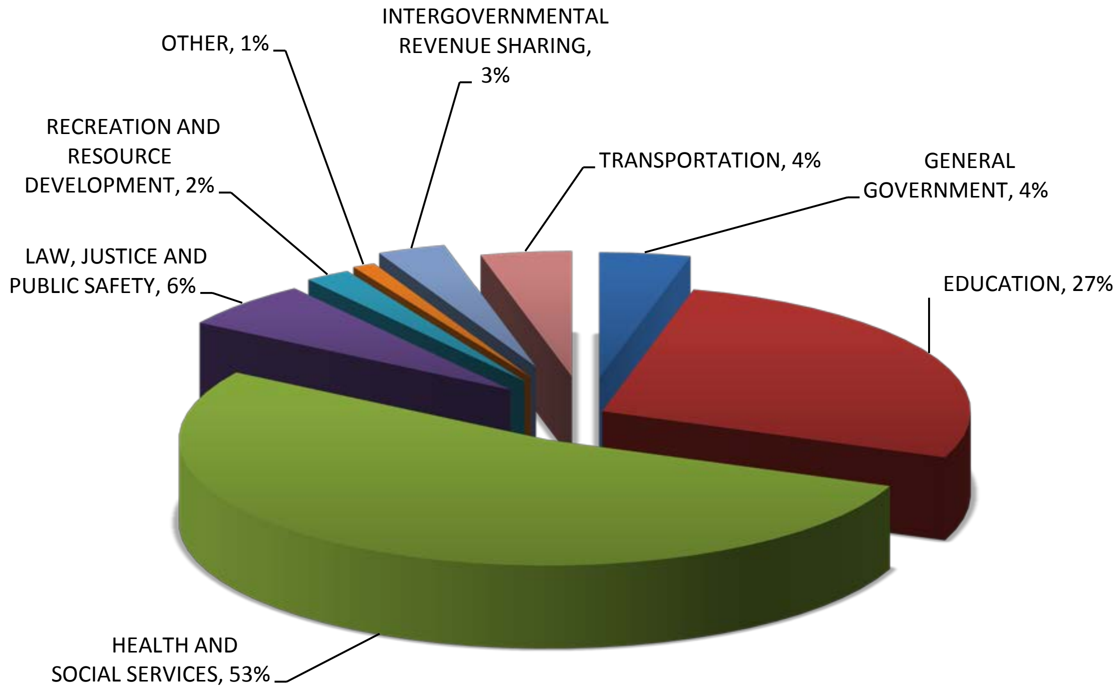
State of Tennessee
Changes in Net Assets
For the Fiscal Year Ended June 30
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	$ 1,979,308	$ 2,069,585	$ 1,327,935	$ 1,318,871	$ 3,307,243	$ 3,388,456
Operating grants and contributions	11,897,517	12,677,291	749,005	1,035,693	12,646,522	13,712,984
Capital grants and contributions	903,281	901,798			903,281	901,798
General revenues:						
Sales Taxes	6,884,762	6,461,461			6,884,762	6,461,461
Other taxes	5,377,461	4,907,776			5,377,461	4,907,776
Other	254,261	222,232			254,261	222,232
Total revenues	27,296,590	27,240,143	2,076,940	2,354,564	29,373,530	29,594,707
Expenses:						
General government	942,465	1,048,500			942,465	1,048,500
Education	7,018,189	7,127,754			7,018,189	7,127,754
Health and social services	13,952,342	13,740,315			13,952,342	13,740,315
Law, justice and public safety	1,567,730	1,436,519			1,567,730	1,436,519
Recreation and resources development	646,494	606,471			646,494	606,471
Regulation of business and professions	126,395	127,918			126,395	127,918
Transportation	1,012,399	836,130			1,012,399	836,130
Intergovernmental revenue sharing	851,535	825,777			851,535	825,777
Interest on long-term debt	62,119	63,555			62,119	63,555
Payments to fiduciary funds	58,453	63,114			58,453	63,114
Employment security			1,232,324	1,613,716	1,232,324	1,613,716
Insurance programs			540,746	552,626	540,746	552,626
Loan programs			1,757	1,544	1,757	1,544
Other			620	42	620	42
Total expenses	26,238,121	25,876,053	1,775,447	2,167,928	28,013,568	28,043,981
Increase in net assets before contributions and transfers	1,058,469	1,364,090	301,493	186,636	1,359,962	1,550,726
Transfers	(4,655)	(2,134)	4,655	2,134		
Contributions to permanent funds	174	180			174	180
Increase (decrease) in net assets	1,053,988	1,362,136	306,148	188,770	1,360,136	1,550,906
Net assets, July 1	26,931,128	25,568,992	1,574,664	1,385,894	28,505,792	26,954,886
Net assets, June 30	$ 27,985,116	$ 26,931,128	$ 1,880,812	$ 1,574,664	$ 29,865,928	$ 28,505,792

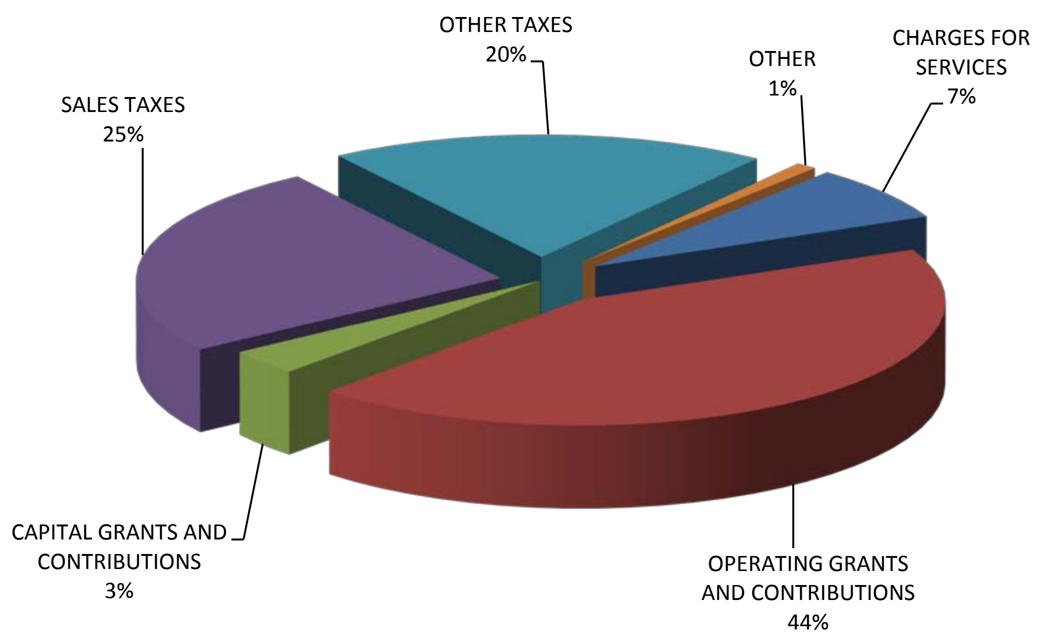
Governmental activities. Net assets of the state's governmental activities increased by $1.05 billion (4%). This increase accounts for 78% of the total increase in net assets of the primary government and is primarily the result of the use of funds to increase capital assets and a $925 million increase in tax revenues. The primary tax revenue increase was from an increase in sales and business tax collections.

See notes to the financial statements, note 4, on page 55 for an explanation on prior year net assets adjustments.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net assets of the state's business-type activities increased by $306.15 million (19%). The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net assets of $250.35 million. The Employment Security fund increase is due to a decrease in unemployment benefits paid combined with a smaller decrease in operating grants received. The Sewer Treatment Loan program increase is primarily due to operating grants received and a decrease in other nonoperating expenses. The Nonmajor Enterprise funds' activity resulted in a $55.80 million increase in net assets. The Energy Efficient Schools Initiative fund experienced an increase to net assets of $43.85 million due to an increase in operating grants and loans issued.

THE STATE'S FUNDS

Tax collections and expenditures increased overall for the year. Details are in the following paragraphs. The Revenue Fluctuation account (Rainy-Day fund) has been increased to $306 million or 1.69% of the general fund's expenditures.

The general fund revenue collections decreased in total with a decline in federal revenue of $470 million contributing to the majority of the decrease. However, there was an overall increase in tax revenues of $630 million. Contributing to the decrease in federal revenue was a decrease in federal reimbursements funded under the American Recovery and Reinvestment Act. The $630 million increase in taxes is primarily related to an increase in sales and use tax collections and an increase in the collections of the franchise and excise tax.

The general fund expenditures increased approximately $126 million. TennCare expenditures increased by $418 million but a $349 million decrease in the Department of Intellectual and Developmental Disabilities expenditures offsets most of this increase as a result of the waiver payment process transferring to TennCare. The net increase in TennCare expenditures reflect the rising cost and demand of medical and pharmacy costs. An increase in Military expenditures also accounts for an additional $69 million of the total increase which is derived from the reimbursements to local governments for disaster relief.

Assets in the general fund increased by approximately 21%. The fund balance of the general fund increased by 13%. The increase in assets is primarily the result of an increase in short-term investments which was offset by a 36% increase in liabilities which resulted in a net increase in fund balance.

The education fund revenue and expenditures decreased overall approximately $110 and $150 million, respectively for the year. The overall decrease was primarily the result of a reduction in federal reimbursements received through the American Recovery and Reinvestment Act (ARRA).

Capital projects fund expenditures increased by approximately $91.76 million (23%) primarily as a result of improving budget conditions. Overall fund balance increased by $184.91 million (36%) primarily due to a significantly higher amount of bond proceeds received during the year that were unspent at year end. Unspent bond proceeds are restricted for use by bond covenants.

Overall revenues and expenditures increased $91 million and $68 million, respectively for the highway fund. Revenues and expenditures increased primarily as a result of the increase of federal funds. The excess of expenditures over revenues was funded with state reserves in the highway fund.

The total plan net assets of the pension trust funds were $34.9 billion, an increase of approximately $1.2 billion from the prior year. As a result of the improvement in the performance of the financial markets, the pension trust funds incurred a net investment gain of $1.8 billion.

General Fund Budgetary Highlights

A significant variance occurred in tax revenues in the general fund between final and actual amounts primarily because of the overcollection of sales and business taxes. Total tax collections were $467.3 million over estimates due to higher than expected improved economic conditions. Federal revenue collections were significantly below estimated expenditure levels due to the timing difference of the actual expenditures and appropriation of multi–year projects primarily for disaster relief programs. Actual expenditures in the Tenncare program, Labor and Workforce Development, Economic and Community Development, and Military were significantly less than was projected in the final budget primarily due to unexpended reserved amounts that were appropriated and those multi–year projects such as the aforementioned as well as for community infrastructure programs. These allotments were non–lapsing and carried forward into the next fiscal year.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets at June 30, 2012, of $26.2 billion, net of $1.6 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government
(Expressed in Thousands)

	Governmental Activities 2012	Governmental Activities 2011
Land	$ 1,939,324	$ 1,815,157
Infrastructure	21,289,577	20,324,140
Construction in progress	1,279,852	1,340,760
Structures and improvements	2,299,712	2,273,697
Machinery and equipment	871,310	826,904
Software in development	56,631	32,198
Subtotal	27,736,406	26,612,856
Accumulated depreciation	(1,563,157)	(1,463,745)
Total	$ 26,173,249	$ 25,149,111

More detail of the activity during the fiscal year is presented in Note 5C to the financial statements.

Capital assets, including those under construction, increased from fiscal year 2011 to 2012 by approximately 4.07 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure (highways and bridges). Infrastructure increased in total by $965.4 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $823.9 million and decreased (projects completed and capitalized) by $974.6 million. Infrastructure right-of-way acreage increased the land classification by $91.9 million. The structures and improvements increase of $26.02 million consisted largely of improvements and new structures at state parks and a new mental health facility and 4 new welcome centers across the state. The change in machinery and equipment of $44.4 million resulted primarily from an $11.8 million upgrade of the state's telecommunications system and an $8 million mobile equipment upgrade for the Department of Transportation. During fiscal year 2012, the state had several systems projects in the application development stage, resulting in the capitalization of $29.28 million in new software in development costs and there were $4.84 million system projects that were placed in operation and are now classified as equipment as previously mentioned.

In accordance with generally accepted accounting standards, the state is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The state is responsible for approximately 14,000 miles of roadway and 8,240 bridges. Differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at targeted condition levels and the actual amounts of expense incurred for that purpose during the fiscal period are the results of timing differences. The budgeting process and the fact that projects are started at different times during the year and take more than 12 months to complete, results in spending in one year amounts that were budgeted in a previous fiscal year(s).

The decision to use the modified approach was essentially made because the state has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 119), indicated that bridges were rated at 8 points above the state's established condition level and roadways were 14 points above the state's benchmark level. Bridges are assessed biennially and roadways annually.

The state's capital outlay budget for the 2011-2012 fiscal year reflects a $95.2 million decrease from previous years. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included $50 million for economic development projects, $20 million for Cates Landing in Lake County, and various upgrades to the state's veterans cemeteries and state parks.

Debt Administration

In accordance with the Constitution, the state has the authority to issue general obligation debt that is backed by the full faith and credit of the state. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding $100 thousand (for new construction) and maintenance to existing facilities. The state issues commercial paper as a short-term financing mechanism for capital purposes and the commercial paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

Purpose	Unissued June 30, 2012
Highway	$ 1,033,700
Higher Education	319,049
Environment and Conservation	12,077
Economic and Community Development	61,267
General Government	569,813
Total	$ 1,995,906

More detail of the activity during the fiscal year is presented in Note 5H to the financial statements.

The state's outstanding general obligation debt consists of the following (expressed in thousands):

	Governmental Activities	
	June 30, 2012	June 30, 2011
Bonds, net	$ 2,112,602	$ 1,754,208
Commercial Paper	197,770	214,217
Total	$ 2,310,372	$ 1,968,425

The state issued $255.4 million in tax-exempt and $208.93 million in taxable general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis, and to directly finance other capital projects. The state also issued $531.40 million of tax-exempt general obligation refunding bonds to provide for the advance refunding of $541.52 million of general obligation bonds. Nearly three-fourths of the outstanding debt has been issued either for capital projects of two of the state's major component units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The state has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The state's bonds are rated AAA, Aaa, and AA+ by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current state statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2012, the state's annual debt service limit of $641.58 million was well above the debt service required $209.82 million, with a legal debt service margin of $431.76 million.

FACTORS THAT WILL AFFECT THE FUTURE

Three areas of Governor Bill Haslam's priorities to move Tennessee forward are: Jobs and economic development, education and workforce development, fiscal strength and efficient government.

In 2011, job creation in Tennessee hit its highest mark of the last five years and since the onset of the global recession. Economic and community development projects and tracked private sector growth accounted for 28,535 jobs created in Tennessee in 2011 and more than $4 billion in investment. Two of the largest expansions were made by General Motors and Amazon. Since 2011, the following are expanding their presence to and in Tennessee:

- Eagle Bend Manufacturing in Clinton, TN, is creating 188 new jobs and investing $64 million to increase its production of automotive parts for original equipment manufacturers of cars and light trucks.
- OTICS, USA, Inc. will expand its Morristown, TN, facility with an investment of $24.8 million and add 67 new jobs in its automotive parts plant.
- Hospital Corporation of America will build a new data center in Antioch, TN, to expand its IT operations for the Nashville region. The investment is in excess of $200 million and will create approximately 155 jobs.
- Kyowa America Corporation will open a new automotive plastic injection molding facility in Portland, TN, creating 160 jobs and investing $12 million.
- P&G Duracell, will expand its battery manufacturing facility in Cleveland, TN, by adding 60 jobs with a $36 million investment.
- Magneti Marelli will expand its Pulaski, TN, plant with a $53.7 million investment that will create 800 new jobs. Magneti Marelli is a top global automotive systems and component supplier.
- MacLean Power Systems will locate a manufacturing plant in Trenton, TN, that represents an investment of $12 million and will create 250 new jobs. MacLean Power Systems is a leading manufacturer of products used for building power transmission and distribution lines and substations.

Tennessee's Department of Education received a four-year $500 million grant from the federal government's Race to the Top initiative in 2010 to implement innovative activities to improve educational results. Tennessee's plan, called First to the Top, places renewed focus on the classroom teacher and a more dedicated focus on encouraging student achievement. The Department has developed specific goals for measuring students' progress. Also, a state-level school district, called the Achievement School District, has been established to address the state's lowest five percent performing schools. It is charged with creating the conditions under which teachers and students can succeed and work toward sustainable higher academic proficiency levels.

Federal spending reductions identified in the Budget Control Act of 2011 will take effect in January 2013, if congress does not take action by December 2012. The state has not determined the effect of those potential reductions on its operations. The state has determined that it will not set up its own health insurance exchange. Tennesseans will use a federally-managed health insurance exchange, an online marketplace to comparison shop for health insurance plans. Health insurance exchanges are required by the federal Patient Protection and Affordable Care Act with open enrollment beginning October 2013 for health plans starting in January 2014.

Two initiatives will affect how the state does business in the future. The TEAM Act (Tennessee Excellence Accountability and Management) was passed in 2012. The Act updated and reformed state government's antiquated employment system by simplifying the hiring process, providing flexibility to retain and reward outstanding employees and streamlining the appeals process for employees. Also, state agencies have begun using LEAN principles to reduce business process complexity and improve quality and timeliness. LEAN is a philosophy and set of tools which help employees and leadership streamline business processes to be more customer-focused. It is a proven methodology adapted from the manufacturing environment which a number of states and other governments have used to reduce bureaucracy and increase efficiency.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the state's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 Rosa Parks Avenue, Suite 1400, Nashville, TN 37243.

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Assets
June 30, 2012

(Expressed in Thousands)

	Primary Government			
Assets	Governmental Activities	Business-Type Activities	Total	Total Component Units
Cash and cash equivalents	$ 3,595,419	$ 613,679	$ 4,209,098	$ 2,432,988
Cash on deposit with fiscal agent		561,768	561,768	
Investments	566,568		566,568	1,338,210
Receivables, net	2,454,594	192,691	2,647,285	612,569
Internal balances	(219)	219		
Due from primary government				31,707
Due from component units	90,155	9	90,164	
Inventories, at cost	30,698		30,698	9,947
Prepayments	97		97	14,149
Loans receivable, net	15,068	600,716	615,784	3,584,811
Lease receivable	2,387		2,387	
Deferred charges and other	929		929	61,665
Deferred outflow- derivatives				2,128
Restricted assets:				
Cash and cash equivalents	187,543		187,543	148,767
Investments				272,036
Receivables, net				2,864
Capital assets:				
Land, at cost	1,939,324		1,939,324	200,611
Infrastructure	21,289,577		21,289,577	430,471
Structures and improvements, at cost	2,299,712		2,299,712	4,459,538
Machinery and equipment, at cost	871,310		871,310	1,016,569
Less-Accumulated depreciation	(1,563,157)		(1,563,157)	(2,532,197)
Construction in progress	1,279,852		1,279,852	607,722
Software in development	56,631		56,631	
Total assets	33,116,488	1,969,082	35,085,570	12,694,555
Liabilities				
Accounts payable and other current liabilities	1,296,011	66,528	1,362,539	426,038
Due to primary government				91,121
Due to component units	31,669	38	31,707	
Unearned revenue	270,531	14,532	285,063	168,043
Advance from other governments	73,620		73,620	
Fair value of derivatives				2,128
Other	2,769		2,769	80,768
Noncurrent liabilities:				
Due within one year	278,797		278,797	325,709
Due in more than one year	3,167,506	7,172	3,174,678	5,100,519
Total liabilities	5,131,372	88,270	5,219,642	6,194,326
Net assets				
Invested in capital assets, net of related debt	25,628,600		25,628,600	2,921,861
Restricted for:				
Education	446,590		446,590	
Health and social services	22,463		22,463	
Public protection and regulation	117,951		117,951	
Single family bond programs				508,687
Recreation and resource development	102,058		102,058	
Transportation	18,984		18,984	
Capital Projects	177,074		177,074	90,924
Other purposes	3,820		3,820	564,289
Permanent:				
Expendable	145,846		145,846	96,531
Nonexpendable	138,026		138,026	818,275
Unrestricted	1,183,704	1,880,812	3,064,516	1,499,662
Total net assets	$ 27,985,116	$ 1,880,812	$ 29,865,928	$ 6,500,229

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Activities
For the Year Ended June 30, 2012

(Expressed in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	$ 942,465	$ 673,945	$ 67,439	
Education	7,018,189	56,898	1,639,722	
Health and social services	13,952,342	772,850	9,518,967	
Law, justice and public safety	1,567,730	125,879	238,764	$ 6,122
Recreation and resources development	646,494	151,545	199,752	13,617
Regulation of business and professions	126,395	168,590	2,076	
Transportation	1,012,399	29,601	230,797	883,542
Intergovernmental revenue sharing	851,535			
Interest on long-term debt	62,119			
Payments to fiduciary fund	58,453			
Total governmental activities	26,238,121	1,979,308	11,897,517	903,281
Business-type activities:				
Employment security	1,232,324	769,446	678,498	
Insurance programs	540,746	542,756	166	
Loan programs	1,757	15,600	70,338	
Other	620	133	3	
Total business-type activities	1,775,447	1,327,935	749,005	
Total primary government	$ 28,013,568	$ 3,307,243	$ 12,646,522	$ 903,281
Component units:				
Higher education institutions	$ 4,398,846	$ 1,524,754	$ 1,580,992	$ 223,541
Loan programs	736,497	245,723	469,664	
Lottery program	1,220,613	1,220,509	48	
Other	85,847	62,739	3,957	
Total component units	$ 6,441,803	$ 3,053,725	$ 2,054,661	$ 223,541

General revenues:
Taxes:
Sales and use
Fuel
Business
Other
Payments from primary government
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous
Contributions to permanent funds
Transfers

Total general revenues, contributions, and transfers

Change in net assets
Net assets, July 1

Net assets, June 30

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (201,081)		$ (201,081)	
(5,321,569)		(5,321,569)	
(3,660,525)		(3,660,525)	
(1,196,965)		(1,196,965)	
(281,580)		(281,580)	
44,271		44,271	
131,541		131,541	
(851,535)		(851,535)	
(62,119)		(62,119)	
(58,453)		(58,453)	
(11,458,015)		(11,458,015)	
	$ 215,620	215,620	
	2,176	2,176	
	84,181	84,181	
	(484)	(484)	
	301,493	301,493	
(11,458,015)	301,493	(11,156,522)	
			$ (1,069,559)
			(21,110)
			(56)
			(19,151)
			(1,109,876)
6,884,762		6,884,762	
842,133		842,133	
3,926,566		3,926,566	
608,762		608,762	
			1,122,775
			154,360
772		772	12,113
253,489		253,489	4,434
174		174	29,870
(4,655)	4,655		
12,512,003	4,655	12,516,658	1,323,552
1,053,988	306,148	1,360,136	213,676
26,931,128	1,574,664	28,505,792	6,286,553
$ 27,985,116	$ 1,880,812	$ 29,865,928	$ 6,500,229

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

General Fund—The general fund is maintained to account for all governmental financial resources and transactions not accounted for in another fund.

Education Fund—The education fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

Highway Fund—This fund is maintained to account for revenues and expenditures associated with programs of the Department of Transportation. Funding of these programs is accomplished primarily from dedicated highway user taxes and funds received from the various federal transportation agencies. All federal funds accruing to the highway fund are received on a reimbursement basis covering costs incurred. It is the state's practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. This front-end state funding, together with multi-year disbursements on most projects, results in large cash balances in this fund. Effective July 1, 1986, the Department of Transportation began earning interest on certain unspent monies for a new highway construction program, while the general fund earns the interest on the other highway program monies.

Capital Projects Fund—The capital projects fund is maintained to account for the acquisition or construction of major governmental capital assets financed principally by long-term bonds.

Nonmajor Governmental Funds—Nonmajor governmental funds are presented by fund type in the supplementary section.

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2012

(Expressed in Thousands)

	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 1,853,240	$ 12	$ 211,438	$ 581,885	$ 370,824	$ 3,017,399
Investments		330,607			235,961	566,568
Receivables, net	1,488,891	479,171	440,775	10,424	19,505	2,438,766
Due from other funds	257,325	99				257,424
Due from component units	402	89,438			315	90,155
Inventories, at cost	13,729	73	9,369			23,171
Deferred charges and other	237					237
Loans receivable, net	3,217		1,768		10,083	15,068
Leases receivable	776					776
Restricted assets:						
Cash and cash equivalents				187,543		187,543
Total assets	$ 3,617,817	$ 899,400	$ 663,350	$ 779,852	$ 636,688	$ 6,597,107
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 973,286	$ 58,848	$ 97,980	$ 44,060	$ 14,665	$ 1,188,839
Due to other funds	8,853	257,545	878	5	315	267,596
Due to component units	2,186			27,530	1,953	31,669
Deferred revenue	295,261	66,396	183,633	191	12,859	558,340
Advance from other governments	20,062	2,418	18,695		32,445	73,620
Payable from restricted assets				10,469		10,469
Other	110		2,459		200	2,769
Total liabilities	1,299,758	385,207	303,645	82,255	62,437	2,133,302
Fund balances:						
Nonspendable						
Inventories	13,729	73	9,369			23,171
Long term portion of accounts receivable	4,880					4,880
Permanent fund corpus					138,026	138,026
Restricted	63,192	446,590	18,984	177,074	338,324	1,044,164
Committed	286,918	7,760	244,580		92,356	631,614
Assigned	1,250,677	59,770	86,772	520,523	5,545	1,923,287
Unassigned	698,663					698,663
Total fund balances	2,318,059	514,193	359,705	697,597	574,251	4,463,805
Total liabilities and fund balances	$ 3,617,817	$ 899,400	$ 663,350	$ 779,852	$ 636,688	

Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,641,467
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	330,553
Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	655,933
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,106,642)
Net assets of governmental activities	$ 27,985,116

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Sales	$ 2,815,903	$ 3,970,174	$ 64,574		$ 48,961	$ 6,899,612
Fuel	15,613		704,214		122,305	842,132
Business	3,408,814	279,276	6,226		232,469	3,926,785
Other	593,515	133			18,021	611,669
Licenses, fines, fees, and permits	329,334	1,551	215,908		184,959	731,752
Investment income	7,059	50			10,302	17,411
Federal	9,967,880	1,278,970	1,040,353	$ 6,122	40,931	12,334,256
Departmental services	1,933,234	22,311	45,230	64,509	12,145	2,077,429
Other	240,558	350,690	4,023		34	595,305
Total revenues	19,311,910	5,903,155	2,080,528	70,631	670,127	28,036,351
Expenditures						
Current:						
General government	551,237				24,682	575,919
Education		6,821,313			7,306	6,828,619
Health and social services	14,807,999					14,807,999
Law, justice and public safety	1,522,804				5,962	1,528,766
Recreation and resources development	541,000				164,043	705,043
Regulation of business and professions	86,856				49,021	135,877
Transportation			1,952,887			1,952,887
Intergovernmental revenue sharing	561,585		289,950			851,535
Debt service:						
Principal					115,935	115,935
Interest					65,471	65,471
Debt issuance costs					4,793	4,793
Capital outlay				483,279		483,279
Total expenditures	18,071,481	6,821,313	2,242,837	483,279	437,213	28,056,123
Excess (deficiency) of revenues over (under) expenditures	1,240,429	(918,158)	(162,309)	(412,648)	232,914	(19,772)
Other financing sources (uses)						
Bonds and commercial paper issued				637,868		637,868
Commercial paper redeemed				(201,235)		(201,235)
Refunding bond proceeds					464,809	464,809
Refunding bond premium					88,775	88,775
Refunding payment to escrow					(552,898)	(552,898)
Bond premium					37,069	37,069
Insurance claims recoveries	192			2,520	22	2,734
Proceeds from pledged revenue	58,453					58,453
Transfers in	107,843	899,561	101,600	162,148	14,549	1,285,701
Transfers out	(1,119,772)		(1,437)	(3,736)	(241,455)	(1,366,400)
Total other financing sources (uses)	(953,284)	899,561	100,163	597,565	(189,129)	454,876
Net change in fund balances	287,145	(18,597)	(62,146)	184,917	43,785	435,104
Fund balances, July 1	2,030,914	532,790	421,851	512,680	530,466	4,028,701
Fund balances, June 30	$ 2,318,059	$ 514,193	$ 359,705	$ 697,597	$ 574,251	$ 4,463,805

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2012

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$	435,104
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		1,034,976
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.		(7,779)
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(358,453)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(100,651)
Internal service funds are used by management to charge the cost of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.		50,791
Changes in net assets of governmental activities	$	1,053,988

The notes to the financial statements are an integral part of this statement.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Sewer Treatment Loan—Created in 1987, this fund provides loans to local governments and utility districts for the construction of sewage treatment facilities. The initial sources of the monies are federal grants and state appropriations.

Employment Security Fund—This fund is maintained to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants. Funds are also received from the federal government for local office building construction, supplemental unemployment programs and work incentive payments. As required by law, all funds not necessary for current benefit payments are placed on deposit with the U.S. Treasury. Interest earned from these monies is retained in the fund. Administrative and operational expenses incurred by the Department of Labor and Workforce Development are expenditures of the General Fund.

Nonmajor Enterprise Funds—Nonmajor enterprise funds are presented in the supplementary section.

Internal Service Funds—Internal service funds are presented in the supplementary section.

State of Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2012

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
Assets	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Current assets:					
Cash and cash equivalents	$ 393,409	$ 567	$ 219,703	$ 613,679	$ 578,020
Cash on deposit with fiscal agent		561,768		561,768	
Receivables:					
Accounts receivable		183,728	3,360	187,088	14,927
Interest		5,603		5,603	
Loans receivable	28,823		12,532	41,355	
Due from other funds		221		221	348
Due from component units		9		9	
Inventories, at cost					7,527
Prepaid expenses					97
Total current assets	422,232	751,896	235,595	1,409,723	600,919
Noncurrent assets:					
Accounts receivable					901
Deferred charges					184
Due from other funds					174
Loans receivable	408,150		151,211	559,361	
Lease receivable					1,611
Capital assets:					
Land, at cost					62,966
Structures and improvements, at cost					571,261
Machinery and equipment, at cost					377,714
Less-accumulated depreciation					(490,965)
Construction in progress					10,805
Total capital assets, net of accumulated depreciation					531,781
Total noncurrent assets	408,150		151,211	559,361	534,651
Total assets	830,382	751,896	386,806	1,969,084	1,135,570
Liabilities					
Current liabilities:					
Accounts payable and accruals	10	29,195	37,323	66,528	78,012
Due to other funds		2		2	357
Due to component units		38		38	
Lease obligations payable					153
Bonds payable					19,364
Unearned revenue		14,390	142	14,532	42,624
Other					34,095
Total current liabilities	10	43,625	37,465	81,100	174,605
Noncurrent liabilities:					
Lease obligations payable					371
Commercial paper payable					51,318
Bonds payable, net					179,147
Other noncurrent liabilities	4,693		2,479	7,172	74,196
Total noncurrent liabilities	4,693		2,479	7,172	305,032
Total liabilities	4,703	43,625	39,944	88,272	479,637
Net assets					
Invested in capital assets, net of related debt					281,427
Unrestricted	825,679	708,271	346,862	1,880,812	374,506
Total net assets	$ 825,679	$ 708,271	$ 346,862	$ 1,880,812	$ 655,933

The notes to the financial statements are an integral part of this statement.

State of Tennsssee
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Operating revenues					
Charges for services	$ 13,402		$ 2,331	$ 15,733	$ 483,189
Investment income	322		74	396	
Premiums		$ 769,446	542,756	1,312,202	679,584
Other					343
Total operating revenues	13,724	769,446	545,161	1,328,331	1,163,116
Operating expenses					
Personal services					73,061
Contractual services	1,292		26,352	27,644	199,262
Materials and supplies					108,587
Rentals and insurance					44,087
Depreciation and amortization					47,382
Benefits		1,229,664	508,167	1,737,831	637,840
Other		2,660	7,312	9,972	15,779
Total operating expenses	1,292	1,232,324	541,831	1,775,447	1,125,998
Operating income (loss)	12,432	(462,878)	3,330	(447,116)	37,118
Nonoperating revenues (expenses)					
Taxes					2
Operating grants	29,013	667,785	54,479	751,277	323
Insurance claims recoveries					2,841
Interest income		10,713	172	10,885	405
Interest expense					(7,489)
Other	(11,132)		(2,421)	(13,553)	
Total nonoperating revenues (expenses)	17,881	678,498	52,230	748,609	(3,918)
Income (loss) before contributions and transfers	30,313	215,620	55,560	301,493	33,200
Transfers in	4,417		2,011	6,428	17,909
Transfers out			(1,773)	(1,773)	(318)
Change in net assets	34,730	215,620	55,798	306,148	50,791
Net assets, July 1	790,949	492,651	291,064	1,574,664	605,142
Net assets, June 30	$ 825,679	$ 708,271	$ 346,862	$ 1,880,812	$ 655,933

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Cash flows from operating activities					
Receipts from customers and users		$ 764,618	$ 549,375	$ 1,313,993	$ 351,120
Receipts from interfund services provided		5,309		5,309	849,290
Payments to suppliers			(541,781)	(541,781)	(986,264)
Payments to employees			(2)	(2)	(73,260)
Payments for unemployment benefits		(1,231,934)		(1,231,934)	
Payments for interfund services used	$ (1,292)	(2,660)	(7,683)	(11,635)	(60,390)
Net cash from (used for) operating activities	(1,292)	(464,667)	(91)	(466,050)	80,496
Cash flows from noncapital financing activities					
Operating grants received	29,013	674,330	54,479	757,822	
Negative cash balance implicitly repaid		(5,905)		(5,905)	
Transfers in	4,417		2,011	6,428	17,909
Transfers out			(1,773)	(1,773)	(318)
Tax revenues received					2
Net cash from (used for) noncapital financing activities	33,430	668,425	54,717	756,572	17,593
Cash flows from capital and related financing activities					
Purchase of capital assets					(43,292)
Bond and commercial paper proceeds					23,724
Proceeds from sale of capital assets					2,020
Insurance claims recoveries					2,841
Bond issuance cost					(102)
Principal payments					(31,257)
Interest paid					(8,399)
Net cash from (used for) capital and related financing activities					(54,465)
Cash flows from investing activities					
Loans issued and other disbursements to borrowers	(61,299)		(56,822)	(118,121)	
Collection of loan principal	193,638		12,361	205,999	
Interest received	13,731	10,713	2,435	26,879	405
Net cash from (used for) investing activities	146,070	10,713	(42,026)	114,757	405
Net increase (decrease) in cash and cash equivalents	178,208	214,471	12,600	405,279	44,029
Cash and cash equivalents, July 1	215,201	347,864	207,103	770,168	533,991
Cash and cash equivalents, June 30	$ 393,409	$ 562,335	$ 219,703	$ 1,175,447	$ 578,020

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	$ 12,432	$ (462,878)	$ 3,330	$ (447,116)	$ 37,118
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					47,383
Loss on disposal of capital assets					1,861
Bond issuance cost					117
Investment income			(2,208)	(2,208)	
Charges for services			(29)	(29)	
Interest income	(13,724)			(13,724)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		5,540	(971)	4,569	(875)
(Increase) decrease in due from other funds		240		240	1,491
(Increase) decrease in due from component units		(4)		(4)	98
(Increase) decrease in inventories					(481)
(Increase) decrease in prepaid expenses					68
Increase (decrease) in accounts payable		(7,493)	(341)	(7,834)	(7,670)
Increase (decrease) in due to other funds					(209)
Increase (decrease) in unearned revenue		(72)	128	56	1,595
Total adjustments	(13,724)	(1,789)	(3,421)	(18,934)	43,378
Net cash provided by (used for) operating activities	$ (1,292)	$ (464,667)	$ (91)	$ (466,050)	$ 80,496
Noncash investing, capital and financing activities					
Bond refunding proceeds					$ 78,221
Bond refunding premium					1,505
Bond refunding proceeds to escrow					(79,726)
Total noncash investing, capital and financing activities					$ -

The notes to the financial statements are an integral part of this statement.

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and other Employee Benefit) Trust Funds—These funds are presented individually in the supplementary section.

Investment Trust Fund—This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earnings. Through this program, the participating local governments achieve higher investment income by pooling their funds than they could realize individually.

Private–Purpose Trust Funds—These funds are presented individually in the supplementary section.

Agency Funds—These funds are presented individually in the supplementary section.

State of Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 427,574	$ 434,640	$ 64,939	$ 436,845
Receivables:				
Accounts				2,509
Taxes			34	385,259
Interest and dividends	149,977	5,972		
Due from sale of investments	502,791	29,367		
Derivative instruments	391,114			
Due from other governments	61,250			
Real estate income	833			
Other	27,314			
Total receivables	1,133,279	35,339	34	387,768
Due from other funds	9,788			
Due from component units	9,025			
Investments, at fair value:				
Short-term securities	19,782	1,681,924		
Government bonds	8,251,135			
Corporate bonds	5,668,023			
Corporate stocks	18,829,821			
Mutual funds			91,673	
Derivative instruments	650			
Private equities	173,949			
Real estate	1,349,052			
Total investments	34,292,412	1,681,924	91,673	
Capital assets, at cost				
Software in development	9,749			
Machinery and equipment	1,721			
Accumulated depreciation	(43)			
Total assets	35,883,505	2,151,903	156,646	824,613
Liabilities				
Accounts payable and accruals	591,900		141	710,437
Derivative instruments	377,619			
Amounts held in custody for others				114,176
Total liabilities	969,519		141	824,613
Net assets				
Held in trust for:				
Pension benefits	34,912,773			
Employees' flexible benefits	1,213			
Pool participants		2,151,903		
Individuals, organizations and other governments			156,505	
Total net assets	$ 34,913,986	$ 2,151,903	$ 156,505	$ -

The notes to the financial statements are an integral part of this statement.

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 271,816		
Employers	1,002,713		
Federal			$ 6,305
Private			58,855
Other			4,281
Total contributions	1,274,529		69,441
Investment income:			
Net increase in fair value of investments	825,367		834
Interest	506,160	$ 3,849	1,394
Dividends	431,301		
Real estate income	69,615		
Total investment income	1,832,443	3,849	2,228
Less: Investment expenses	32,379		
Administrative fee		1,111	
Net investment income	1,800,064	2,738	2,228
Capital share transactions:			
Shares sold		3,649,049	
Less: Shares redeemed		3,641,797	
Net capital share transactions		7,252	
Total additions	3,074,593	9,990	71,669
Deductions			
Annuity benefits:			
Retirement benefits	1,461,141		
Cost of living	302,464		
Death benefits	6,204		
Other	8,322		52,560
Refunds	40,092		3,637
Administrative expenses	7,124		6,819
Depreciation expense	43		
Total deductions	1,825,390		63,016
Change in net assets held in trust for:			
Pension benefits	1,249,465		
Employees' flexible benefits	(262)		
Individuals, organizations and other governments		9,990	8,653
Net assets, July 1	33,664,783	2,141,913	147,852
Net assets, June 30	$ 34,913,986	$ 2,151,903	$ 156,505

The notes to the financial statements are an integral part of this statement.

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State of Tennessee
Comprehensive Annual Financial Report
For the Year Ended June 30, 2012
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NOTE 1 – **Summary of significant accounting policies**

A. **Financial reporting entity**

Introduction - As required by generally accepted accounting principles, these financial statements present the primary government (the state) and its component units, entities for which the state is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the primary government.

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for administering federal and state student financial assistance programs. The majority of the board is either appointed by the governor or are state officials. TSAC's budget is approved by the state.

2. The Tennessee Community Services Agency (Governmental Fund Type) provides coordination of funds and programs for the care of the citizens of the state. The board of the agency is appointed by the governor and the plan of operation and budget must be approved by the state.

3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The board of the agency consists of state officials, appointees of the governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the state.

4. The Tennessee Education Lottery Corporation (Proprietary Fund Type) is responsible for the operation of a state lottery with net proceeds to be given to the state to be used for education programs and purposes in accordance with the Constitution of Tennessee. The corporation is governed by a board of directors composed of seven directors appointed by the governor.

5. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the governor and the state provides a substantial amount of funding.

6. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the state. The Board is appointed by the governor and the state provides a substantial amount of the funding.

7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the board consists of state officials; therefore, the state can impose its will on the Authority.

8. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the governor and its budget is approved by the state. In addition, the issuance of bonds must be approved by the State Funding Board.

9. The Federal Family Education Loan Program (Proprietary Fund Type) is administered by TSAC, the state's designated federal guaranty agency. As part of the program, TSAC guarantees loans made by lending institutions to students attending postsecondary schools as authorized by Title IV of the Higher Education Act of 1965.

10. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the state in conjunction with a federal government program. The board of the Authority consists primarily of state officials; therefore, the state is able to impose its will on the organization.

11. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the boll weevil. The majority of the board is appointed by the Commissioner of the Department of Agriculture, and the state provides a substantial amount of funding.

12. The Access Tennessee (Proprietary Fund Type) health insurance pool was established to offer health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions. The board of the insurance pool consists of state officials, appointees of the Speakers of House and Senate, and appointees of the Commissioner of Finance and Administration. The funding plan and plan of operation of the insurance pool are approved by the state.

Complete financial statements for each of the individual component units may be obtained at the following addresses:

Tennessee Housing Development Agency
1114 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243

Tennessee Local Development Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

Tennessee State Veterans' Homes Board
P.O. Box 11328
Murfreesboro, TN 37129

Tennessee State School Bond Authority
Suite 1600, James K. Polk Building
Nashville, TN 37243

University of Tennessee
Office of the Treasurer
301 Andy Holt Tower
Knoxville, TN 37996-0100

Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217

Tennessee Education Lottery Corporation
Plaza Tower Metro Center
200 Athens Way
Nashville, TN 37228

All others may be obtained at the following:
Finance & Administration
Division of Accounts
14th Floor William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue
Nashville, TN 37243

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Earned revenues are recognized when they become measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due. General capital asset acquisitions are reported as expenditures and issuance of long-term debt is reported as an other financing source in governmental funds.

Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds and investment income. The state generally considers taxes, and similarly measurable fees and fines, available if collected within 60 days after fiscal year-end. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met, and the amount is received during the current period or within 6 months after fiscal year-end. The state uses this same 6 month availability period for most other measurable revenues, with the exception of the tobacco and similar litigation settlement proceeds, which are generally considered to be available if collection is expected within 12 months after fiscal year-end. Licenses, permits, and other similar miscellaneous revenue items are considered measurable and available only when cash is received.

The state reports the following major governmental funds:

The *general fund* is the state's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *education fund* accounts for financial transactions and balances associated with K-12 and higher education programs. Funding for these programs is accomplished primarily from dedicated sales and services taxes, federal monies received from the U.S. Department of Education, and net lottery proceeds.

The *highway fund* accounts for financial transactions and balances associated with programs of the Department of Transportation. Funding for these programs is accomplished primarily from dedicated highway user taxes and fees and funds received from the various federal transportation agencies.

The *capital projects fund* accounts for financial transactions and balances associated with the acquisition or construction of major governmental capital assets. These capital assets are financed principally with long-term bonds.

The state reports the following major proprietary funds:

The *sewer treatment loan fund* accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

The *employment security fund* accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Additionally, the state reports the following fund types:

Internal service funds account for services provided to other departments or agencies of the state, or to other governments, on a cost reimbursement basis. Internal service fund services include the provision of information technology, facilities management, fleet services, risk management, employee health insurance, accounting services, and purchasing services. Other services include human resource management, printing, postal, products and food produced by Department of Correction inmates, and warehousing of records and supplies.

The *fiduciary fund types* are used to account for resources legally held in trust. Fiduciary activities include the employee pension plan and a flexible benefits plan. Also included is *Baccalaureate Education*, a trust created to permit the purchase of tuition units that may be used at certain higher education institutions. *Children in State Custody* is a fund used to hold monies for the benefit of children in state custody. *Oak Ridge Monitoring* is a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage. *TNInvestco* is a fund that accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act. Three agency funds account for 1) funds distributed to local governments in the state, 2) refundable deposits and other receipts held in trust until the state is authorized to disburse the funds, and 3) premiums and claims expense of retired employees who participate in the state's healthcare plans.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The state has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of internal activity, interdepartmental revenues and expenditures (both direct and indirect expenditures), has been eliminated from the government-wide financial statements. An exception is that interfund services provided and used between functions have not been eliminated.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Investment income of certain proprietary funds is classified as operating revenue because those transactions are a part of the funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first, then, unrestricted resources as they are needed.

Expenditures or expenses for on-behalf payments for local education agencies participating in the Teacher Group Plan and the Medicare Supplement Plan, and for component unit retirees participating in the Medicare Supplement Plan, reduce the annual required contribution for the state's obligation to partially or fully fund the subsidized portion of the retiree's health insurance premiums.

D. **Assets, liabilities, and net assets or equity**

1. <u>Deposits and investments</u>—The state's cash and cash equivalents includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the state. These short-term investments, which are not part of the State Cash Pool, are stated at fair value. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the state's policy to include cash management pools as cash.

   Investments not in the State Cash Pool are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. Investment income consists of realized and unrealized appreciation or depreciation in the fair value of investments. Interest income is recognized when earned. Securities and security transactions are recorded in the financial statements on trade-date basis.

2. <u>Receivables and payables</u>—All outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

   All receivables are shown net of an allowance for uncollectibles. Receivables in the state's governmental and fiduciary funds primarily consist of taxes, interest, departmental services and federal revenues, see Note 1C.

3. Inventories and prepaid items—Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a special revenue fund) and Motor Vehicle Management, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2012, their inventory balance reasonably reflects approximate cost under FIFO. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets—Proceeds of the state's general obligation bonds and commercial paper program that remain unspent at year end are classified as restricted cash on the statement of net assets. The commercial paper program provides short-term financing for the state's capital projects.

   Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans' Homes Board – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments.

5. Capital assets—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure and land, are defined by the state as assets with an initial individual cost of $5,000 or more and an estimated useful life of three years or more. Infrastructure assets and land are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

   The state holds certain assets such as works of art, historical documents, and artifacts that have not been capitalized or depreciated because the collections are protected and preserved for exhibition, education, or research and are considered to have inexhaustible useful lives.

   Major outlays for capital assets and improvements are capitalized as projects are constructed.

   The state has elected to apply the modified approach to accounting for infrastructure—roadways and bridges. The modified approach is an alternative to depreciation that may be applied to infrastructure capital assets that meet certain requirements. Under the modified approach, depreciation expense is not recorded for these assets. Instead, costs for both maintenance and preservation of these assets should be expensed in the period incurred. Additions and improvements are capitalized.

   Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Machinery and equipment	3-20

6. Compensated absences—It is the state's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the state's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.

7. Long-term obligations—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

   In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Net assets—Consists of three components: *Invested in capital assets, net of related debt* consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or commercial paper, and leases that are attributable to the acquisition, construction, or improvement of those assets. Unspent debt proceeds at year end are not included in this calculation.

   Restricted net assets consist of net assets in which constraints are placed on the use of those net assets either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $1.2 billion restricted by the primary government, $492.2 million was by enabling legislation.

   Unrestricted net assets consist of net assets that do not meet the definition of "restricted net assets" or "invested in capital assets, net of related debt."

9. Fund equity—In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned.

   - *Nonspendable* fund balance represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

   - *Restricted* fund balance represents amounts where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

   - *Committed* fund balance represents amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The General Assembly is the highest level of decision-making authority for the state that can, by adoption of legislation prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the legislation remains in place until the same action is taken (i.e., adoption of other legislation) to remove or revise the limitation.

- *Assigned* fund balance represents amounts that are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. G enerally, the assignment is expressed by the General Assembly in the annual General Appropriations Act.

- *Unassigned* fund balance represents the residual amount for the general fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted resources are available for use, it is the state's policy to use restricted resources first, then unrestricted resources. Of the unrestricted resources, the state considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts.

10. Fiscal year end—The fiscal year end of the primary government and component units is June 30, except for the Agricultural Promotion Boards, a special revenue fund; which has a December 31 year end. Also, the Certified Cotton Growers' Organization, a component unit, has a December 31 year end.

11. Comparative data/reclassifications—Comparative total data for the prior year have not been presented.

NOTE 2 – **Reconciliation of government-wide and fund financial statements**

A. **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $3,106.642 million difference are as follows (expressed in thousands):

Bonds payable	$ 1,803,497
Plus: premium on bonds issued (to be amortized as interest expense)	181,259
Less: deferred charge for issuance costs (to be amortized over life of debt)	(625)
Less: deferred charge for bond refundings (to be amortized as interest expense)	(70,665)
Commercial paper payable	146,452
Accrued interest payable	21,941
Capital leases payable	14,142
Claims and judgments	142,385
Compensated absences	230,676
Other post employee benefits	462,618
Pollution remediation	62,120
Other long-term liabilities and accounts payable	112,842
Net adjustment to reduce fund balance—total governmental funds to arrive at net assets—governmental activities	$ 3,106,642

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $1,034.976 million difference are as follows (expressed in thousands):

Capital outlay	$	1,109,881
Depreciation expense		(74,905)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$	1,034,976

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $358.453 million difference are as follows (expressed in thousands):

Debt issued or incurred:		
Issuance of general obligation refunding bonds	$	464,809
Issuance of general obligation bonds		456,338
Issuance of commercial paper		181,530
Bond premium capitalized		125,844
Debt reduced:		
General obligation bonds/payments to escrow		(552,898)
General obligation debt		(115,935)
Commercial paper redeemed		(201,235)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$	358,453

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $100.651 million difference are as follows (expressed in thousands):

Compensated absences	$	2,080
Claims and judgments		19,245
Accrued interest		4,976
Capital lease		(721)
Other postemployment benefits		75,738
Pollution remediation		10,305
Pledged tax credits		(13,959)
Amortization of deferred charge		40
Loss on disposal of capital assets		11,077
Amortization of issuance costs		197
Amortization of bond premiums		(12,842)
Amortization of deferred amount on bond refunding		4,515
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$	100,651

NOTE 3 – **Deficit fund equity**

The purchasing fund, an internal service fund, has a total net asset deficit of $209 thousand. The deficit occurred primarily as a result of the reporting of other post employment benefits at the fund level in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

NOTE 4 – **Accounting changes**

Prior period adjustments

Primary government

- Governmental activities—$1.506 million is a correction of an error resulting from the overstatement of machinery and equipment, net of accumulated depreciation, in previous years (motor vehicle management, an internal service fund).

- Governmental activities—approximately $75.675 million is a correction of an error resulting from the understatement of construction in progress and land related to infrastructure in previous years.

Component units

- The University of Tennessee recorded a prior period adjustment of $12.435 million to correct an understatement of liabilities to beneficiaries.

- Institutions of the Tennessee Board of Regents (TBR) recorded prior period adjustments for a net decrease to net assets of $18.916 million for various misstatements in capital assets, revenues and expenses (e.g., Pell grant expenses, tuition and fees, payroll expense).

- The Tennessee Student Assistance Corporation recorded a prior period adjustment to correct the fund classification of the federal family education loan program, formerly reported as a fiduciary fund, to a proprietary fund type component unit. As a result of the reclassification, the beginning balance of the component units net assets on the government wide statement of net assets increased by $100.379 million.

Fiduciary funds

- The investment trust fund recorded a prior period adjustment of $257.731 million to correct an overstatement of cash at June 30, 2011.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2012, (expressed in thousands):

	6/30/2011 Net Assets As Reported	Adjustments to Net Assets	6/30/2011 Net Assets As Restated
Government-wide statements:			
Primary Government			
Governmental Activities	$ 26,856,959	$ 74,169	$ 26,931,128
Total Primary Government	$ 26,856,959	$ 74,169	$ 26,931,128
Component units	$ 6,217,525	$ 69,028	$ 6,286,553
Total component units	$ 6,217,525	$ 69,028	$ 6,286,553
Fiduciary funds statements:			
Investment trust fund	$ 2,399,644	$ (257,731)	$ 2,141,913
Total fiduciary funds	$ 2,399,644	$ (257,731)	$ 2,141,913

Fund reclassification

The state reclassified the Department of Human Resources, previously reported in the general fund, to an internal service fund. As a result, fund balance was decreased by $11.825 million in the general fund and net assets increased by $11.236 million in internal service funds.

NOTE 5 – **Detailed notes on all funds**

A. **Deposits and investments**

Primary Government

The state's cash includes deposits in demand accounts, petty cash and monies in cash management pools. State statutes provide that funds in the state treasury be invested by the State Treasurer. The State Pooled Investment Fund (SPIF) is established by *Tennessee Code Annotated*, Section 9-4-603 "for the purpose of receiving and investing any money in the custody of any officer or officers of the state unless prohibited by statute to be invested." Participants in the SPIF include the general fund of the state and any department or agency of the state which is required by court order, contract, state or federal law or federal regulation to receive interest on invested funds and which are authorized by the State Treasurer to participate in the SPIF. In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) investment trust fund are consolidated with the SPIF for investment purposes only. The primary oversight responsibility for the investment and operations of the SPIF rests with the Funding Board of the State of Tennessee (Funding Board).

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited.

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the Baccalaureate Education System Trust (BEST), a private-purpose trust; the Lottery for Education Fund, a part of the education fund, a special revenue fund; and the Chairs of Excellence (COE) Trust, a permanent fund; are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.

As of June 30, 2012, the state's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

Investment Type	Fair Value	United States[1] Treasury/Agency	AAA
Debt Investments			
U.S. Government			
U.S. Government Treasuries, Notes, Bonds	$ 3,957,998	$ 3,957,998	
U.S. Government STRIPS	2,683,418	2,683,418	
U.S. Government Agencies	3,827,797	2,348	$ 69,330
U.S. Government Asset-Backed	81,382	81,382	
Municipal Bonds	161,940		2,920
Mortgage-Backed			
Government Pass-through	3,357,803	275,217	
Corporate Pass-through	279,760		178,905
Collateralized Mortgage Obligations			
Corporate CMO's	232,639		33,643
Corporate			
Corporate Bonds	4,521,628		111,181
Corporate Asset-Backed	782,930		573,832
Non-U.S. - Government/Sovereign	325,983		113,408
Short Term			
Commercial Paper	891,836		
Agencies	304,269		
Total Debt Investments	21,409,383	$ 7,000,363	$ 1,083,219
Other Investments			
Equity			
U.S.	12,887,225		
Non-U.S.	5,974,207		
Derivatives	650		
Real Estate	1,349,052		
Private Equities	173,949		
Commingled Funds			
U.S. Equity	121,853		
U.S. Fixed Income	59,757		
Non-U.S. Equity	28,918		
Money Market Funds (rated AAA)	37,021		
Money Market Funds (rated NR)	4,375		
Escrow Claim	3,468		
Total Other Investments	20,640,475		
Total Investments	$ 42,049,858		

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS (continued)

Credit Quality Rating									
AA	A	BBB	BB	B	CCC	CC	D	A1[2]	Not Rated[3]
$ 2,262,353									$ 1,493,765
104,851	$ 54,169								
13,277									3,069,309
100,380					$ 475				
				$ 43,223	121,425	$ 24,197	$ 10,151		
120,770	1,275,627	$ 2,726,954	$ 211,398	26,616		738			48,344
98,607	35,353	24,745	1,291		8,020				41,082
212,575									
								$ 891,836	
									304,269
$ 2,912,813	$ 1,365,149	$ 2,751,699	$ 212,689	$ 69,839	$ 129,920	$ 24,935	$ 10,151	$ 891,836	$ 4,956,769

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
2. A1 is the highest rating category for commercial paper.
3. Includes securities that are implicitly guaranteed by the U.S. government but are not rated by Standard and Poor's or Moody's.

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the state's investments in debt securities as of June 30, 2012, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the state. The SPIF's investment policy requires an AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2012, the state had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

The COE Trust's investment policy states that the majority of investments should be placed in high quality debt securities to produce adequate income with minimal risk. In addition, for short-term investments, the investment policy states that only the highest quality short-term debt issues should be purchased.

The BEST investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased. The policy further states that index funds may be utilized as an alternative to selecting individual securities.

The Lottery for Education Fund investment policy states that the fund may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required.

2. Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed fifty percent (50%) of the total book value of the pool on such date.

In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to five percent (5%) of the total book value of the pool and limits such investments in any one commercial bank to the lesser of five percent (5%) of the portfolio's book value or $25 million. Prime commercial paper investments are limited to five percent (5%) of the total portfolio book value invested in any one single issuing corporation and the total holdings of an issuer's paper should not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper, with the maximum amount of a specific corporation's commercial paper limited to $100 million, not including commercial paper maturing the next business day. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to $100 million. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, BEST, Lottery for Education Fund, or other state funds in any one issuer.

As of June 30, 2012, the combined SPIF, TCRS, COE Trust, BEST, Lottery for Education Fund, and other state funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

Issuer Organization		Fair Value	Percentage
Federal Home Loan Mortgage Corporation	$	2,581,204	6.14
Federal National Mortgage Association		2,289,049	5.44

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed one hundred twenty (120) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days. At June 30, 2012, the weighted average maturity of the pool was one hundred twenty four (124) days, which was in violation of the investment policy. The SPIF was in compliance with the policy at June 28, 2012, but was over the limit due to large outflows at year end. The weighted average maturity for the pool returned to one hundred twenty (120) days on July 5, 2012. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 14 to 271 days at June 30, 2012. Interest rates on certificates of deposit held at June 30, 2012, ranged from 0.20 percent to 0.30 percent. The days to maturity on U.S. Government Agencies ranged from 32 to 397 days at June 30, 2012. Interest rates on U.S. Government Agencies held at June 30, 2012 ranged from 0 percent to 5.125 percent. The days to maturity on commercial paper ranged from 3 to 42 days at June 30, 2012. Interest rates on commercial paper held at June 30, 2012, ranged from 0.04 percent to 0.20 percent.

As of June 30, 2012, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Fair Value	Weighted Average Maturity (Months)
U.S. Government Agencies	$ 3,576,657	5.5
U.S. Government Treasuries	2,329,353	5.4
Commercial paper	777,983	0.2

The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2012	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 215,919	8.63
Government Bonds	1,856,853	12.08
Government Inflation Indexed	2,654,938	8.82
Government Mortgage-Backed	3,291,737	1.38
Government Asset-Backed	76,372	5.06
Municipal Bonds	155,316	10.97
Corporate Fixed Income		
Collateralized Mortgage Obligations	232,639	3.40
Commercial Mortgage Backed	268,585	2.22
Asset Backed Securities	782,669	1.52
Corporate Bonds	4,349,054	6.91
Short Term		
Commercial Paper	113,853	0.19
Short Term Bills and Notes	304,269	0.13
Total Debt Investments	$ 14,302,204	

The investment policy for the COE Trust states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. The fixed income portfolio is benchmarked against the Barclays Aggregate Index and tends to have a duration within a range around that index.

CHAIRS OF EXCELLENCE
DEBT INVESTMENTS
(expressed in thousands)

Investment Type		Fair Value as of June 30, 2012	Effective Duration (Years)
Debt Investments			
U.S. Government			
U.S. Government Treasuries	$	14,599	8.48
U.S. TIPS		28,480	8.53
U.S. Agencies		5,314	3.62
Government Mortgage-Backed		29,843	1.23
Government Asset-Backed		991	4.39
Municipal Bonds		3,626	7.53
Corporate Fixed Income			
Corporate Mortgage-Backed		4,781	1.44
Corporate Bonds		33,797	6.24
Corporate Asset-Backed		261	0.00
Total Debt Investments	$	121,692	

The investment policy of the Lottery for Education fund recommends a mix of investment grade fixed income securities of the Long and Intermediate Term Portfolio that, when combined with income earned from amounts allocated to meet liquidity needs, has a high probability of meeting such scholarship objectives.

LOTTERY FOR EDUCATION
DEBT INVESTMENTS
(expressed in thousands)

Investment Type		Fair Value as of June 30, 2012	Effective Duration (Years)
Debt Investments			
Government Fixed Income			
Government Agencies	$	57,371	3.53
Government Bonds		55,713	7.61
Government Mortgage-Backed		36,223	0.48
Government Asset-Backed		4,018	7.24
Municipal Bonds		2,998	10.09
Corporate Fixed Income			
Commercial Mortgage Backed		6,394	7.52
Corporate Bonds		138,777	4.75
Total Debt Investments	$	301,494	

The investment policy for BEST states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The effective duration for the SSgA Aggregate Bond Index Fund that BEST utilizes was 5.05 years at June 30, 2012.

Asset-Backed Securities-The TCRS invests in collateralized mortgage obligations which are mortgage-backed securities that are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2012, was as follows (expressed in thousands):

Currency	Total Fair Value	Fixed Income	Equity	Cash
Australian Dollar	$ 285,935		$ 285,556	$ 379
British Pound Sterling	945,058	$ 36,073	908,427	558
Canadian Dollar	1,543,638	8,430	1,535,028	180
Danish Krone	76,389		76,373	16
Euro Currency	1,066,157	63,906	968,412	33,839
Hong Kong Dollar	106,932		106,775	157
Japanese Yen	1,145,912	212,575	927,031	6,306
New Israeli Shekel	14,916		14,819	97
New Zealand Dollar	6,410		6,337	73
Norwegian Krone	46,034	13,429	32,603	2
Singapore Dollar	67,835		67,753	82
Swedish Krona	93,496		93,286	210
Swiss Franc	318,426		317,464	962
Total	$ 5,717,138	$ 334,413	$ 5,339,864	$ 42,861

5. Derivatives

The international securities in the TCRS' portfolio expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2012, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into an agreement to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in the derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statements.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair values of such derivative instruments for the year ended as reported in the financial statements are as follows (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2012			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Fiduciary Funds:						
Foreign Currency Forward Contracts						
		$ (360)		$ (360)	11,210	AUD
		(248)	Derivative	(248)	18,710	EUR
	Investment	120	Instruments	120	1,489,342	JPY
	Income	$ (488)	Payable	$ (488)		
Future Contracts			Derivative			
	Investment		Instruments			
	Income	$ (5,479)	Receivable	$ (2,393)	$ 1,520,747	
Option Contracts						
	Investment		Derivative			
	Income	$ (9)	Instruments	$ 2	$ 2	
TBA Mortgage-Backed Securities			Derivative			
	Investment		Instruments			
	Income	$ 648	Payable	$ 648	$ 324,377	

6. Custodial Credit Risk

Custodial Credit Risk—Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2012 and June 30, 2011, the TCRS had uninsured and uncollateralized cash deposits of $42,861,324 and $16,218,307, respectively in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

Component Units

The various component units are generally governed by the same state statutes as the state's policies described above.

1. University of Tennessee

The University is authorized by statute to invest funds in accordance with the University's investment policies. Funds, other than endowment, annuity, and life income funds, invest similarly to the state policies. Endowment, annuity, and life income funds can be invested in equity securities and various other securities given prudent diversification.

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2012, the University's investments were rated as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating US Treasury/ Agency	Aaa	Aa1
U.S. Treasuries	$ 3,628	$ 3,628		
U.S. Agencies	9,731		$ 9,731	
Commercial Paper	54,972			
Corporate Bonds	16,745		1,004	
Municipal Bonds	3,718			$ 236
Mutual Funds – Bonds	29,383		1,163	
Mortgages and Notes	16			
Money Market Mutual Fund	1,908		1,908	
Total	$ 120,101	$ 3,628	$ 13,806	$ 236

(Continued) Rated Debt Instruments	Credit Quality Rating Aa2	Aa3	A1	A2
U.S. Treasuries				
U.S. Agencies				
Commercial Paper			$ 54,972	
Corporate Bonds		$ 380	1,585	$ 1,961
Municipal Bonds	$ 933	1,195	205	
Mutual Funds – Bonds				1,712
Mortgages and Notes				
Money Market Mutual Fund				
Total	$ 933	$ 1,575	$ 56,762	$ 3,673

(Continued) Rated Debt Instruments	Credit Quality Rating A3	Baa1	Baa2	Baa3
U.S. Treasuries				
U.S. Agencies				
Commercial Paper				
Corporate Bonds	$ 3,982	$ 4,245	$ 2,924	$ 586
Municipal Bonds		503	241	
Mutual Funds – Bonds			1,417	
Mortgages and Notes				
Money Market Mutual Fund				
Total	$ 3,982	$ 4,748	$ 4,582	$ 586

(Continued) Rated Debt Instruments	Credit Quality Rating Ba2	B1	B2	Unrated
U.S. Treasuries				
U.S. Agencies				
Commercial Paper				
Corporate Bonds				$ 78
Municipal Bonds				405
Mutual Funds – Bonds	$ 2,436	$ 94	$ 499	22,062
Mortgages and Notes				16
Money Market Mutual Fund				
Total	$ 2,436	$ 94	$ 499	$ 22,561

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2012, the University had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
Investments					
U.S. Treasuries	$ 3,628		$ 2,151	$ 716	$ 761
U.S. Agencies	9,731	$ 884	6,068	1,594	1,185
Commercial Paper	54,972	54,972			
Corporate Bonds	16,745	4,104	6,635	5,874	132
Municipal Bonds	3,718	503	1,386		1,829
Mortgages and Notes	16		16		
Bond Mutual Funds	29,383		2,830	21,547	5,006
	$ 118,193	$ 60,463	$ 19,086	$ 29,731	$ 8,913

University foundations' investments in the amount of $129.954 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

Alternative Investments

In its Consolidated Investment Pool, as part of its endowment assets, the University has investments in eighty-nine limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2012, the estimated fair value of these assets is $368.6 million and total capital contributions, less returns of capital, equal $317.9 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The University's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. Tennessee Board of Regents System

<u>Credit Risk</u>

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regents' investment policies. Funds, other than endowment, invest similarly to the state policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2012, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

		Credit Quality Rating						
Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	AAA	AA	A	BBB	BB	Not Rated
U.S. Treasuries	$ 55,021	$ 55,021						
U. S. Agencies	70,672	2,812	$ 6,655	$ 60,805				$ 400
Commercial Paper	2,249				$ 2,249			
Corporate Bonds	17,364		260	900	12,806	$ 2,257		1,141
Municipal Bonds	632		109	435	88			
Mutual Funds—Bonds	25,172		11,894	1,197	2,673	1,663	$ 628	7,117
Mortgage Backed Securities	1,124			1,124				
Collateralized Mortgage Obligation	990		643	345				2
Money Market Mutual Fund	126							126
Total Debt Instruments	$ 173,350	$ 57,833	$ 19,561	$ 64,806	$ 17,816	$ 3,920	$ 628	$ 8,786

<u>Interest Rate Risk</u>

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2012, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 55,021	$ 28,668	$ 23,883	$ 2,443	$ 27
U.S. Agencies	70,672	2,663	58,017	7,441	2,551
Commercial Paper	2,249	2,249			
Corporate Bonds	17,364	2,223	11,577	3,349	215
Municipal Bonds	632		311	321	
Mutual Funds—Bonds	25,172	1,706	3,804	5,033	14,629
Mortgage Backed Securities	1,124			80	1,044
Collateralized Mortgage Obligation	990		616	29	345
Total Debt Investments	$ 173,224	$ 37,509	$ 98,208	$ 18,696	$ 18,811

The investments of certain foundations of the System are not included in these disclosures because these foundations utilize private-sector accounting standards. These foundations reported investments at fair value in the amount of $211.942 million.

3. Tennessee Housing Development Agency (THDA)

The Agency is authorized to establish policies for its funds to meet the requirements of bond resolutions and state statute. Funds are invested similarly to state policies.

The Agency's investment policy states that its portfolios will be diversified in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The Agency may invest one hundred percent of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent of the par value of total investments must mature within five years. No more than fifty percent of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Credit Risk

The Agency's investments as of June 30, 2012, were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	Credit Quality Rating AA+	AA-2	Not Rated
U.S. Agencies	$ 135,888		$ 118,089	$ 5,238	$ 12,561
U.S. Treasuries	91,381	$ 91,381			
Repurchase Agreements	110,000				110,000
Total Debt Instruments	$ 337,269	$ 91,381	$ 118,089	$ 5,238	$ 122,561

Concentration of Credit Risk

At June 30, 2012, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 20,609	6.10
Federal National Mortgage Association	73,998	21.90
Repurchase Agreements – UBS	110,000	32.60
Federal Home Loan Mortgage Corp	22,155	6.60

Interest Rate Risk

As of June 30, 2012, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type		Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$	135,888	2.100
U.S. Treasury Coupon		91,381	4.700
Total	$	227,269	

B. **Accounts and notes receivable**

Receivables at June 30, 2012, for the state's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Due From Other Government	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:							
General	$ 163,577	$ 797,100	$ 624,590	$ 14,598	$ 1,599,865	$ (110,974)	$ 1,488,891
Education	377	493,479	27,777	3,253	524,886	(45,715)	479,171
Highway	391	72,871	362,832	4,692	440,786	(11)	440,775
Capital projects			5,687	4,737	10,424		10,424
Nonmajor governmental	1,107	11,975	6,173	859	20,114	(609)	19,505
Internal service	5,103		9,795		14,898	(172)	14,726
Total—governmental activities	$ 170,555	$ 1,375,425	$ 1,036,854	$ 28,139	$ 2,610,973	$ (157,481)	$ 2,453,492
Amounts not expected to be collected within one year		$ 95,124	$ 901				$ 96,025
Business-type activities:							
Employment security	$ 83,187	$ 161,891	$ 2,132	$ 5,603	$ 252,813	$ (63,482)	$ 189,331
Nonmajor enterprise	3,479				3,479	(119)	3,360
Total—business-type activities	$ 86,666	$ 161,891	$ 2,132	$ 5,603	$ 256,292	$ (63,601)	$ 192,691

C. **Capital assets**

Capital asset activity for the year ended June 30, 2012, was as follows (expressed in thousands):

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,815,157	$ 124,418	$ (251)	$ 1,939,324
Infrastructure	20,324,140	974,633	(9,196)	21,289,577
Construction in progress	1,340,760	940,450	(1,001,358)	1,279,852
Software in development	32,198	29,280	(4,847)	56,631
Total capital assets, not being depreciated	23,512,255	2,068,781	(1,015,652)	24,565,384
Capital assets, being depreciated:				
Structures and improvements	2,273,697	28,814	(2,799)	2,299,712
Machinery and equipment	826,904	76,324	(31,918)	871,310
Total capital assets being depreciated	3,100,601	105,138	(34,717)	3,171,022
Less accumulated depreciation for:				
Structures and improvements	(947,601)	(49,156)	1,735	(995,022)
Machinery and equipment	(516,144)	(73,115)	21,124	(568,135)
Total accumulated depreciation	(1,463,745)	(122,271)	22,859	(1,563,157)
Total capital assets, being depreciated, net	1,636,856	(17,133)	(11,858)	1,607,865
Governmental activities capital assets, net	$ 25,149,111	$ 2,051,648	$ (1,027,510)	$ 26,173,249

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental activities:		
General government	$	3,176
Education		1,211
Health and social services		12,490
Law, justice and public safety		27,638
Recreation and resource development		13,129
Regulation of business and professions		591
Transportation		16,670
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets		47,366
Total depreciation expense – governmental activities	$	122,271

Highway construction commitments — At June 30, 2012, the Department of Transportation had contractual commitments of approximately $806.6 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($703.5 million) and general obligation bond proceeds ($103.1 million).

Discretely presented component units

Capital asset activity for the year ended June 30, 2012, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 168,414	$ 17,091	$ (725)	$ 184,780
Construction in progress	516,476	302,187	(210,941)	607,722
Total capital assets, not being depreciated	684,890	319,278	(211,666)	792,502
Capital assets, being depreciated:				
Infrastructure	360,408	69,054		429,462
Structures and improvements	4,093,528	233,870	(5,715)	4,321,683
Machinery and equipment	1,016,474	89,750	(121,400)	984,824
Total capital assets being depreciated	5,470,410	392,674	(127,115)	5,735,969
Less accumulated depreciation for:				
Infrastructure	(176,249)	(17,792)		(194,041)
Structures and improvements	(1,600,219)	(109,212)	3,646	(1,705,785)
Machinery and equipment	(592,147)	(114,256)	116,219	(590,184)
Total accumulated depreciation	(2,368,615)	(241,260)	119,865	(2,490,010)
Total capital assets, being depreciated, net	3,101,795	151,414	(7,250)	3,245,959
Total capital assets, net	$ 3,786,685	$ 470,692	$ (218,916)	$ 4,038,461

The University of Tennessee foundations, and certain Tennessee Board of Regents foundations utilize FASB standards; therefore, only the June 30, 2012, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Land	$ 15,831
Total capital assets, not being depreciated	15,831
Capital assets, being depreciated:	
Infrastructure	1,009
Structures and improvements	137,855
Machinery and equipment	31,745
Total capital assets being depreciated	170,609
Less: total accumulated depreciation	(42,187)
Total capital assets, being depreciated, net	128,422
Total capital assets, net	$ 144,253

D. Interfund balances

1. Interfund balances at June 30, 2012, consisted of the following (expressed in thousands):

DUE FROM

	General	Education	Highway	Capital Projects	Employment Security	Nonmajor Governmental Funds	Internal Service Funds	Total
DUE TO General		$ 257,238	$ 8	$ 5	$ 2	$ 45	$ 27	$ 257,325
Education	$ 99							99
Employment security	221							221
Internal service funds	522							522
Fiduciary funds	8,011	307	870			270	330	9,788
Total	$ 8,853	$ 257,545	$ 878	$ 5	$ 2	$ 315	$ 357	$ 267,955

Of the $257.238 million due to the general fund from the education fund, $257.188 million resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund. The amounts due to fiduciary funds resulted from a time lag in payment of payroll tax liabilities. The office for information resources, an internal service fund, made loans of $236 thousand to various general fund agencies for computer systems development. Of this amount, $174 thousand is considered long term and not expected to be repaid within one year.

2. COMPONENT UNITS PAYABLES

Component units accounts payable to the primary government at June 30, 2012, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

PAYABLE TO

	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
PRIMARY GOVERNMENT:						
General	$ 7		$ 259	$ 16	$ 120	$ 402
Education		$ 89,438				89,438
Employment security					9	9
Nonmajor governmental funds				315		315
Fiduciary funds	71		4,782	4,149	23	9,025
Total	$ 78	$ 89,438	$ 5,041	$ 4,480	$ 152	$ 99,189

3. COMPONENT UNITS RECEIVABLES

Component units accounts receivable from the primary government at June 30, 2012, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

RECEIVABLE TO

	General	Capital Projects	Employment Security	Nonmajor Governmental Funds	Total
COMPONENT UNITS:					
Tennessee Board of Regents		$ 263		$ 912	$ 1,175
University of Tennessee		27,267		1,041	28,308
Nonmajor component units	$ 2,186		$ 38		2,224
Total	$ 2,186	$ 27,530	$ 38	$ 1,953	$ 31,707

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2012, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds
General		$ 899,540		$ 123,340	$ 14,549
Highway	$ 1,437				
Capital projects	3,715	21			
Nonmajor governmental funds	100,600		$ 101,600	38,808	
Nonmajor enterprise funds	1,773				
Internal service funds	318				
Totals	$ 107,843	$ 899,561	$ 101,600	$ 162,148	$ 14,549

(Continued) **Transfers In**

Transfers Out	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Total
General	$ 4,417	$ 2,011	$ 17,462	$ 58,453	$ 1,119,772
Highway					1,437
Capital projects					3,736
Nonmajor governmental funds			447		241,455
Nonmajor enterprise funds					1,773
Internal service funds					318
Totals	$ 4,417	$ 2,011	$ 17,909	$ 58,453	$ 1,368,491

Transfers are generally used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ended June 30, 2012, the general fund transferred $1.1 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $899.5 million to subsidize the activities of the education fund, $123.3 million for capital outlay expenditures, $88.8 million to provide appropriations to finance various programs in other funds, $4.3 million for payments for interfund services used, and $3.6 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $101.6 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

F. **Lease obligations**

Operating lease obligations — The state has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The state has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

For the Year(s) Ended June 30	Noncancelable Operating Leases
2013	$ 20,089
2014	14,422
2015	11,061
2016	5,688
2017	4,431
2018-2022	17,500
Total minimum payments required	$ 73,191

Expenditures for rent under leases for the years ended June 30, 2012 and 2011 amounted to $60.3 million and $60.6 million, respectively.

Capital lease obligations – The state leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 15 years. The effective interest rates for these leases range from 4.48% to 5%. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

		Governmental Activities
Assets:		
Land		$ 350
Buildings	$ 31,110	
Less: accumulated depreciation	3,456	27,654
		$ 28,004

At June 30, 2012, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2013	$ 1,561
2014	1,562
2015	1,522
2016	1,431
2017	1,362
2018-2022	6,838
2023-2027	5,813
Total	20,089
Less - Interest	5,352
Less - executory costs	71
Present value of net minimum lease payments	$ 14,666

G. **Lease receivables**

Capital lease receivable — The state, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Farmers' Market Facility. The lease term is 20 years with an option to renew the lease for an unlimited period of time. The agreement was signed in June 1995; an initial cash payment was made and the first of 19 payments began in fiscal year 1997. The state is subsidizing a part of the cost of this building.

The state, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The state is subsidizing a part of the cost of this building. Minimum future lease payments to be received as of June 30, 2012 (expressed in thousands):

Year Ended June 30	Total
2013	$ 461
2014	458
2015	460
2016	201
2017	201
2018-2021	806
Total minimum future lease payments	$ 2,587
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 2,587
Plus: deferred charges	261
Net investment in direct financing lease	$ 2,848

H. **Long term debt**

1. General obligation bonds – Bonds Payable at June 30, 2012, are shown below (expressed in thousands):

	Amount
Governmental activities:	
General obligation bonds, .50% to 5.59%, due in generally decreasing amounts of principal and interest from $130.114 million in 2013 to $23.753 million in 2032	$ 1,092,269
General obligation refunding bonds, 1999 Series A, 4.63% to 5%, principal and interest due in amounts from $21.186 million in 2013 to $5.398 million in 2015	38,129
General obligation refunding bonds, 2004 Series C, 3.63% to 5.25%, principal and interest due in amounts from $41.948 million in 2013 to $11.388 million in 2018	148,269
General obligation refunding bonds, 2005 Series A, 5% to 5.25%, principal and interest due in amounts from $10.093 million in 2013 to $7.628 million in 2020	98,476
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $3.939 million in 2013 to $7.544 million in 2022	98,333
General obligation refunding bonds, 2009 Series D, 1.87% to 5.59%, principal and interest due in amounts from $4.1 million in 2013 to $3.889 million in 2029	43,985
General obligation refunding bonds, 2010 Series B, 2% to 4%, principal and interest due in amounts from $9.106 million in 2013 to $7.375 million in 2024	46,867
General obligation refunding bonds, 2011 Series B, 2% to 5%, principal and interest due in amounts from $3.281 million in 2013 to $187.775 thousand in 2026	72,145
General obligation refunding bonds, 2011 Series C, .50% to 3.53%, principal and interest due in amounts from $1.265 million in 2013 to $1.175 million in 2024	20,055
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $17.203 million in 2013 to $7.334 million in 2028	535,281
	2,193,809
Less: unamortized bond refunding costs	(81,207)
Total governmental activities	$ 2,112,602

General obligation bonds issued during the year ended June 30, 2012:

October 2011	Bond Series 2011A in the amount of $255.400 million
	Refunding Bond Series 2011B in the amount of $62.270 million
	Bond Series 2011C in the amount of $208.93 million
	Refunding Bond Series 2011C in the amount of $20.055 million
March 2012	Refunding Bond Series 2012A in the amount of $449.070 million

The October 2011, bond series 2011A, general obligation bond issuance in the amount of $255.4 million represents tax-exempt bonds maturing serially through 2031 at interest rates ranging from 2 percent to 5 percent. The bonds were sold at a premium of $37.047 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In October 2011, the state issued general obligation refunding bonds, series 2011B, in the amount of $62.270 million to provide for the advance refunding of $1.345 and $65.250 million of general obligation bonds issued in series 2003A and 2005B respectively. Proceeds from the refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government wide statement of net assets. The refunding bonds were sold at a premium of $10.567 million.

The net carrying amount of the refunded bonds was $68.127 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4.554 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through 2026 using the straight line method. The state completed the refunding to reduce its total debt service payments over the next 15 years by $3.838 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $3.288 million.

The October 2011, bond series 2011C, general obligation bond issuance in the amount of $208.930 million represents taxable bonds maturing serially through 2032 at interest rates ranging from .5 percent to 4.182 percent. The bonds were sold at a premium of $21 thousand. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In October 2011, the state issued general obligation refunding bonds, series 2011C, in the amount of $20.055 million to provide for the advance refunding of $6.750 and $11.785 million of general obligation bonds issued in series 2002B and 2003B respectively. Proceeds from the refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government wide statement of net assets. The refunding bonds were not sold at a premium.

The net carrying amount of the refunded bonds was $18.519 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.489 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through 2024 using the straight line method. The state completed the refunding to reduce its total debt service payments over the next 12 years by $2.687 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $2.276 million.

In March 2012, the state issued general obligation refunding bonds, series 2012A, in the amount of $449.070 million to provide for the advance refunding of $21.750 million, $66.00 million, $90.00 million, $50.320 million, $145.750 million and $82.565 million of general obligation bonds issued in series 2005B, 2006A, 2007A, 2008A, 2009A and 2009C respectively. Proceeds from the refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government wide statement of net assets. The refunding bonds were sold at a premium of $91.451 million.

The net carrying amount of the refunded bonds was $484.189 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $55.745 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through 2022 using the straight line method. The state completed the refunding to reduce its total debt service payments over the next 16 years by $41.877 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $34.047 million.

Prior-year defeasance of debt

In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements. On June 30, 2012, $552.270 million of bonds outstanding are considered defeased.

2. General obligation commercial paper – Governmental activities commercial paper payable at June 30, 2012, is shown below (expressed in thousands).

	Commercial paper
General obligation commercial paper, interest rates ranging from .12% to .36% for tax exempt and .25% to .40% for taxable, varying maturities	$ 197,770

General obligation bonds and commercial paper are secured by the full faith and credit of the state. In addition, pursuant to state statute, the state has pledged the annual proceeds of a portion of the gasoline tax, the annual proceeds of the petroleum products fee and franchise tax, and one half of the annual proceeds of the motor vehicle registration fee for the payment of outstanding bonds and obligations. Annual debt service for the current year and total available pledged revenues were $209.8 million and $962.4 million respectively. For fiscal year 2012, 62.8% of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds.

In March 2000, the state instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of $100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed $350 million.

The state has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2015. At June 30, 2012, $197.770 million of commercial paper was outstanding ($174.471 million tax exempt and $23.299 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt service requirements to maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2012, are as follows (expressed in thousands):

For the Year(s)	General Obligation Bonds		Total
Ended June 30	Principal	Interest	Requirements
2013	$ 174,250	$ 67,985	$ 242,235
2014	167,367	64,061	231,428
2015	158,780	57,268	216,048
2016	152,738	51,267	204,005
2017	146,789	45,354	192,143
2018-2022	624,942	153,650	778,592
2023-2027	507,176	51,640	558,816
2028-2032	261,767	9,528	271,295
	$ 2,193,809	$ 500,753	$ 2,694,562

The above principal for bonds does not reflect an $81.207 million deduction from bonds payable for the deferred amount on refunding.

4. General obligation bonds authorized and unissued - A summary of general obligation bonds authorized and unissued at June 30, 2012, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued July 1, 2011	Authorized	Canceled	Unissued June 30, 2012
Highway	$ 1,055,300	$ 80,000	$ 101,600	$ 1,033,700
Higher Education	131,063	196,950	8,964	319,049
Environment & Conservation	4,777	7,300		12,077
Economic & Community Development	384,732	14,000	337,465	61,267
General government	645,762	83,650	159,599	569,813
Totals	$ 2,221,634	$ 381,900	$ 607,628	$ 1,995,906

5. Changes in long-term obligations - A summary of changes in long-term obligations for the year ended June 30, 2012, follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and commercial paper Payable:					
General obligation debt	$ 1,993,191	$ 1,331,971	$ (933,583)	$ 2,391,579	$ 159,260
Less deferred amount on refundings	(24,765)	(61,788)	5,346	(81,207)	
Total bonds and commercial paper payable	1,968,426	1,270,183	(928,237)	2,310,372	159,260
Capital leases	15,503		(837)	14,666	875
Compensated absences	234,969	148,869	(146,728)	237,110	82,379
Claims and judgments	180,219	61,321	(69,226)	172,314	34,095
Pollution remediation	99,490	32,419	(1,738)	130,171	2,188
Other post employment benefits	392,378	76,686		469,064	
Other long-term liabilities	68,112	58,453	(13,959)	112,606	
Governmental activities Long-term obligations	$ 2,959,097	$ 1,647,931	$ (1,160,725)	$ 3,446,303	$ 278,797
BUSINESS-TYPE ACTIVITIES					
Deposits payable	$ 7,247	$ 357	$ (432)	$ 7,172	
Business-type activities Long-term obligations	$ 7,247	$ 357	$ (432)	$ 7,172	

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the general fund and special revenue funds liquidate compensated absences. Claims and judgments are obligations of Underground Storage Tanks and Highway Funds (special revenue funds), Risk Management (internal service fund) and the general fund.

I. Payables

Payables as of June 30, 2012, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental Activities:						
General	$ 762,850	$ 79,322			$ 139,125	$ 981,297
Education	39,497	3,593			16,065	59,155
Highway	91,666	7,169			15	98,850
Capital projects	44,060					44,060
Nonmajor governmental	12,583	2,331	$ 21,956		6	36,876
Internal service	70,866	2,652	2,255			75,773
Total—governmental activities	$ 1,021,522	$ 95,067	$ 24,211		$ 155,211	$ 1,296,011
Business-type activities:						
Employment security	$ 42			$ 5,215	$ 23,938	$ 29,195
Sewer treatment loan			$ 10			10
Other proprietary	37,320		3			37,323
Total—business-type activities	$ 37,362		$ 13	$ 5,215	$ 23,938	$ 66,528

J. **Governmental fund balances−restricted, committed, and assigned** (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General fund			
General government	$ 2,224	$ 27,259	$ 523,517
Health and social services	22,463	122,540	370,160
Law, justice and public safety	23,638	83,261	45,220
Recreation and resources development	9,416	24,417	310,467
Regulation of business and professions	5,451	29,441	1,313
Total general fund	$ 63,192	$ 286,918	$ 1,250,677
Education fund			
After school program	$ 19,882		
Lottery for education	406,872		
Energy efficient school initiative	19,410		
Other	426	$ 7,760	$ 59,770
Total education fund	$ 446,590	$ 7,760	$ 59,770
Highway fund			
State matching	$ 18,984		
Railway, aeronautics, and waterway program		$ 155,484	
State aid		87,265	
Future highway projects			$ 74,851
Railroad inspection		1,831	
Other			11,921
Total highway fund	$ 18,984	$ 244,580	$ 86,772
Capital projects fund	$ 177,074		$ 520,523
Total capital projects fund	$ 177,074		$ 520,523
Nonmajor funds			
Debt service		$ 10,800	$ 5,545
General government	$ 1,632	13,871	
Education	145,810		
Law, justice and public safety	1,456	3,459	
Recreation and resources development	101,822	61,159	
Regulation of business and professions	87,604	3,067	
Total nonmajor funds	$ 338,324	$ 92,356	$ 5,545

Budget stabilization accounts

The state maintains two stabilization accounts: (a) the general fund's Reserve for Revenue Fluctuations ("Rainy Day") and (b) the education fund's General Shortfall Reserve (Lottery for Education Account).

(a) General fund's Reserve for Revenue Fluctuations

In accordance with *Tennessee Code Annotated*, 9-4-211, the state established a reserve account in the general fund known as the "Reserve for Revenue Fluctuations." Beginning in fiscal year 1999, at least 10% of the estimated growth in state tax revenues to be allocated to the general and education funds must be allocated to this account. Once the amount equals 5% of the estimated state tax revenues allocated to the general fund and education fund, the following must be allocated to the account:

The lessor of:

(1) At least 10% of the estimated growth in state tax revenues to be allocated to the general fund and education fund.
(2) An amount to maintain the account at five percent (5%) of the estimated tax revenues allocated to the general fund and education fund.

Amounts available in the revenue fluctuation reserve may be used by the Commissioner of Finance and Administration to offset shortfalls in state tax revenues which may occur and for which funds are not otherwise available. Upon determining that it is likely that amounts in the revenue fluctuation reserve will be required to be utilized to meet a shortfall of state tax revenue, the Commissioner shall report this determination immediately to the Chairs of the Finance, Ways, and Means Committees of the Senate and the House of Representatives. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of one hundred million dollars ($100,000,000) or one half (1/2) of the amount available in the reserve may be used by the Commissioner to meet expenditure requirements in excess of budgeted appropriation levels. The general fund's Reserve for Revenue Fluctuations is reported as unassigned fund balance and has a balance of $306 million as of June 30, 2012.

(b) Education fund's General Shortfall Reserve Account

In accordance with *Tennessee Code Annotated*, 4-51-111, the state transferred one hundred million dollars ($100,000,000) from the Lottery for Education Account to the General Shortfall Reserve Account. The resources of this account may be used when the net lottery proceeds are not sufficient to meet the amount appropriated for educational programs and other purposes consistent with Article XI, Section 5 of the Constitution of Tennessee. In the event this account is drawn upon in any fiscal year, the account shall be brought back to its prior level in subsequent fiscal years. In addition to the one hundred million dollars mentioned, the State Funding Board may recommend appropriation of funds to the account if it is deemed to have an inadequate balance. Likewise, the State Funding Board may recommend appropriation of funds from the account if adequate funds are deemed to be available in the account and if such funds are needed for educational programs and other authorized purposes, provided that the appropriation of funds from the account would not bring its balance below one hundred million dollars ($100,000,000). As of June 30, 2012, this account has a balance of $100 million and is reported as restricted fund balance in the education fund.

K. **Component units – condensed financial statements**

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2012 (expressed in thousands):

Condensed Statement of Net Assets
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, investments, and other assets	$ 2,414,052	$ 140,027	$ 1,733,376	$ 2,029,997	$ 550,108	$ 6,867,560
Due from primary government			1,175	28,308	2,224	31,707
Due from other component units					1,188,907	1,188,907
Restricted assets	222,463	2,902			198,302	423,667
Capital assets, net	113	1,101	2,139,133	2,015,924	26,443	4,182,714
Total assets	2,636,628	144,030	3,873,684	4,074,229	1,965,984	12,694,555
Liabilities						
Accounts payable and other current liabilities	46,999	50,749	228,405	289,440	52,721	668,314
Due to primary government	78	89,438	5,041	4,480	152	99,189
Due to other component units			614,042	574,865		1,188,907
Long-term liabilities	2,031,633	3,830	184,664	326,324	1,691,465	4,237,916
Total liabilities	2,078,710	144,017	1,032,152	1,195,109	1,744,338	6,194,326
Net assets						
Invested in capital assets, net of related debt	114	1,101	1,527,605	1,371,908	21,133	2,921,861
Restricted	517,980	13	501,448	1,030,115	29,150	2,078,706
Unrestricted	39,824	(1,101)	812,479	477,097	171,363	1,499,662
Total net assets	$ 557,918	$ 13	$ 2,841,532	$ 2,879,120	$ 221,646	$ 6,500,229

Condensed Statement of Activities
Component Units

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Component units:				
Housing Development Agency	$ 402,609	$ 133,708	$ 306,857	
Tennessee Education Lottery	1,220,613	1,220,509	48	
Board of Regents	2,440,428	915,381	731,216	$ 106,652
University of Tennessee	1,958,418	609,373	849,776	116,889
Nonmajor component units	419,735	174,754	166,764	
Total	$ 6,441,803	$ 3,053,725	$ 2,054,661	$ 223,541

General revenues:
Payments from primary government
Unrestricted grants and contributions
Unrestricted investment earnings
Miscellaneous
Total general revenues
Contributions to permanent funds
Change in net assets
Net assets – July 1
Net assets – June 30

Significant transactions between the major component units–Tennessee Board of Regents (TBR), University of Tennessee (UT) and the Tennessee Education Lottery Corporation (TELC)–and the primary government consist of the following:

State appropriations from the education fund in the amount of $624.1 million were made to the TBR and $439.3 million to the UT.

Capital project expenditures in the amount of $124 million were made for the TBR and $82 million to the UT in the form of expenditures in the capital projects fund for projects at these school systems.

The TBR paid the primary government $54 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $310 million for the state's Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ 37,956					$ 37,956
	$ (56)				(56)
		$ (687,179)			(687,179)
			$ (382,380)		(382,380)
				$ (78,217)	(78,217)
37,956	(56)	(687,179)	(382,380)	(78,217)	(1,109,876)
		618,205	432,546	72,024	1,122,775
		141,704	2,252	10,404	154,360
6	68	5,101	6,744	194	12,113
		4,434			4,434
6	68	769,444	441,542	82,622	1,293,682
		8,622	21,248		29,870
37,962	12	90,887	80,410	4,405	213,676
519,956	1	2,750,645	2,798,710	217,241	6,286,553
$ 557,918	$ 13	$ 2,841,532	$ 2,879,120	$ 221,646	$ 6,500,229

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2012, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 22,496	$ 575,404
University of Tennessee	27,539	539,741
Total	$ 50,035	$ 1,115,145

L. Major component units – long term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2012, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, homeownership program revenue bonds, and housing finance program bonds, various Series, .25% to 6.13%, due in amounts of principal and interest ranging from $285.935 million in 2013 to $2.614 million in 2043	$ 2,020,575
Less: unamortized bond refunding costs	(5,394)
Net bonds payable	$ 2,015,181

The revenue bonds and notes listed above are not obligations of the state. They are secured by pledge from the facilities to which they relate and by certain other revenues, fees and assets of the THDA.

Bond sales during the year ended June 30, 2012, included the following issues:

December 2011—Program bonds of $141.255 million

On December 1, 2011, the agency issued $141.255 million in Homeownership Program Bonds, Issue 2011-1. The agency used $135.095 million of these bonds to refund bonds.

Current refundings

During the year ended June 30, 2012, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $11.200 million, in the Homeownership Program in the amount of $316.065 million, and in the Housing Finance Program in the amount of $17.055 million. The respective carrying values of the bonds were $11.158 million, $317.936 million, and $17.099 million. This resulted in an expense to the Mortgage Finance Program of $42 thousand and in income to the Homeownership Program of $1.871 million and to the Housing Finance Program of $44 thousand.

On December 1, 2011, the agency used $135.095 million of Homeownership Program bonds, 2011-1, to refund bonds previously issued in the Homeownership Program (this amount consists of $135.095 million early redemption). The carrying amount of these bonds was $134.394 million. The refunding resulted in a difference of $701 thousand between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $37.847 million over the next 18 years, and the agency realized an economic gain (difference between present values of old and new debt service payments) of $17.104 million.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2012, are as follows (expressed in thousands):

For the Year(s)	Revenue Bonds		Total
Ended June 30	Principal	Interest	Requirements
2013	$ 202,479	$ 83,456	$ 285,935
2014	53,213	76,706	129,919
2015	53,718	75,200	128,918
2016	52,728	73,590	126,318
2017	54,358	71,869	126,227
2018-2022	220,266	332,017	552,283
2023-2027	309,448	279,007	588,455
2028-2032	236,731	213,838	450,569
2033-2037	264,630	160,831	425,461
2038-2042	570,449	65,557	636,006
2043	2,555	59	2,614
	$ 2,020,575	$ 1,432,130	$ 3,452,705

The debt principal in the preceding table is $5.394 million more than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of $65 million. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount of $200 million. On December 1, 2002, the Trust Indenture was supplemented to provide a maximum aggregate principal amount of $450 million.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2012 (expressed in thousands).

Beginning Balance	Additions	Reductions	Ending Balance
$ 3,250	$ -	$ 3,250	$ -

The above Preserve Loan Program notes matured on December 22, 2011. Interest rates were 3% and charged quarterly.

M. **Nonmajor component units – long term debt**

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2012, are shown below (expressed in thousands):

Revenue bonds, 3.4% to 5%, due in generally decreasing amounts of principal and interest from $1.373 million in 2013 to $26 thousand in 2029	$	7,832
Less: unamortized bond refunding costs		(426)
Net bonds payable	$	7,406

The revenue bonds listed above are not obligations of the state. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of TLDA.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2012, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2013	$ 1,063	$ 310	$ 1,373
2014	1,093	264	1,357
2015	937	218	1,155
2016	809	179	988
2017	799	142	941
2018-2022	2,106	358	2,464
2023-2027	986	145	1,131
2028-2029	39	14	53
	$ 7,832	$ 1,630	$ 9,462

The above principal for revenue bonds does not reflect a $426 thousand deduction from bonds payable for the deferred amount on refunding.

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2012, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from $94.106 million in 2013 to $4.414 million in 2040	$	1,439,457
Less: unamortized bond refunding costs		(16,291)
Net bonds payable	$	1,423,166
Commercial paper, interest rates ranging from .10% to .33%, varying maturities	$	253,676

The revenue bonds and commercial paper listed above are not obligations of the state. They are secured by pledge of resources from the facilities to which they relate and by certain other revenues, fees and assets of the TSSBA.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2012, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2013	$ 51,901	$ 42,205	$ 94,106
2014	53,456	40,078	93,534
2015	49,301	37,976	87,277
2016	61,341	35,957	97,298
2017	50,856	33,777	84,633
2018-2022	294,117	135,453	429,570
2023-2027	626,600	79,630	706,230
2028-2032	155,839	34,543	190,382
2033-2037	74,097	10,107	84,204
2038-2040	21,949		21,949
	$ 1,439,457	$ 449,726	$ 1,889,183

The above principal for revenue bonds is more than that presented on the accompanying financial statements by $16.291 million, representing the deferred amount on bond refunding. This amount is the amount deducted from bonds payable in the accompanying financial statements but is included in the debt service schedule above.

Commercial paper program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed $300 million. At June 30, 2012, $214.328 million of tax-exempt and $39.348 million of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from .10% to .33% during the fiscal year. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under a Credit Agreement, is State Street Bank and Trust Company with a termination date of March 30, 2014, subject to extension and earlier termination. The total available commitment is $304.594 million. The obligation of State Street Bank and Trust Company is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

N. Component units – changes in long-term obligations

A summary of changes in long-term obligations for the year ended June 30, 2012, follows (expressed in thousands).

Changes in long term obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds, notes and loans payable:					
University of Tennessee (UT)					
Loans and notes payable	$ 540,222	$ 60,063	$ (25,149)	$ 575,136	$ 27,539
Tennessee Board of Regents (TBR)					
Loans and notes payable	605,419	51,228	(31,256)	625,391	23,660
Tennessee Housing Development Agency (THDA) bonds payable	2,146,560	248,382	(374,367)	2,020,575	149,235
Less deferred amount on refunding	(6,074)	(710)	1,390	(5,394)	
THDA notes payable	3,250		(3,250)		
Nonmajor component units bonds, Notes, and loans payable	1,682,760	97,000	(73,420)	1,706,340	51,413
Less deferred amount on refunding	(18,086)		1,139	(16,947)	
Total revenue bonds, notes and loans payable	$ 4,954,051	$ 455,963	$ (504,913)	$ 4,905,101	$ 251,847
UT compensated absences	76,013	46,334	(43,031)	79,316	43,031
UT other post employment benefits	66,561	9,946		76,507	
UT due to grantors, deferred revenue and annuities payable	57,208	13,267	(3,343)	67,132	
UT capital leases	651		(651)		
TBR compensated absences	56,804	34,513	(32,470)	58,847	15,522
TBR other post employment benefits	81,749	6,051		87,800	
TBR due to grantors, deferred revenue and other	24,868	2,462	(1,048)	26,282	
THDA escrow deposits, arbitrage rebate payable, and deferred revenue	5,993	1,902	(4,164)	3,731	433
THDA compensated absences	994	162		1,156	555
THDA other post employment benefits	994	163		1,157	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	2,414	775	(156)	3,033	144
TELC compensated absences	564	535	(564)	535	535
TELC deferred lease	420		(158)	262	61
Nonmajor component units compensated absences	1,128	493	(358)	1,263	703
Nonmajor component units other post employment benefits	507	301		808	
Component units long-term obligations	$ 5,330,919	$ 572,867	$ (590,856)	$ 5,312,930	$ 312,831

The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the state. The nonmajor component units' bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents' loans payable are based.

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to $102.890 million ($2.472 million due within one year).

O. **Endowments – component units**

If a donor has not provided specific instructions to the University of Tennessee and the Tennessee Board of Regents institutions, state law permits each institution to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the institution is required to consider the institution's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 4.5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2012, net appreciation of $84.910 million is available to be spent, of which $83.200 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2012, net appreciation of $11.621 million is available to be spent, of which $11.414 million is restricted to specific purposes.

NOTE 6 – **Other information**

A. **Risk management**

1. <u>Teacher Group Insurance</u> - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the state. In accordance with *Tennessee Code Annotated* 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2012, included 123 local education agencies and one education cooperative, with 51,337 active teachers and support personnel enrolled in one of two health care options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO). The state does not retain any risk for losses by this fund.

   The Teacher Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 253-2159.

As discussed above, the Teacher Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2012	2011
Unpaid claims at beginning of year	$ 29,070	$ 30,681
Incurred Claims:		
Provision for insured events of the current year	414,752	429,286
Increase (decrease) in provision for insured events of prior years	2,939	3,184
Total Incurred Claims Expenses	417,691	432,470
Payments:		
Claims attributable to insured events of the current year	384,734	400,378
Claims attributable to insured events of prior years	31,918	33,703
Total payments	416,652	434,081
Total unpaid claims at end of the year	$ 30,109	$ 29,070

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with *Tennessee Code Annotated* 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2012, included 59 counties, 156 municipalities and 147 quasi-governmental organizations, with 12,247 active employees maintaining coverage through one of three options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the PPO limited plan. The state does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 253-2159.

As discussed, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2012	2011
Unpaid claims at beginning of year	$ 6,919	$ 7,716
Incurred claims:		
Provision for insured events of the current year	93,418	100,159
Increase (decrease) in provision for insured events of prior years	(302)	(1,153)
Total incurred claims expenses	93,116	99,006
Payments:		
Claims attributable to insured events of the current year	86,510	93,242
Claims attributable to insured events of prior years	6,616	6,561
Total payments	93,126	99,803
Total unpaid claims at end of the year	$ 6,909	$ 6,919

3. Risk Management - It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice liability and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1 million per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the state participate in the RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization. The Tennessee Education Lottery Corporation participates in the RMF for general liability purposes but is responsible for its own worker's compensation coverage.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $90,030,000 (discounted at 1.5%) at June 30, 2012 and $86,167,698 (discounted at 2.0%) at June 30, 2011. The accrued liability for incurred property losses was $7,950,503 at June 30, 2012 and $17,559,929 at June 30, 2011. The changes in the balances of the claims liabilities during fiscal years 2011 and 2012 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Advance of Insurance Proceeds	Balance at Fiscal Year-End
2011-2012	$ 103,728	$ 41,464	$ (47,211)		$ 97,981
2010-2011	$ 106,630	$ 38,928	$ (49,330)	$ 7,500	$ 103,728

The RMF held $97.2 million in cash at June 30, 2012 and $107.6 million in cash at June 30, 2011 that is designated for payment of these claims.

The RMF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the state with the risk retained by the state, therefore it is accounted for as an Internal Service Fund. In accordance with *Tennessee Code Annotated* 8-27-201 all state employees and certain former employees with work related

injuries are eligible to participate. Fund members at June 30, 2012, included 63,461 active employees enrolled in one of two options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO).

The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

As discussed, the Employee Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the past two years (expressed in thousands):

	2012	2011
Unpaid claims at beginning of year	$ 45,911	$ 50,139
Incurred claims:		
Provision for insured events of the current year	610,942	655,683
Increase (decrease) in provision for insured events of prior years	(810)	(414)
Total incurred claims expenses	610,132	655,269
Payments:		
Claims attributable to insured events of the current year	568,226	609,829
Claims attributable to insured events of prior years	45,098	49,668
Total payments	613,324	659,497
Total unpaid claims at end of the year	$ 42,719	$ 45,911

5. CoverTN – The CoverTN program was established in 2006 to provide an affordable, basic health care option to small businesses and the working uninsured. In accordance with *Tennessee Code Annotated* 56-7-3001, the CoverTN program serves eligible uninsured Tennesseans and their spouses, who work for qualifying businesses, or who are self-employed or work but do not have insurance. There are no deductibles for CoverTN and members pay reasonable co-pays and premiums. CoverTN is portable, allowing individuals to take coverage with them if they change jobs or experience periods of unemployment. As a result of reaching budgetary capacity, new enrollment was suspended November 2009 and remains closed to new members with the exception of the annual open enrollment and at the time of hire to already participating businesses. At June 30, 2012, enrollment was reported at 17,029 covered members.

On January 1, 2012, the CoverTN program moved from being a fully insured program to an administrative services only arrangement with Blue Cross Blue Shield of Tennessee. The CoverTN program provides health care financing based in part upon member premiums, and uses traditional insurance components, including co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. Individual shares of the monthly premium range from $37 to $109. Less than 1 percent of member's exhausted the maximum benefit limit of $25,000 in fiscal year 2012. Two year data will be provided when data is available.

The following represents changes in those aggregate liabilities during the past year (expressed in thousands):

		2012
Incurred claims:		
Provision for insured events of the current year	$	15,735
Total incurred claims expenses		15,735
Payments:		
Claims attributable to insured events of the current year		13,454
Total payments		13,454
Total unpaid claims at end of the year	$	2,281

6. CoverKids – The CoverKids program was launched in 2007 as part of the federal funded Children's Health Insurance Program (CHIP) and provides healthcare to children and maternity coverage for pregnant women. In accordance with *Tennessee Code Annotated* 71-3-1101, the CoverKids program serves eligible uninsured children who are not eligible for health care services under any part of Tennessee's Medicaid program. Emphasis is place on preventive care and the services most needed by children, including vaccinations, physician visits, and hospitalization in addition to vision and dental benefits. Enrollment in the CoverKids program totaled 56,871 at June 30, 2012

   On January 1, 2012, the CoverKids program moved from being a fully insured program to an administrative services only arrangement with Blue Cross Blue Shield of Tennessee. As part of the federally funded CHIP program, CoverKids receives the majority of funding from the Federal Government at an approximately 76/24 ration match. For qualifying families there are no monthly premiums and the program has no deductibles. Members pay affordable co-pays for services. Two year data will be provided when data is available.

The following represents changes in those aggregate liabilities during the past year (expressed in thousands):

		2012
Incurred claims:		
Provision for insured events of		
the current year	$	56,443
Total incurred claims expenses		56,443
Payments:		
Claims attributable to insured events		
of the current year		48,996
Total payments		48,996
Total unpaid claims at end of the year	$	7,447

7. Component unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state's uninsured. In accordance with *Tennessee Code Annotated* 56-7-2901, the target population is those Tennessean residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2012, the plan had 3,013 participants. Three plans exist with deductibles of $1,000, $3,000, and $5,000. The benefit plans are based on PPO plans with an 80% in-network benefit and 60% out-of-network benefit and modeled after the state employee plans. The state does not retain any risk for losses by this fund.

   This insurance fund provides health care financing based in part upon member premiums, and uses traditional insurance components, including deductibles, co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. The state's enabling statute provides for an assessment on insurers, third-party administrators, and other insurance arrangements. The 2012 assessment determination should be made by the AccessTN Board following the end of fiscal year 2012 at the September 18, 2012, board meeting. Based upon actuarial medical claims projections, AccessTN has adequate funding established by state appropriations to conduct operations through that period. Investment income is considered for premium deficiency calculations.

The following represents changes in those aggregate liabilities during the current year (expressed in thousands):

	2012	2011
Unpaid claims at beginning of year	$ 3,017	$ 3,731
Incurred claims:		
Provision for insured events of the current year	40,071	44,448
Increase (decrease) in provision for insured events of prior years	(579)	(238)
Total incurred claims expenses	39,492	44,210
Payments:		
Claims attributable to insured events of the current year	37,683	41,463
Claims attributable to insured events of prior years	2,455	3,461
Total payments	40,138	44,924
Total unpaid claims at end of the year	$ 2,371	$ 3,017

B. Related organizations

The state's officials are also responsible for appointing the members of the boards of other organizations, but the state's accountability for these organizations does not extend beyond making appointments. The state appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Insurance Guaranty Association, Tennessee Life and Health Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., Tennessee Automobile Insurance Plan, and the Doe Mountain Recreation Authority.

C. Jointly governed organizations

The state in conjunction with 37 other states and Puerto Rico are members of the Pest Control Compact.

The state in conjunction with 12 other states is a member of the Southern Growth Policies Board. Tennessee paid $44,586 for 2012 membership dues.

The Southern Regional Education Compact has 16 member states, including Tennessee. Tennessee paid $21,000 for 2012 membership dues.

The Compact for Education was entered into with 48 other states, plus Puerto Rico, the Virgin Islands, American Samoa and the District of Columbia. Tennessee paid $77,300 for 2012 membership dues.

The Interstate Mining Compact has 19 member states, including Tennessee. Tennessee paid $18,174 for 2012 membership dues.

The Southern States Nuclear Compact is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2012 membership dues.

The Southeast Interstate Low Level Radioactive Waste Compact has 6 member states, including Tennessee.

The Interstate Insurance Product Regulation Commission is comprised of 40 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 49 states, plus the District of Columbia and the Virgin Islands.

The Interstate Compact for Supervision of Adult Offenders is comprised of all 50 states, plus the District of Columbia, Puerto Rico and the Virgin Islands.

The Interstate Compact on Educational Opportunities for Military Children has 43 member states, including Tennessee.

D. **Joint ventures**

The state is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and Mississippi. The purpose of this compact is to promote the development of a navigable waterway connecting the Tennessee and Tombigbee Rivers and provide a nine foot navigable channel. The fiscal year end of the Tennessee-Tombigbee Waterway is December 31. Financial statements for the Tennessee-Tombigbee Waterway may be obtained at: P.O. Drawer 671, Columbus, MS 39703.

Presented below is summary financial data for this joint venture (expressed in thousands):

	2011	2010 *
Current assets	$ 268	$ 219
Capital assets, less depreciation	366	371
Total assets	634	590
Total liabilities	308	327
Net assets	326	263
Total liabilities and net assets	634	590
Revenues	324	353
Expenses	261	307
Excess of revenues over Expenses	63	46
Beginning net assets	263	217
Ending net assets	$ 326	$ 263

*Revised

E. **Other postemployment benefits (OPEB)**

Employer

Plan description

The State of Tennessee administers and participates in the Employee Group Plan and the Medicare Supplement Plan for retired employees' healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy.

Special funding situation

The state is legally responsible for contributions to the Teacher Group and Medicare Supplement Plans that cover the retirees of other governmental entities. The state provides a subsidy for retired higher education and local education agency teachers in each plan. The state is not the sole "employer" contributor in the Teacher Group Plan since some Local Education Agencies provide a level of support. However, the state is the sole contributor for the vast majority of teachers that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25.

Annual OPEB cost and net OPEB obligation—*Primary government*
(expressed in thousands)

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Annual required contribution	$ 97,758	$ 23,806	$ 16,484	$ 12,011
Interest on the net OPEB obligation	11,543	1,328	1,679	1,145
Adjustment to the ARC	(12,253)	(1,409)	(1,782)	(1,215)
Annual OPEB cost	97,048	23,725	16,381	11,941
Amount of contribution	(45,336)	(17,232)	(4,533)	(5,308)
Increase in net OPEB obligation	51,712	6,493	11,848	6,633
Net OPEB obligation —beginning of year	288,584	33,195	41,977	28,622
Net OPEB obligation —end of year	$ 340,296	$ 39,688	$ 53,825	$ 35,255

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2010	Employee Group	$ 102,674	35%	$ 220,458
6/30/2011	Employee Group	93,288	27%	288,584
6/30/2012	Employee Group	97,048	47%	340,296
6/30/2010	Teacher Group (State Share)	24,649	69%	27,977
6/30/2011	Teacher Group (State Share)	22,545	77%	33,195
6/30/2012	Teacher Group (State Share)	23,725	73%	39,688
6/30/2010	Medicare Supp State	15,604	32%	31,374
6/30/2011	Medicare Supp State	15,912	33%	41,977
6/30/2012	Medicare Supp State	16,381	28%	53,825
6/30/2010	Medicare Supp Teachers	11,548	33%	20,804
6/30/2011	Medicare Supp Teachers	11,780	34%	28,622
6/30/2012	Medicare Supp Teachers	11,941	44%	35,255

Annual OPEB cost and net OPEB obligation—*Component units*
(expressed in thousands)

	Employee Group Plan	Local Government Group Plan
Annual required contribution	$ 49,946	$ 122
Interest on the net OPEB obligation	6,020	15
Adjustment to the ARC	(6,391)	(16)
Annual OPEB cost	49,575	121
Amount of contribution	(33,418)	(31)
Increase in net OPEB obligation	16,157	90
Net OPEB obligation —beginning of year	150,510	374
Net OPEB obligation —end of year	$ 166,667	$ 464

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2010	Employee Group	$ 58,521	40%	$ 126,336
6/30/2011	Employee Group	53,192	55%	150,510
6/30/2012	Employee Group	49,575	67%	166,667
6/30/2010	Local Government Group	132	33%	160
6/30/2011	Local Government Group	215	26%	374
6/30/2012	Local Government Group	121	26%	464

Funded status and funding progress

The funded status of the plans as of July 1, 2011, was as follows (expressed in thousands):

Primary government

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Actuarial valuation date	7/1/2011	7/1/2011	7/1/2011	7/1/2011
Actuarial accrued liability (AAL)	$ 1,023,529	$ 216,600	$ 220,509	$ 163,305
Actuarial value of plan assets				
Unfunded actuarial accrued liablility (UAAL)	$ 1,023,529	$ 216,600	$ 220,509	$ 163,305
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%	0.00%	0.00%
Covered payroll (active plan members)	$ 1,613,128	N/A	N/A	N/A
UAAL as a percentage of covered payroll	63%	N/A	N/A	N/A

Covered payroll is N/A for the Teacher Group as the state does not have any payroll information for the participants. The state is assuming a liability because of a special funding situation that exists between the state and the Teacher Group Plan. Covered payroll for the Medicare Supplement plan is N/A as this plan only has retirees enrolled.

Component units

	Employee Group Plan	Local Government Group Plan
Actuarial valuation date	7/1/2011	7/1/2011
Actuarial accrued liability (AAL)	$ 452,669	$ 363
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$ 452,669	$ 363
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%
Covered payroll (active plan members)	$1,445,364	$ 21,458
UAAL as a percentage of covered payroll	31%	2%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial methods and assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2011, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012 for the Employee Group plan, and the Local Education plan and 6.50 percent for the Medicare Supplement plan. In the Employee Group and Local Education plans, the rate decreased to 8.75 percent in fiscal year 2013, and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. In the Medicare Supplement plan, the rate decreased to 6.25 percent in fiscal year 2013, and then reduced by decrements to a ultimate rate of 5 percent in fiscal year 2018. All rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

Plan

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The following plans, administered by the state, are reported as Agency Funds and are financially independent.

Each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

1. Retiree health plan—State plan

    a. Plan description—State and higher education retired employees participate in the State Employee Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the State Employee Group Insurance Plan internal service fund and reported in an agency fund. The Employee Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan. Approximately 64 employers contribute to the plan.

       All retired employees and disability participants of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2012, there were 8,079 retirees enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The state insurance committee establishes premiums annually.

    b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

c. Contributions and reserves—An insurance committee created in accordance with *Tennessee Code Annotated* (TCA) 8-27-201, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Employee Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retiree premiums are based on years of service; therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. This plan is funded on a pay-as-you-go basis.

2. Retiree health plan—LEA Plan

a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 123 local education agencies and one education cooperative participate in the plan.

All retired teachers and disability participants of the local education agencies, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2012, there were 6,013 retirees enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

c. Contributions and reserves—An insurance committee created in accordance with *Tennessee Code Annotated* (TCA) 8-27-302, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as-you-go basis.

3. Retiree health plan—Local plan

a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 59 counties, 156 municipalities, and 147 quasi-governmental organizations participate in the plan.

All retired employees and disability participants of the local governments, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2012, there were 146 retirees enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

c. Contributions and reserves—An insurance committee created in accordance with *Tennessee Code Annotated* (TCA) 8-27-207, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Local Government Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as you-go basis.

4. Retiree health plan—Medicare Supplement

a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2012, there were 25,239 retirees enrolled. The state insurance committee establishes premiums annually.

b. Summary of significant accounting policies—Premiums are recognized when due and benefits are recognized when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.

c. Contributions and reserves—In accordance with *Tennessee Coded Annotated* 8-27-701, the state insurance committee establishes the contributions to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Employers contribute a fixed amount to retirees' premiums based on years of service; therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. This plan is funded on a pay-as-you-go basis.

5. Cobra—Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay-as-you-go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The state covered an average of 455 former employees during fiscal year 2011-2012, and the State Plan paid approximately $5.48 million in benefits to this group.

F. **Pension plans**

1. <u>State Defined Benefit Plan</u> - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with

five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 14.91% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The state's contributions to TCRS for the years ending June 30, 2012, 2011, and 2010, were $731.352 million, $721.759 million, and $578.404 million respectively, equal to the required contributions for each year.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the TCRS website at www.treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 503 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report is available on the TCRS website at www.treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

3. Defined contribution plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were $85.4 million for the year ended June 30, 2012.

   Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products in which members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

4. Deferred compensation - The state offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants.

   The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2012, contributions totaling $146.0 million were made to the plans.

G. **Investment pool**

The State Pooled Investment Fund (SPIF) is an external investment pool sponsored by the State of Tennessee. The external portion of SPIF is the Local Government Investment Pool (LGIP) and is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the state and its component units, has been included in the various funds and component units.

A copy of the SPIF report can be obtained at www.treasury.tn.gov or by calling (615) 741-7063.

H. **Loan guarantees**

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans for at least 75% of their principal amounts. At June 30, 2012, TSAC was guarantor of $3.383 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

I. **Contingencies**

1. Litigation

The state is involved in various pending litigation matters in which it is contesting vigorously. Some of these cases could include claims which normally recur in governmental operations and may result in future losses to the state or have a future budgetary programmatic impact. Those unfavorable outcomes which could result in future programmatic costs will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the state approximately $154 million.

2. Tobacco settlement

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement (MSA) includes base payments to all states and territories through 2025, and continues in perpetuity. Tennessee's share of the base payments was originally projected at $4.8 billion through the year 2025. Since the agreement is complex, the annual payments have, and will continue to be, subject to a number of adjustments including inflation, volume, previously settled states and non-participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the state receiving higher payments. Other factors, such as volume adjustment and the market share adjustment can work to reduce annual payments. The non-participating manufacturers' adjustment is currently the subject of dispute, and some of the sums related to it are being withheld from the payments to the states. Furthermore, there is a possibility that additional amounts, which were paid in previous years, could be subject to refund as a result of these ongoing disputes. These refunds could reduce future payments received by some of the MSA participants. Third party lawsuits may also affect future payments. The net effect of these adjustments on future payments is unclear.

3. Pollution remediation obligations

The state has recognized a liability for its pollution remediation obligations based on guidance in GASB Statement No. 49. A pollution remediation obligation is a liability to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments, site cleanups, and postremediation monitoring. The recognition of pollution remediation obligation is required when any of the following obligating events occur:

- The state is compelled to take remediation action because of imminent danger to the public;
- The state is in violation of pollution related permit or license;
- The state is identified as a responsible party or potentially responsible party by a regulator;
- The state is named or has evidence that it will be named in a lawsuit; or
- The state commences or legally obligates itself to commence pollution remediation activities.

The pollution remediation obligation is an estimate and this estimate is subject to change resulting from price increases or decreases, changes in technology, or changes in legal or regulatory requirements. In addition, recoveries from other responsible parties can reduce the state's obligation. Several agencies within state government have programs to investigate and oversee remediation activities. These program personnel have the expertise to estimate the remediation obligations based on prior experience with similar remediation activities. These obligations are measured at current value using the expected cash flow technique. In addition, historical data is used in the estimation process for common sites with which the state has experience.

The state's pollution remediation obligations are primarily from chemical, fuel, and asbestos contamination. These obligations are the result of violations of various federal and state environmental laws.

During the fiscal year, the state spent $4 million for remediation activities and had an expected recovery of $920 thousand from responsible parties. At June 30, 2012, the state had a pollution remediation obligation of $130 million and an estimated potential recovery of $5 million from other responsible parties.

4. Federal grants

The state receives significant financial assistance from the federal government in the form of grants and entitlements. The receipt of federal grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations. Substantially, all federal grants are subject to either federal single audits or financial and compliance audits by grantor agencies or their representatives. Questioned costs as a result of these audits may become disallowances after the appropriate review of federal agencies. Material disallowances are recognized as fund liabilities when the loss becomes probable and reasonably estimable.

J. **Subsequent events**

Primary government

Subsequent to June 30, the state issued $55.5 million in general obligation commercial paper. In November 2012, the state issued 2012 Series B tax-exempt general obligation bonds in the amount of $140 million at a premium of $12 million and 2012 Series C tax-exempt general obligation bonds in the amount of $30.5 million at par. The Series B issuance was used to redeem commercial paper and to finance the purchase of capital assets, and the Series C issuance was used to refund a portion of 2005 Series A.

Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuances: 2012-1 in July 2012 in the amount of $133.1 million and 2012-2 in November 2012 in the amount of $97.6 million. The agency used mortgage prepayments and foreclosures proceeds to redeem $75.4 million of outstanding bonds in July 2012, $43.8 million in September 2012, and $68.4 million in October 2012.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $30 million in commercial paper. In August 2012, TSSBA issued 2012 Series A tax-exempt bonds in the amount of $208.2 million at a premium of $24.3 million, 2012 Series B taxable bonds in the amount of $103.7 million at par, and 2012 Refunding Series C bonds in the amount of $125.6 million at a premium of $18.1 million. The 2012 Series A was used to redeem commercial paper and finance new construction projects. The 2012 Series B was used to redeem commercial paper, refund 2004 Series C and 2005 Series B bonds, and finance new construction projects. The 2012 Series C was used to refund 1998 Series D, 2004 Series A, 2004 Series B, 2006 Series A bonds, and finance new construction projects.

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REQUIRED SUPPLEMENTARY INFORMATION

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Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

Measurement Scale
The state uses a Maintenance Rating Index (MRI) that addresses all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, is inspected annually and rated in accordance with the MRI criteria. The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, cross drain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level
The state intends to maintain roadways so that the reported condition level each year does not fall below 75.

Assessed Conditions
The following table presents the average MRI of all rated segments.

For the Period Ended	Maintenance Rating Index
June 30, 2012	88.90
June 30, 2011	89.20
June 30, 2010	89.40

BRIDGES

Measurement Scale
The state maintains information on its 8,247 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level
The state intends to maintain bridges so that 75 percent or more of the total deck area is not classified as structurally deficient or functionally obsolete.

Assessed Conditions
The following table presents the percentage of deck area whose condition assessment did not meet the criteria of structurally deficient or functionally obsolete according to the NBI.

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
June 30, 2012	83.00%
June 30, 2010	82.00%
June 30, 2008	81.00%

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
(Continued)

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

The following table presents the state's estimate of spending to preserve and maintain the roadways and bridges at, or above, the "Established Condition Level" cited above, and the actual amount spent (in thousands):

For the Period Ended June 30	Roadways		Bridges	
	Estimated	Actual	Estimated	Actual
2012	$387,204	$411,633	$36,904	$33,332
2011	376,965	482,271	36,904	11,044
2010	259,147	425,681	39,707	44,312
2009	374,003	405,453	40,217	46.815
2008	270,331	310,164	36,224	29,178
2007	236,556	286,663	35,624	28,183

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting.

Other Post Employment Benefits Schedule of Funding Progress—*Primary Government*
(expressed in thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/09	State Plan	$ 0	$ 1,104,073	$ 1,104,073	0 %	$ 1,729,937	64%
7/1/10	State Plan	$ 0	$ 977,935	$ 977,935	0 %	$ 1,560,085	63%
7/1/11	State Plan	$ 0	$ 1,023,529	$ 1,023,529	0 %	$ 1,613,128	63%
7/1/09	Teacher Grp (State-Share)	$ 0	$ 240,919	$ 240,919	0 %	N/A	N/A
7/1/10	Teacher Grp (State-Share)	$ 0	$ 215,202	$ 215,202	0 %	N/A	N/A
7/1/11	Teacher Grp (State-Share)	$ 0	$ 216,600	$ 216,600	0 %	N/A	N/A
7/1/07	MedSup S	$ 0	$ 200,080	$ 200,080	0 %	N/A	N/A
7/1/09	MedSup S	$ 0	$ 209,622	$ 209,622	0 %	N/A	N/A
7/1/11	MedSup S	$ 0	$ 220,509	$ 220,509	0 %	N/A	N/A
7/1/07	MedSup T	$ 0	$ 140,464	$ 140,464	0 %	N/A	N/A
7/1/09	MedSup T	$ 0	$ 158,789	$ 158,789	0 %	N/A	N/A
7/1/11	MedSup T	$ 0	$ 163,305	$ 163,305	0 %	N/A	N/A

Other Post Employment Benefits Schedule of Funding Progress—*Component Units*
(expressed in thousands)

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/09	State P	$ 0	$ 577,744	$ 577,744	0 %	$ 1,371,949	42%

7/1/10	State P	$ 0	$ 518,083	$ 518,083	0 %	$ 1,362,560	38%
7/1/11	State P	$ 0	$ 452,669	$ 452,669	0 %	$ 1,445,364	31%
7/1/09	Loc Gov	$ 0	$ 404	$ 404	0 %	$ 20,978	1%
7/1/10	Loc Gov	$ 0	$ 2,166	$ 2,166	0 %	$ 21,500	10%
7/1/11	Loc Gov	$ 0	$ 363	$ 363	0 %	$ 21,458	2%

State of Tennessee
AccessTN Insurance Fund
Required Supplementary Information
Ten-Year Claims Development Table
(expressed in thousands)

The table below illustrates how the AccessTN Insurance Fund's earned revenues and investment income compared to related costs of loss and other expenses assumed by the AccessTN Insurance Fund as of the end of each of the last five fiscal years since inception of the fund in April 2007. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each year. (5) This section shows how each year's net incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

	2007	2008	2009	2010	2011	2012
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773	18,579	21,146
(2) Unallocated expenses	3,520	2,830	2,085	1,195	888	1,277
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	45,418	41,328	*
(4) Net paid (cumulative) as of:						
End of policy year	6,591	34,095	36,859	45,389	41,378	*
One year later	9,044	38,791	40,277	45,073	*	
Two years later	9,056	40,010	40,232	*		
Three years later	9,452	40,000				
(5) Reestimated net incurred claims and expenses:						
End of policy year	8,922	38,764	39,811	45,418	41,328	*
One year later	8,975	38,715	40,276	45,066	*	
Two years later	9,051	40,010	40,232	*		
Three years later	9,452	40,000				
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	530	1,246	421	(352)	-	*

* Data not available

See the notes to the financial statements for instructions on obtaining the stand alone reports containing the above table for the remainder of the state's insurance funds not presented here.

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	$ 2,030,914	$ 2,030,914	$ 2,030,914	
Add:				
Contract reserves reappropriated				
Adjusted fund balances (budgetary basis), July 1	2,030,914	2,030,914	2,030,914	
Revenues:				
Taxes	6,366,587	6,366,587	6,833,845	$ 467,258
Licenses, fines, fees, and permits	299,531	299,531	329,334	29,803
Interest on investments	4,010	4,010	7,059	3,049
Federal	9,919,598	10,519,616	9,967,880	(551,736)
Departmental services	2,062,879	2,332,756	1,933,234	(399,522)
Other	32,234	32,234	240,558	208,324
Other financing sources:				
Transfers in	107,843	107,843	107,843	
Bond authorization				
Insurance claims recoveries		192	192	
Proceeds from pledged revenue		58,453	58,453	
Total sources of financial resources	20,823,596	21,752,136	21,509,312	(242,824)
Uses of financial resources:				
Expenditures and budgetery commitments:				
General government	744,512	721,498	551,237	170,261
Education				
Health and social services	15,194,865	15,988,012	14,807,999	1,180,013
Law, justice and public safety	1,619,270	1,630,203	1,522,804	107,399
Recreation and resource development	913,055	1,046,129	541,000	505,129
Regulation of business and professions	109,810	113,435	86,856	26,579
Transportation				
Intergovernmental revenue sharing	561,585	561,585	561,585	
Other financing uses:				
Transfers out	988,232	1,119,772	1,119,772	
Total uses of financial resources	20,131,329	21,180,634	19,191,253	1,989,381
Fund balances (budgetary basis), June 30	$ 692,267	$ 571,502	$ 2,318,059	$ 1,746,557

Education Fund				Highway Fund			
Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Original	Final			Original	Final		
$ 532,790	$ 532,790	$ 532,790		$ 8,929	$ 8,929	$ 8,929	
				412,922	412,922	412,922	
532,790	532,790	532,790		421,851	421,851	421,851	
4,138,200	4,138,200	4,249,583	$ 111,383	767,200	767,200	775,014	$ 7,814
1,800	1,800	1,551	(249)	220,100	220,100	215,908	(4,192)
		50	50				
1,434,398	1,494,443	1,278,970	(215,473)	904,031	3,810,022	1,040,353	(2,769,669)
43,395	44,205	22,311	(21,894)	38,264	134,799	45,230	(89,569)
314,200	314,200	350,690	36,490	4,300	4,300	4,023	(277)
895,900	899,561	899,561			101,600	101,600	
				161,500	59,900		(59,900)
7,360,683	7,425,199	7,335,506	(89,693)	2,517,246	5,519,772	2,603,979	(2,915,793)
7,085,610	7,166,719	6,821,313	345,406				
				2,227,582	5,241,983	2,303,223	2,938,760
				291,200	291,200	289,950	1,250
				1,437	1,437	1,437	
7,085,610	7,166,719	6,821,313	345,406	2,520,219	5,534,620	2,594,610	2,940,010
$ 275,073	$ 258,480	$ 514,193	$ 255,713	$ (2,973)	$ (14,848)	$ 9,369	$ 24,217

State of Tennessee
Required Supplementary Information
Reconciliation of Budget to GAAP
Note to RSI
For the Fiscal Year Ended June 30, 2012

(Expressed in thousands)

1. Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

	General Fund	Education Fund	Highway Fund
Sources of financial resources			
Actual amounts (budgetary basis)	$ 21,509,312	$ 7,335,506	$ 2,603,979
Differences - budget to GAAP:			
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(2,030,914)	(532,790)	(421,851)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	(166,488)	(899,561)	(101,600)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 19,311,910	$ 5,903,155	$ 2,080,528
Uses of financial resources			
Actual amounts (budgetary basis)	$ 19,191,253	$ 6,821,313	$ 2,594,610
Differences - budget to GAAP:			
Certain construction contract commitments are reported in the year of federal appropriation for budgetary purposes, but in the year the services are received for financial reporting purposes.			(350,336)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(1,119,772)	-	(1,437)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 18,071,481	$ 6,821,313	$ 2,242,837

2. Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime and Agricultural Promotion Boards), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

Budgetary control is maintained at the departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Most appropriations generally lapse at the end of each fiscal year. There were no outstanding encumbrances reported as of June 30, 2012. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $185.3 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of contract obligations and certain budgetary commitments in the highway fund. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis. Appropriations for contract obligations in the highway fund do not lapse at year-end, but are carried forward for subsequent year expenditures. In addition, it is the State’s budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. These appropriations do not lapse at year-end but are also reappropriated for subsequent year expenditure.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds—A description of these funds is found later in this section.

Debt Service Fund—The debt service fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

Permanent Funds—A description of these funds is found later in this section.

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2012

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 308,863	$ 12,099	$ 49,862	$ 370,824
Investments			235,961	235,961
Receivables:				
Taxes	6,170	5,183	13	11,366
Due from other governments	6,173			6,173
Interest			859	859
Other	1,107			1,107
Due from component units			315	315
Loans receivable		10,083		10,083
Total assets	$ 322,313	$ 27,365	$ 287,010	$ 636,688
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	$ 13,465	$ 15	$ 1,185	$ 14,665
Due to other funds	315			315
Due to component units			1,953	1,953
Deferred revenue	2,053	10,806		12,859
Advance from federal government	32,445			32,445
Deposits payable	1			1
Other		199		199
Total liabilities	48,279	11,020	3,138	62,437
Fund balances:				
Nonspendable:				
Permanent fund corpus			138,026	138,026
Restricted	192,478		145,846	338,324
Committed	81,556	10,800		92,356
Assigned		5,545		5,545
Total fund balances	274,034	16,345	283,872	574,251
Total liabilities and fund balances	$ 322,313	$ 27,365	$ 287,010	$ 636,688

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - By Fund Type
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales		$ 48,961		$ 48,961
Fuel	$ 15,305	107,000		122,305
Business	330	232,139		232,469
Other	18,021			18,021
Licenses, fines, fees, and permits	179,675	2,700	$ 2,584	184,959
Investment income	320		9,982	10,302
Federal	40,931			40,931
Departmental services	11,486	659		12,145
Other	28		6	34
Total revenues	266,096	391,459	12,572	670,127
Expenditures				
Current:				
General government	24,682			24,682
Education			7,306	7,306
Law, justice and public safety	5,962			5,962
Recreation and resources development	164,024		19	164,043
Regulation of business and professions	49,021			49,021
Debt service:				
Bond principal retirement		115,935		115,935
Bond interest		65,093		65,093
Commercial paper interest		378		378
Debt issuance costs		4,793		4,793
Total expenditures	243,689	186,199	7,325	437,213
Excess (deficiency) of revenues over (under) expenditures	22,407	205,260	5,247	232,914
Other financing sources (uses)				
Refunding bond proceeds		464,809		464,809
Refunding bond premium		88,775		88,775
Refunding payment to escrow		(552,898)		(552,898)
Bond premium		37,069		37,069
Insurance claims recoveries	22			22
Transfers in	10,908	3,641		14,549
Transfers out	(1,407)	(240,048)		(241,455)
Total other financing sources (uses)	9,523	(198,652)		(189,129)
Net changes in fund balances	31,930	6,608	5,247	43,785
Fund balances, July 1	242,104	9,737	278,625	530,466
Fund balances, June 30	$ 274,034	$ 16,345	$ 283,872	$ 574,251

NONMAJOR SPECIAL REVENUE FUNDS

Specific revenues, earmarked to finance particular activities of government, are accounted for in the Special Revenue Funds. A brief description of each fund follows.

Wildlife Resources Agency—This agency is responsible for the preservation, management, enhancement and protection of the state's wildlife resources and their environs. An additional responsibility is the enforcement of boating safety on state lakes and streams. Revenues are derived principally from hunting and fishing licenses, fees and permits.

Criminal Injuries Compensation—The Treasury Department administers this fund for the award of compensation to victims (or their dependents) who suffer personal injury or death as a result of a criminal act. The primary revenue source is the privilege tax levied by the courts at the time of conviction of the offender.

Solid Waste—This program is administered by the Department of Environment and Conservation. Revenues collected for a tipping fee on solid waste are used to provide grants to local governments to reduce the solid waste going into landfills.

Help America Vote—This program is administered by the Secretary of State. Federal funds, along with state matching dollars, are used in implementing the provisions of the federal Help America Vote Act. The provisions of the act require the funds be used to improve election administration and to replace punch card and lever voting machines.

Environmental Protection—This program is administered by the Department of Environment and Conservation. Revenues collected from the various fees under the environmental protection fund are used to offset the cost of administering regulatory environmental programs.

Hazardous Waste—This program is administered by the Department of Environment and Conservation. Revenues collected from applicants and holders of storage, treatment or disposal permits of hazardous waste are used to supervise the construction, operation, maintenance, closure and, where necessary, the post-closure care of hazardous waste facilities.

Parks Acquisition—This program is administered jointly by the Departments of Environment and Conservation, Agriculture and Wildlife Resources. Revenues collected from the transfer of real property are used to acquire parks by both local and state governments.

Supreme Court Boards—This organization was formed by the Tennessee Supreme Court to consider and investigate any alleged ground for discipline or alleged incapacity of any attorney, and to provide continuing legal education for attorneys. Revenues are collected from attorneys.

Underground Storage Tanks—This program is administered by the Department of Environment and Conservation. Revenues are collected primarily from a tax of four tenths of a cent per gallon on petroleum products and an annual fee on owners and operators of underground storage tanks containing petroleum substances.

Enhanced Emergency 911 Service—This program is administered by the Department of Commerce and Insurance. Revenues are collected from a monthly fee on users of cellular telephone services. This fee is used to enhance the effectiveness of response times when a cellular user calls 911.

Driver Education—This program is designed and coordinated by the Department of Safety. Highway safety is promoted by providing driver education, instruction and training in schools, colleges and community organizations. The $2 fee for moving traffic violations is the source of funding for this program.

Abandoned Land Program—This program is administered by the Department of Environment and Conservation. Revenues collected from surface mining permit fees and forfeited performance bonds are used to reclaim and restore lands affected by abandoned mining operations.

Agricultural Non-Point Water Pollution—This program is administered by the Department of Agriculture. Revenues collected from the transfer of real property are used to abate pollution from agricultural sources.

Salvage Title Enforcement—This program is administered by the Department of Revenue. Revenues are collected on the titlement of salvage vehicles and are used to enforce motor vehicle title and salvage laws and inspection of rebuilt vehicles.

Agricultural Promotion Boards—These boards were formed to promote the consumption of agricultural products. Revenue is derived from an assessment levied on the commercial producers of certain agricultural products.

Drycleaner's Environmental Response—This program is administered by the Department of Environment and Conservation. Revenues collected from drycleaners are an annual registration fee and a fee for the various dry-cleaning solvents used.

Agricultural Regulatory Fund—This program is administered by the Department of Agriculture. Revenues are collected from fees on the various agricultural related industries regulated by the department. These fees are then used in the administration of this regulatory function.

Tennessee Regulatory Authority—The authority is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

Fraud and Economic Crime—This program is administered by the District Attorneys General of the State. Revenues are collected from individuals prosecuted for bad checks. These monies are used to increase resources available to prosecute bad check cases.

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2012

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection	Hazardous Waste
Assets						
Cash and cash equivalents	$ 58,947	$ 14,198	$ 9,788	$ 34,061	$ 15,408	$ 8,316
Receivables:						
Taxes	843	535	1,695			
Due from other governments	3,506			6		279
Other	653		1			
Total assets	$ 63,949	$ 14,733	$ 11,484	$ 34,067	$ 15,408	$ 8,595
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 3,241	$ 5,866	$ 1,106	$ 26	$ 83	$ 160
Due to other funds	193	45	7			14
Deferred revenue	1					1,542
Advance from other governments				32,445		
Deposits payable						
Total liabilities	3,435	5,911	1,113	32,471	83	1,716
Fund balances:						
Restricted	52,311			1,596		
Committed	8,203	8,822	10,371		15,325	6,879
Total fund balances	60,514	8,822	10,371	1,596	15,325	6,879
Total liabilities and fund balances	$ 63,949	$ 14,733	$ 11,484	$ 34,067	$ 15,408	$ 8,595

(continued on next page)

Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
$ 15,322	$ 1,100	$ 46,515	$ 89,562	$ 737	$ 2,634
782		1,296	599	59	
		1,049	1,042		
	432				
$ 16,104	$ 1,532	$ 48,860	$ 91,203	$ 796	$ 2,634
$ 155	$ 63	$ 798	$ 529	$ 15	
		23	3	1	
	13	497			
155	76	1,318	532	16	
	1,456	47,542	87,604		$ 1,969
15,949			3,067	780	665
15,949	1,456	47,542	90,671	780	2,634
$ 16,104	$ 1,532	$ 48,860	$ 91,203	$ 796	$ 2,634

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2012

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority
Assets						
Cash and cash equivalents	$ 985	$ 1,662	$ 1	$ 1,707	$ 1,889	$ 3,352
Receivables:						
Taxes	361					
Due from other governments						291
Other			18			3
Total assets	$ 1,346	$ 1,662	$ 19	$ 1,707	$ 1,889	$ 3,646
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 804	$ 33	$ 14	$ 375		$ 197
Due to other funds		5		1		23
Deferred revenue						
Advance from other governments						
Deposits payable						1
Total liabilities	804	38	14	376		221
Fund balances:						
Restricted						
Committed	542	1,624	5	1,331	$ 1,889	3,425
Total fund balances	542	1,624	5	1,331	1,889	3,425
Total liabilities and fund balances	$ 1,346	$ 1,662	$ 19	$ 1,707	$ 1,889	$ 3,646

Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 2,679	$ 308,863
	6,170
	6,173
	1,107
$ 2,679	$ 322,313
	$ 13,465
	315
	2,053
	32,445
	1
	48,279
	192,478
$ 2,679	81,556
2,679	274,034
$ 2,679	$ 322,313

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection	Hazardous Waste
Revenues						
Taxes:						
Fuel	$ 531					
Business	330					
Other	6,781		$ 6,950			
Licenses, fines, fees, and permits	38,547	$ 9,244	2,610		$ 45,893	
Interest on investments	70	13	12	$ 2	16	$ 9
Federal	25,673	4,991		1,738		1,766
Departmental services	6,978		32			4,065
Other		8				
Total revenues	78,910	14,256	9,604	1,740	45,909	5,840
Expenditures						
General government		14,580		1,794		
Law, justice and public safety						
Recreation and resources development	73,611		8,053		40,627	5,860
Regulation of business and professions						
Total expenditures	73,611	14,580	8,053	1,794	40,627	5,860
Excess (deficiency) of revenues over (under) expenditures	5,299	(324)	1,551	(54)	5,282	(20)
Other financing sources (uses)						
Insurance claims recoveries	22					
Transfers in	2,164					1,000
Transfers out	(259)				(1,148)	
Total other financing sources (uses)	1,927				(1,148)	1,000
Net change in fund balances	7,226	(324)	1,551	(54)	4,134	980
Fund balances, July 1	53,288	9,146	8,820	1,650	11,191	5,899
Fund balances, June 30	$ 60,514	$ 8,822	$ 10,371	$ 1,596	$ 15,325	$ 6,879

(continued on next page)

Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
		$ 14,774			
$ 881					
	$ 3,336	4,212	$ 60,720	$ 718	$ 53
18	2	59	109		2
		4,463	1,042		628
48	261	70			25
	20				
947	3,619	23,578	61,871	718	708
	4,472			646	
4,939		21,776			
			49,021		
4,939	4,472	21,776	49,021	646	
(3,992)	(853)	1,802	12,850	72	708
6,806					
6,806					
2,814	(853)	1,802	12,850	72	708
13,135	2,309	45,740	77,821	708	1,926
$ 15,949	$ 1,456	$ 47,542	$ 90,671	$ 780	$ 2,634

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority
Revenues						
Taxes:						
Fuel						
Business						
Other	$ 2,610		$ 799			
Licenses, fines, fees, and permits		$ 1,883		$ 977	$ 3,302	$ 7,126
Interest on investments	2			2	3	
Federal	63					567
Departmental services			4			3
Other						
Total revenues	2,675	1,883	803	979	3,305	7,696
Expenditures						
General government		1,380				6,928
Law, justice and public safety						
Recreation and resources development	4,382		803	904	3,069	
Regulation of business and professions						
Total expenditures	4,382	1,380	803	904	3,069	6,928
Excess (deficiency) of revenues over (under) expenditures	(1,707)	503	-	75	236	768
Other financing sources (uses)						
Insurance claims recoveries						
Transfers in	938					
Transfers out						
Total other financing sources (uses)	938					
Net change in fund balances	(769)	503		75	236	768
Fund balances, July 1	1,311	1,121	5	1,256	1,653	2,657
Fund balances, June 30	$ 542	$ 1,624	$ 5	$ 1,331	$ 1,889	$ 3,425

Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
	$ 15,305
	330
	18,021
$ 1,054	179,675
1	320
	40,931
	11,486
	28
1,055	266,096
	24,682
844	5,962
	164,024
	49,021
844	243,689
211	22,407
	22
	10,908
	(1,407)
	9,523
211	31,930
2,468	242,104
$ 2,679	$ 274,034

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 53,288	$ 53,288	
Revenues:			
Taxes	6,791	7,642	$ 851
Licenses, fines, fees, and permits	41,709	38,547	(3,162)
Interest on investments		70	70
Federal	30,287	25,673	(4,614)
Departmental services	1,877	6,978	5,101
Other	6,578		(6,578)
Other financing sources - transfers in	2,164	2,164	
Other financing sources - insurance recoveries	22	22	
Total sources of financial resources	142,716	134,384	(8,332)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	91,646	73,611	18,035
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	259	259	
Total uses of financial resources	91,905	73,870	18,035
Fund balances (budgetary basis), June 30	$ 50,811	$ 60,514	$ 9,703

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 9,146	$ 9,146		$ 8,820	$ 8,820	
			5,403	6,950	$ 1,547
10,493	9,244	$ (1,249)	4,303	2,610	(1,693)
	13	13		12	12
5,020	4,991	(29)			
			234	32	(202)
7	8	1			
24,666	23,402	(1,264)	18,760	18,424	(336)
15,960	14,580	1,380			
			11,167	8,053	3,114
15,960	14,580	1,380	11,167	8,053	3,114
$ 8,706	$ 8,822	$ 116	$ 7,593	$ 10,371	$ 2,778

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Help America Vote		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 1,650	$ 1,650	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		2	$ 2
Federal	26,500	1,738	(24,762)
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	28,150	3,390	(24,760)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State	27,500	1,794	25,706
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	27,500	1,794	25,706
Fund balances (budgetary basis), June 30	$ 650	$ 1,596	$ 946

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 11,191	$ 11,191		$ 5,899	$ 5,899	
55,003	45,893	$ (9,110)			
	16	16		9	$ 9
			1,990	1,766	(224)
			3,704	4,065	361
			1,000	1,000	
66,194	57,100	(9,094)	12,593	12,739	146
53,258	40,627	12,631	11,938	5,860	6,078
1,148	1,148				
54,406	41,775	12,631	11,938	5,860	6,078
$ 11,788	$ 15,325	$ 3,537	$ 655	$ 6,879	$ 6,224

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 13,135	$ 13,135	
Revenues:			
Taxes	100	881	$ 781
Licenses, fines, fees, and permits			
Interest on investments		18	18
Federal			
Departmental services		48	48
Other			
Other financing sources - transfers in	6,806	6,806	
Other financing sources - insurance recoveries			
Total sources of financial resources	20,041	20,888	847
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation	6,906	4,939	1,967
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	6,906	4,939	1,967
Fund balances (budgetary basis), June 30	$ 13,135	$ 15,949	$ 2,814

(continued on next page)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 2,309	$ 2,309		$ 45,740	$ 45,740	
			15,000	14,774	$ (226)
4,284	3,336	$ (948)	4,939	4,212	(727)
	2	2		59	59
			3,838	4,463	625
	261	261		70	70
	20	20			
6,593	5,928	(665)	69,517	69,318	(199)
4,634	4,472	162			
			25,320	21,776	3,544
4,634	4,472	162	25,320	21,776	3,544
$ 1,959	$ 1,456	$ (503)	$ 44,197	$ 47,542	$ 3,345

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 77,821	$ 77,821	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	61,100	60,720	$ (380)
Interest on investments		109	109
Federal	1,500	1,042	(458)
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	140,421	139,692	(729)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance	75,586	49,021	26,565
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	75,586	49,021	26,565
Fund balances (budgetary basis), June 30	$ 64,835	$ 90,671	$ 25,836

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 708	$ 708		$ 1,926	$ 1,926	
738	718	$ (20)	500	53	$ (447)
				2	2
				628	628
				25	25
1,446	1,426	(20)	2,426	2,634	208
898	646	252			
			500		500
898	646	252	500		500
$ 548	$ 780	$ 232	$ 1,926	$ 2,634	$ 708

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 1,311	$ 1,311	
Revenues:			
Taxes	2,250	2,610	$ 360
Licenses, fines, fees, and permits			
Interest on investments		2	2
Federal	63	63	
Departmental services			
Other			
Other financing sources - transfers in	938	938	
Other financing sources - insurance recoveries			
Total sources of financial resources	4,562	4,924	362
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	4,561	4,382	179
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	4,561	4,382	179
Fund balances (budgetary basis), June 30	$ 1	$ 542	$ 541

(continued on next page)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,121	$ 1,121		$ 1,256	$ 1,256	
1,489	1,883	$ 394	2,527	977	$ (1,550)
				2	2
2,610	3,004	394	3,783	2,235	(1,548)
			2,523	904	1,619
1,489	1,380	109			
1,489	1,380	109	2,523	904	1,619
$ 1,121	$ 1,624	$ 503	$ 1,260	$ 1,331	$ 71

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 1,653	$ 1,653	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,355	3,302	$ 947
Interest on investments		3	3
Federal			
Departmental services	120		(120)
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	4,128	4,958	830
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,187	3,069	118
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	3,187	3,069	118
Fund balances (budgetary basis), June 30	$ 941	$ 1,889	$ 948

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 2,657	$ 2,657		$ 239,631	$ 239,631	
			29,544	32,857	$ 3,313
7,800	7,126	$ (674)	197,240	178,621	(18,619)
				319	319
813	567	(246)	70,011	40,931	(29,080)
3	3		5,938	11,482	5,544
			6,585	28	(6,557)
			10,908	10,908	
			22	22	
11,273	10,353	(920)	559,879	514,799	(45,080)
			4,634	4,472	162
			27,500	1,794	25,706
			15,960	14,580	1,380
8,605	6,928	1,677	8,605	6,928	1,677
			898	646	252
			7,748	7,451	297
			111,612	82,159	29,453
			91,646	73,611	18,035
			75,586	49,021	26,565
			1,489	1,380	109
			1,407	1,407	
8,605	6,928	1,677	347,085	243,449	103,636
$ 2,668	$ 3,425	$ 757	$ 212,794	$ 271,350	$ 58,556

DEBT SERVICE FUND

The debt service fund is maintained to account for accumulation of resources for, and the payment of, principal and interest on general long-term debt.

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 9,737	$ 9,737	
Revenues:			
Taxes	388,100	388,100	
Licenses, fines, fees, and permits	2,700	2,700	
Other		659	$ 659
Other financing sources			
Transfers in	3,641	3,641	
Refunding bonds proceeds	686	686	
Bond premium	37,069	37,069	
Total sources of financial resources	441,933	442,592	659
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	425,624	186,199	239,425
Other financing uses - transfers out	240,048	240,048	
Total uses of financial resources	665,672	426,247	239,425
Fund balances (budgetary basis), June 30	$ (223,739)	$ 16,345	$ 240,084

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PERMANENT FUNDS

Chairs of Excellence Fund—This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Other—This column includes various smaller funds in which legal restrictions require that the principal remain intact and only the earnings may be spent.

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2012

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Assets			
Cash and cash equivalents	$ 11,748	$ 38,114	$ 49,862
Investments	235,961		235,961
Receivables:			
Taxes		13	13
Interest	859		859
Due from component units	315		315
Total assets	$ 248,883	$ 38,127	$ 287,010
Liabilities and fund balances			
Liabilities:			
Accounts payable and accruals	$ 1,185		$ 1,185
Due to component units	1,953		1,953
Total liabilities	3,138		3,138
Fund balances:			
Nonspendable			
Permanent fund corpus	99,935	$ 38,091	138,026
Restricted	145,810	36	145,846
Total fund balances	245,745	38,127	283,872
Total liabilities and fund balances	$ 248,883	$ 38,127	$ 287,010

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Revenues			
Licenses, fines, fees and permits		$ 2,584	$ 2,584
Investment income	$ 9,940	42	9,982
Other	5	1	6
Total revenues	9,945	2,627	12,572
Expenditures			
Education	7,306		7,306
Recreation and resources development		19	19
Total expenditures	7,306	19	7,325
Excess of revenues over expenditures	2,639	2,608	5,247
Net change in fund balances	2,639	2,608	5,247
Fund balances, July 1	243,106	35,519	278,625
Fund balances, June 30	$ 245,745	$ 38,127	$ 283,872

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NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.

Energy Loan Program—Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance—Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of currently employed teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance—Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of active employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan—Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity—This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Energy Efficient Schools Initiative—Created to award grants and loans to local school systems for capital outlay projects which meet established energy efficient design and technology guidelines for school facilities.

Client Protection—Created by the Tennessee Supreme Court, this fund provides services to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.

State of Tennessee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2012

(Expressed in Thousands)

Assets	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Current assets:				
Cash and cash equivalents	$ 18,058	$ 125,895	$ 18,105	$ 50,210
Receivables:				
Accounts receivable		2,745	615	
Loans receivable	2,194			5,967
Total current assets	20,252	128,640	18,720	56,177
Noncurrent assets:				
Loans receivable	3,632			95,603
Total noncurrent assets	3,632			95,603
Total assets	23,884	128,640	18,720	151,780
Liabilities				
Current liabilities:				
Accounts payable and accruals		30,356	6,950	3
Unearned revenue		64	64	
Total current liabilities		30,420	7,014	3
Noncurrent liabilities:				
Other noncurrent liabilities				2,479
Total noncurrent liabilities				2,479
Total liabilities		30,420	7,014	2,482
Net assets				
Unrestricted	23,884	98,220	11,706	149,298
Total net assets	$ 23,884	$ 98,220	$ 11,706	$ 149,298

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 3,000	$ 2,289	$ 2,146	$ 219,703
			3,360
	4,371		12,532
3,000	6,660	2,146	235,595
	51,976		151,211
	51,976		151,211
3,000	58,636	2,146	386,806
		14	37,323
	14		142
	14	14	37,465
			2,479
			2,479
	14	14	39,944
3,000	58,622	2,132	346,862
$ 3,000	$ 58,622	$ 2,132	$ 346,862

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services	$ 29			$ 1,849
Investment income	23			51
Premiums		$ 439,497	$ 103,259	
Total operating revenues	52	439,497	103,259	1,900
Operating expenses				
Contractual services		20,398	4,871	430
Benefits		416,822	91,345	
Other		6,075	1,139	
Total operating expenses		443,295	97,355	430
Operating income (loss)	52	(3,798)	5,904	1,470
Nonoperating revenues (expenses)				
Operating grants				10,921
Interest income		143	19	
Other				(2,421)
Total nonoperating revenues (expenses)		143	19	8,500
Income (loss) before transfers	52	(3,655)	5,923	9,970
Transfers in				2,011
Transfers out	(1,773)			
Change in net assets	(1,721)	(3,655)	5,923	11,981
Net assets, July 1	25,605	101,875	5,783	137,317
Net assets, June 30	$ 23,884	$ 98,220	$ 11,706	$ 149,298

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
	$ 320	$ 133	$ 2,331
			74
			542,756
	320	133	545,161
	35	618	26,352
			508,167
$ 96		2	7,312
96	35	620	541,831
(96)	285	(487)	3,330
	43,558		54,479
4	3	3	172
			(2,421)
4	43,561	3	52,230
(92)	43,846	(484)	55,560
			2,011
			(1,773)
(92)	43,846	(484)	55,798
3,092	14,776	2,616	291,064
$ 3,000	$ 58,622	$ 2,132	$ 346,862

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Cash flows from operating activities				
Receipts from customers and users		$ 444,726	$ 104,481	
Payments to suppliers		(443,288)	(97,791)	
Payments to employees				
Payments for interfund services used		(6,078)	(1,140)	$ (430)
Net cash from (used for) operating activities		(4,640)	5,550	(430)
Cash flows from noncapital financing activities				
Negative cash balance implicitly financed				
Negative cash balance implicitly repaid				
Operating grants received				10,921
Transfers in				2,011
Transfers out	$ (1,773)			
Net cash from (used for) noncapital financing activities	(1,773)			12,932
Cash flows from investing activities				
Loans issued and other disbursements to borrowers				(13,056)
Collection of loan principal	2,373			8,358
Interest received	52	143	19	1,911
Net cash from (used for) investing activities	2,425	143	19	(2,787)
Net increase (decrease) in cash and cash equivalents	652	(4,497)	5,569	9,715
Cash and cash equivalents, July 1	17,406	130,392	12,536	40,495
Cash and cash equivalents, June 30	$ 18,058	$ 125,895	$ 18,105	$ 50,210
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ 52	$ (3,798)	$ 5,904	$ 1,470
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(23)			(1,900)
Charges for services	(29)			
(Increase) decrease in accounts receivable		(761)	(210)	
Increase (decrease) in accounts payable		(145)	(208)	
Increase (decrease) in unearned revenue		64	64	
Total adjustments	(52)	(842)	(354)	(1,900)
Net cash provided by (used for) operating activities	$ -	$ (4,640)	$ 5,550	$ (430)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
	$ 35	$ 133	$ 549,375
$ (96)		(606)	(541,781)
		(2)	(2)
	(35)		(7,683)
(96)		(475)	(91)
	43,558		54,479
			2,011
			(1,773)
	43,558		54,717
	(43,766)		(56,822)
	1,630		12,361
4	303	3	2,435
4	(41,833)	3	(42,026)
(92)	1,725	(472)	12,600
3,092	564	2,618	207,103
$ 3,000	$ 2,289	$ 2,146	$ 219,703
$ (96)	$ 285	$ (487)	$ 3,330
	(285)		(2,208)
			(29)
			(971)
		12	(341)
			128
	(285)	12	(3,421)
$ (96)	$ -	$ (475)	$ (91)

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:

Office for Information Resources—A division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

Risk Management—Administered by the Treasury Department, this fund is used to pay awards for claims made against the state and for damage to state owned property.

Motor Vehicle Management—A division of the Department of General Services, is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing—A division of the Department of General Services, operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund—Created in 1989, this fund provides the maintenance, repair and total housing needs of state government for all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund—Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. This fund primarily includes employees of the state, University of Tennessee, and the Tennessee Board of Regents System. Group life and accident insurance premiums, dental premiums, and long-term care premiums paid to private insurance companies are also recorded in this fund.

Postal Services—A division of the Department of General Services, is responsible for processing and distributing incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

Purchasing—A division of the Department of General Services, is responsible for the procurement of supplies, equipment and certain specialized services.

Warehousing and Distribution—A division of the Department of General Services, is responsible for the purchasing and distribution of office supplies, the retention and disposal of official records, and the receipt and distribution of surplus property for all state government and quasi-governmental entities that opt to use this service.

Human Resources—This fund's responsibilities include providing departments with applicants for employment, providing training to state employees, and administering the Sick Leave Bank.

Division of Accounts—A division of the Department of Finance and Administration, is responsible for the centralized accounting function for the state.

TRICOR (Tennessee Rehabilitative Initiative in Correction)—Manages correctional industry, agriculture, food, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not for profit organizations.

Edison—Maintained by the Department of Finance and Administration's Enterprise Resource Planning division, is the state's integrated software package for administrative business functions such as financials and accounting, procurement, payroll, benefits, and personnel administration.

State of Tennessee
Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

(Expressed in Thousands)

Assets	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Current assets:							
Cash and cash equivalents	$ 114,067	$ 97,220	$ 46,116	$ 229	$ 100,665	$ 182,411	$ 1,183
Accounts receivable	239	9,795	27	4	232	4,366	
Due from other funds	348						
Inventories, at cost	1,311			79			213
Prepaid expenses							97
Total current assets	115,965	107,015	46,143	312	100,897	186,777	1,493
Noncurrent assets:							
Accounts receivable		901					
Due from other funds	174						
Deferred charges					184		
Lease receivable					1,611		
Capital assets:							
Land, at cost					62,751		
Structures and improvements, at cost					555,509		
Machinery and equipment, at cost	111,906		144,048	2,053	183		3,319
Less-accumulated depreciation	(79,608)		(93,933)	(1,324)	(260,036)		(2,370)
Construction in progress					10,805		
Total capital assets, net of accumulated depreciation	32,298		50,115	729	369,212		949
Total noncurrent assets	32,472	901	50,115	729	371,007		949
Total assets	148,437	107,916	96,258	1,041	471,904	186,777	2,442
Liabilities							
Current liabilities:							
Accounts payable	14,435	857	4,810	83	6,055	44,196	7
Accrued payroll and related deductions	2,231		89	135			102
Due to other funds	141	5	6	9	22		6
Lease obligations payable					153		
Bonds payable					19,364		
Unearned revenue		8	3,186			39,429	
Other		34,095					
Total current liabilities	16,807	34,965	8,091	227	25,594	83,625	115
Noncurrent liabilities:							
Lease obligations payable					371		
Commercial paper payable					20,658		
Bonds payable, net					179,147		
Other noncurrent liabilities	4,182	63,886	334	496			543
Total noncurrent liabilities	4,182	63,886	334	496	200,176		543
Total liabilities	20,989	98,851	8,425	723	225,770	83,625	658
Net assets							
Invested in capital assets, net of related debt	32,298		50,115	729	149,518		949
Unrestricted	95,150	9,065	37,718	(411)	96,616	103,152	835
Total net assets	$ 127,448	$ 9,065	$ 87,833	$ 318	$ 246,134	$ 103,152	$ 1,784

Purchasing	Warehousing and Distribution	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 524	$ 362	$ 16,342	$ 4,826	$ 11,194	$ 2,881	$ 578,020
	43		2	219		14,927
						348
	354			5,570		7,527
						97
524	759	16,342	4,828	16,983	2,881	600,919
						901
						174
						184
						1,611
				215		62,966
				15,752		571,261
	142	170	119	12,499	103,275	377,714
	(142)	(161)	(107)	(17,076)	(36,208)	(490,965)
						10,805
		9	12	11,390	67,067	531,781
		9	12	11,390	67,067	534,651
524	759	16,351	4,840	28,373	69,948	1,135,570
8	107	85	1	1,692	785	73,121
244	100	574	399	463	554	4,891
19	6	47	27	31	38	357
						153
						19,364
				1		42,624
						34,095
271	213	706	427	2,187	1,377	174,605
						371
					30,660	51,318
						179,147
462	530	409	759	1,366	1,229	74,196
462	530	409	759	1,366	31,889	305,032
733	743	1,115	1,186	3,553	33,266	479,637
		9	12	11,390	36,407	281,427
(209)	16	15,227	3,642	13,430	275	374,506
$ (209)	$ 16	$ 15,236	$ 3,654	$ 24,820	$ 36,682	$ 655,933

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Operating revenues							
Charges for services	$ 140,453	$ 50,973	$ 42,238	$ 3,841	$ 132,876		$ 18,761
Premiums						$ 679,584	
Other						343	
Total operating revenues	140,453	50,973	42,238	3,841	132,876	679,927	18,761
Operating expenses							
Personal services	29,813		1,539	2,311			1,807
Contractual services	48,017	9,542	7,449	1,160	73,673	25,776	1,780
Materials and supplies	52,663		21,402	910	2,340		14,349
Rentals and insurance	59		1,880	11	40,867		15
Depreciation and amortization	11,565		10,677	78	13,144		399
Benefits		41,464				596,376	
Other	1,905	4,814	2	23	180	8,457	
Total operating expenses	144,022	55,820	42,949	4,493	130,204	630,609	18,350
Operating income (loss)	(3,569)	(4,847)	(711)	(652)	2,672	49,318	411
Nonoperating revenues (expenses)							
Taxes		2					
Operating grants		323					
Insurance claims recoveries			75		125		
Interest income		114			124	167	
Interest expense	(62)				(7,427)		
Total nonoperating revenues (expenses)	(62)	439	75		(7,178)	167	
Income (loss) before contributions and transfers	(3,631)	(4,408)	(636)	(652)	(4,506)	49,485	411
Transfers in			4,540	304	13,065		
Transfers out			(318)				
Change in net assets	(3,631)	(4,408)	3,586	(348)	8,559	49,485	411
Net assets, July 1	131,079	13,473	84,247	666	237,575	53,667	1,373
Net assets, June 30	$ 127,448	$ 9,065	$ 87,833	$ 318	$ 246,134	$ 103,152	$ 1,784

Purchasing	Warehousing and Distribution	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 5,608	$ 4,497	$ 15,976	$ 4,957	$ 36,544	$ 26,465	$ 483,189
						679,584
						343
5,608	4,497	15,976	4,957	36,544	26,465	1,163,116
4,403	1,766	9,969	5,730	7,728	7,995	73,061
1,895	4,364	1,688	2,394	9,875	11,649	199,262
71	1,177	166	108	15,168	233	108,587
13	5	15	7	877	338	44,087
		4	23	995	10,497	47,382
						637,840
11	5	134	10	228	10	15,779
6,393	7,317	11,976	8,272	34,871	30,722	1,125,998
(785)	(2,820)	4,000	(3,315)	1,673	(4,257)	37,118
						2
						323
	2,641					2,841
						405
						(7,489)
	2,641					(3,918)
(785)	(179)	4,000	(3,315)	1,673	(4,257)	33,200
						17,909
						(318)
(785)	(179)	4,000	(3,315)	1,673	(4,257)	50,791
576	195	11,236	6,969	23,147	40,939	605,142
$ (209)	$ 16	$ 15,236	$ 3,654	$ 24,820	$ 36,682	$ 655,933

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Cash flows from operating activities							
Receipts from customers and users	$ 2,003	$ 14,181	$ 718	$ 18	$ 2,972	$ 320,084	$ 144
Receipts from interfund services provided	139,821	36,879	42,941	3,820	130,024	393,927	18,618
Payments to suppliers	(84,860)	(54,540)	(23,250)	(1,319)	(109,027)	(661,900)	(14,972)
Payments to employees	(29,304)		(1,496)	(2,268)			(1,751)
Payments for interfund services used	(11,004)	(7,054)	(7,201)	(713)	(8,206)	(9,238)	(1,781)
Net cash from (used for) operating activities	16,656	(10,534)	11,712	(462)	15,763	42,873	258
Cash flows from noncapital financing activities							
Transfers in			4,540	304	13,065		
Transfers out			(318)				
Tax revenues received		2					
Net cash from (used for) noncapital financing activities		2	4,222	304	13,065		
Cash flows from capital and related financing activities financing activities							
Purchase of capital assets	(16,346)		(10,276)	(505)	(12,269)		
Bond and commercial paper proceeds					23,724		
Proceeds from sale of capital assets			1,819		201		
Insurance claims recoveries			75		125		
Bond issuance cost					(102)		
Principal payments					(26,877)		
Interest paid	(62)				(8,337)		
Net cash from (used for) capital and related financing activities	(16,408)		(8,382)	(505)	(23,535)		
Cash flows from investing activities							
Interest received		114			124	167	
Net cash from (used for) investing activities		114			124	167	
Net increase (decrease) in cash and cash equivalents	248	(10,418)	7,552	(663)	5,417	43,040	258
Cash and cash equivalents, July 1	113,819	107,638	38,564	892	95,248	139,371	925
Cash and cash equivalents, June 30	$ 114,067	$ 97,220	$ 46,116	$ 229	$ 100,665	$ 182,411	$ 1,183
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income (loss)	$ (3,569)	$ (4,847)	$ (711)	$ (652)	$ 2,672	$ 49,318	$ 411
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	11,565		10,677	78	13,145		399
Loss/(gain) on disposal of capital assets	1,816		(34)	16	62		
Bond issuance cost					117		
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(71)		52	(4)	120	(1,128)	
(Increase) decrease in due from other funds	1,437						
(Increase) decrease in due from component units	5	87	3				
(Increase) decrease in inventories	44		18	6			53
(Increase) decrease in prepaid expenses							68
Increase (decrease) in accounts payable	5,604	(5,728)	307	94	(356)	(5,511)	(672)
Increase (decrease) in due to other funds	(175)	(46)	(1)		3		(1)
Increase (decrease) in unearned revenue			1,401			194	
Total adjustments	20,225	(5,687)	12,423	190	13,091	(6,445)	(153)
Net cash provided by (used for) operating activities	$ 16,656	$ (10,534)	$ 11,712	$ (462)	$ 15,763	$ 42,873	$ 258
Noncash investing, capital and financing activities							
Bond refunding proceeds					$ 78,221		
Bond refunding premium					1,505		
Bond refunding proceeds to escrow					(79,726)		
Total noncash investing, capital and financing activities					$ -		

Purchasing	Warehousing and Distribution	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 638	$ 1,648	$ 72	$ 96	$ 8,441	$ 105	$ 351,120
4,971	2,896	15,918	4,860	28,255	26,360	849,290
(592)	(4,372)	(718)	(950)	(24,681)	(5,083)	(986,264)
(4,248)	(1,710)	(11,172)	(5,576)	(7,881)	(7,854)	(73,260)
(1,373)	(1,148)	(1,131)	(1,736)	(1,723)	(8,082)	(60,390)
(604)	(2,686)	2,969	(3,306)	2,411	5,446	80,496
						17,909
						(318)
						2
						17,593
				(293)	(3,603)	(43,292)
						23,724
						2,020
	2,641					2,841
						(102)
					(4,380)	(31,257)
						(8,399)
	2,641			(293)	(7,983)	(54,465)
						405
						405
(604)	(45)	2,969	(3,306)	2,118	(2,537)	44,029
1,128	407	13,373	8,132	9,076	5,418	533,991
$ 524	$ 362	$ 16,342	$ 4,826	$ 11,194	$ 2,881	$ 578,020
$ (785)	$ (2,820)	$ 4,000	$ (3,315)	$ 1,673	$ (4,257)	$ 37,118
		4	23	995	10,497	47,383
				1		1,861
						117
1	44			111		(875)
		13		41		1,491
	3					98
	(36)			(566)		(481)
						68
171	124	(1,050)	(16)	153	(790)	(7,670)
9	(1)	2	2	3	(4)	(209)
						1,595
181	134	(1,031)	9	738	9,703	43,378
$ (604)	$ (2,686)	$ 2,969	$ (3,306)	$ 2,411	$ 5,446	$ 80,496
						$ 78,221
						1,505
						(79,726)
						$ -

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FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2011. As of that date there were 215,076 active members and 116,585 retired members representing a .06% and 5.15% increase, respectively, since the previous actuarial valuation in 2009.

Employee Flexible Benefits—Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Private-Purpose Trust Funds:

Baccalaureate Education—This trust was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution. Funds in this trust may only be provided to named individuals who are participants in the program. No other state programs are supported from this trust.

Children in State Custody—This fund accounts for monies held and used for the benefit of children in the custody of the state. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring—Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2014 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

TNInvestco—Established in 2009, this fund was created by the General Assembly for the purpose of increasing the flow of capital to innovative new companies in Tennessee that are in the early stages of development. This fund accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act.

Other—These funds account for trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund—The purpose of the local government fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund—This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.

Retiree Health Funds—These funds are used to account for funding received and claims paid on behalf of retirees who elect coverage. Pre- and post-65 retired employees of the state, local education, and local government employers are included.

State of Tennessee
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2012

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	$ 348,330	$ 78,297	$ 426,627	$ 947	$ 427,574
Receivables:					
Member contributions	21,313	6,001	27,314		27,314
Employer contributions	37,886	23,364	61,250		61,250
Accrued interest	79,795	17,936	97,731		97,731
Accrued dividends	42,658	9,588	52,246		52,246
Derivative instruments	319,335	71,779	391,114		391,114
Real estate income	680	153	833		833
Investments sold	410,516	92,275	502,791		502,791
Total receivables	912,183	221,096	1,133,279		1,133,279
Due from other funds	9,524		9,524	264	9,788
Due from component units	9,020		9,020	5	9,025
Investments, at fair value:					
Short term securities	16,152	3,630	19,782		19,782
Government bonds	6,736,847	1,514,288	8,251,135		8,251,135
Corporate bonds	4,627,801	1,040,222	5,668,023		5,668,023
Corporate stocks	15,374,082	3,455,739	18,829,821		18,829,821
Derivative instruments	531	119	650		650
Private equities	142,025	31,924	173,949		173,949
Real estate	1,101,467	247,585	1,349,052		1,349,052
Total investments	27,998,905	6,293,507	34,292,412		34,292,412
Capital assets, at cost					
Software in development	7,960	1,789	9,749		9,749
Machinery and equipment	1,405	316	1,721		1,721
Accumulated depreciation	(35)	(8)	(43)		(43)
Total assets	29,287,292	6,594,997	35,882,289	1,216	35,883,505
Liabilities					
Accounts payable and accruals	482,327	109,570	591,897	3	591,900
Derivative instruments	308,316	69,303	377,619		377,619
Total liabilities	790,643	178,873	969,516	3	969,519
Net assets					
Held in trust for:					
Pension benefits	28,496,649	6,416,124	34,912,773		34,912,773
Employees' flexible benefits				1,213	1,213
Total net assets	$ 28,496,649	$ 6,416,124	$ 34,912,773	$ 1,213	$ 34,913,986

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	$ 194,180	$ 69,576	$ 263,756	$ 8,060	$ 271,816
Employers	731,352	271,361	1,002,713		1,002,713
Total contributions	925,532	340,937	1,266,469	8,060	1,274,529
Investment income:					
Net increase in fair value of investments	675,639	149,728	825,367		825,367
Interest	414,344	91,816	506,160		506,160
Dividends	353,064	78,237	431,301		431,301
Real estate income	56,987	12,628	69,615		69,615
Total investment income	1,500,034	332,409	1,832,443		1,832,443
Less: Investment expenses	26,384	5,995	32,379		32,379
Net investment income	1,473,650	326,414	1,800,064		1,800,064
Total additions	2,399,182	667,351	3,066,533	8,060	3,074,593
Deductions					
Annuity benefits:					
Retirement benefits	1,242,838	218,303	1,461,141		1,461,141
Cost of living	266,674	35,790	302,464		302,464
Death benefits	4,515	1,689	6,204		6,204
Other benefits				8,322	8,322
Refunds	22,575	17,517	40,092		40,092
Administrative expenses	4,716	2,408	7,124		7,124
Depreciation expense	35	8	43		43
Total deductions	1,541,353	275,715	1,817,068	8,322	1,825,390
Change in net assets held in trust for:					
Pension benefits	857,829	391,636	1,249,465		1,249,465
Employees' flexible benefits				(262)	(262)
Net assets, July 1	27,638,820	6,024,488	33,663,308	1,475	33,664,783
Net assets, June 30	$ 28,496,649	$ 6,416,124	$ 34,912,773	$ 1,213	$ 34,913,986

State of Tennessee
Combining Statement of Fiduciary Net Assets
Private-Purpose Trust Funds
June 30, 2012

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Assets						
Cash and cash equivalents	$ 1,058	$ 1,880	$ 15,534	$ 43,776	$ 2,691	$ 64,939
Receivables:						
Taxes					34	34
Total receivables					34	34
Investments, at fair value:						
Mutual funds	91,673					91,673
Total investments	91,673					91,673
Total assets	92,731	1,880	15,534	43,776	2,725	156,646
Liabilities						
Accounts payable and accruals	57	84				141
Total liabilities	57	84				141
Net assets						
Held in trust for:						
Individuals, organizations and other governments	$ 92,674	$ 1,796	$ 15,534	$ 43,776	$ 2,725	$ 156,505

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Additions						
Contributions:						
Federal		$ 6,305				$ 6,305
Private				$ 58,453	$ 402	58,855
Other		2,104		1,832	345	4,281
Total contributions		8,409		60,285	747	69,441
Investment income:						
Net increase in fair value of investments	$ 834					834
Interest	1,317	4	$ 19	52	2	1,394
Total investment income	2,151	4	19	52	2	2,228
Total additions	2,151	8,413	19	60,337	749	71,669
Deductions						
Payments made under trust agreements	8,477	3,499		40,176	408	52,560
Refunds	1,069	2,568				3,637
Administrative expenses	454	2,578		3,787		6,819
Total deductions	10,000	8,645		43,963	408	63,016
Change in net assets held in trust for: Individuals, organizations and other governments	(7,849)	(232)	19	16,374	341	8,653
Net assets, July 1	100,523	2,028	15,515	27,402	2,384	147,852
Net assets, June 30	$ 92,674	$ 1,796	$ 15,534	$ 43,776	$ 2,725	$ 156,505

State of Tennessee
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2012

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
Assets				
Cash and cash equivalents	$ 296,775	$ 122,274	$ 17,796	$ 436,845
Receivables:				
Accounts		251	2,258	2,509
Taxes	385,259			385,259
Total assets	682,034	122,525	20,054	824,613
Liabilities				
Accounts payable and accruals	682,034	10,376	18,027	710,437
Amounts held in custody for others		112,149	2,027	114,176
Total liabilities	$ 682,034	$ 122,525	$ 20,054	$ 824,613

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

Local Government Fund	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Assets				
Cash and cash equivalents	$ 288,052	$ 3,153,622	$ 3,144,899	$ 296,775
Accounts receivable	371,806	438,789	425,336	385,259
Total assets	659,858	3,592,411	3,570,235	682,034
Liabilities				
Accounts payable and accruals	659,858	4,071,824	4,049,648	682,034
Total liabilities	$ 659,858	$ 4,071,824	$ 4,049,648	$ 682,034
Contingent Revenue Fund				
Assets				
Cash and cash equivalents	$ 114,782	$ 3,817,143	$ 3,809,651	$ 122,274
Accounts receivable		791	540	251
Total assets	114,782	3,817,934	3,810,191	122,525
Liabilities				
Accounts payable and accruals	10,482	274,799	274,905	10,376
Amount held in custody for others	104,300	661,200	653,351	112,149
Total liabilities	$ 114,782	$ 935,999	$ 928,256	$ 122,525
Retiree Health Plans				
Assets				
Cash and cash equivalents	$ 17,264	$ 218,938	$ 218,406	$ 17,796
Accounts receivable	1,461	10,491	9,694	2,258
Total assets	18,725	229,429	228,100	20,054
Liabilities				
Accounts payable	17,664	22,243	21,880	18,027
Amount held in custody for others	1,061	221,154	220,188	2,027
Total liabilities	$ 18,725	$ 243,397	$ 242,068	$ 20,054
Totals - All Agency Funds				
Assets				
Cash and cash equivalents	$ 420,098	$ 7,189,703	$ 7,172,956	$ 436,845
Accounts receivable	373,267	450,071	435,570	387,768
Total assets	793,365	7,639,774	7,608,526	824,613
Liabilities				
Accounts payable and accruals	688,004	4,368,866	4,346,433	710,437
Amount held in custody for others	105,361	882,354	873,539	114,176
Total liabilities	$ 793,365	$ 5,251,220	$ 5,219,972	$ 824,613

COMPONENT UNITS

Tennessee Student Assistance Corporation (TSAC) —The corporation was created by the legislature in 1974 and is responsible for administering student financial assistance programs supported by federal and state funds.

Tennessee Community Services Agency—In 1989, the Legislature created twelve community services agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The state has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. In 2009, all CSAs merged operations into one agency.

Housing Development Agency—Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans, and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Education Lottery Corporation—Created by the General Assembly in 2003, the purpose of the corporation is to operate a state lottery with net proceeds to be transferred to the state to be used for education programs and purposes in accordance with the Constitution of Tennessee, consisting primarily of financial assistance to Tennessee citizens to enable such citizens to attend post-secondary educational institutions within Tennessee.

Tennessee Board of Regents—The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven technology centers) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

UNIVERSITIES

Austin Peay State University, Clarksville
East Tennessee State University, Johnson City
Middle Tennessee State University, Murfreesboro
Tennessee State University, Nashville
Tennessee Technological University, Cookeville
University of Memphis, Memphis

COMMUNITY COLLEGES

Chattanooga State Technical Community College, Chattanooga
Cleveland State Community College, Cleveland
Columbia State Community College, Columbia
Dyersburg State Community College, Dyersburg
Jackson State Community College, Jackson
Motlow State Community College, Tullahoma
Northeast State Technical Community College, Blountville
Nashville State Technical Community College, Nashville
Pellissippi State Technical Community College, Knoxville
Roane State Community College, Harriman
Southwest Tennessee Community College, Memphis
Volunteer State Community College, Gallatin
Walters State Community College, Morristown

TECHNOLOGY CENTERS

Athens	Crump	Hartsville	Knoxville	Memphis	Newbern	Ripley
Chattanooga	Dickson	Hohenwald	Livingston	Morristown	Oneida	Shelbyville
Covington	Elizabethton	Jacksboro	McKenzie	Murfreesboro	Paris	Whiteville
Crossville	Harriman	Jackson	McMinnville	Nashville	Pulaski	

The purpose of the technology centers is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees—The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority—This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the state loan program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Veterans' Homes Board—Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Federal Family Education Loan Program – This program is administered by TSAC, the state's designated federal guaranty agency. As part of the program, TSAC guarantees student loans made by lending institutions to students attending post-secondary schools as authorized by Title IV of the Higher Education Act of 1965.

Tennessee State School Bond Authority (TSSBA)—Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's universities. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. The Authority also issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state. In addition, under the American Recovery and Reinvestment Act of 2009, the Authority issued Qualified School Construction Bonds to finance the construction, repair, or rehabilitation of public school facilities.

Certified Cotton Growers' Organization—This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.

Access Tennessee—Established in 2007, this health insurance pool offers health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions.

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State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2012

(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee CSA	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Assets						
Cash and cash equivalents	$ 4,826	$ 256	$ 219,397	$ 72,214	$ 1,019,674	$ 935,770
Investments			40,708		517,288	779,206
Receivables, net	10,055	1,152	42,591	60,046	183,558	297,964
Due from primary government		447			1,175	28,308
Inventories, at cost					3,263	6,541
Prepayments				7,767	5,489	847
Loans receivable			2,099,615			
Deferred charges and other			11,741		4,104	9,669
Fair value of derivatives						
Restricted assets:						
Cash and cash equivalents			34,218	13		
Investments			186,562	2,889		
Receivables, net			1,683			
Capital assets:						
Land, at cost					124,805	75,400
Infrastructure					330,538	98,226
Structures and improvements, at cost				402	2,367,405	2,061,522
Machinery and equipment, at cost		58	556	5,055	419,441	585,795
Less accumulated depreciation		(13)	(443)	(4,356)	(1,315,159)	(1,200,629)
Construction in progress					212,103	395,610
Total assets	14,881	1,900	2,636,628	144,030	3,873,684	4,074,229
Liabilities						
Accounts payable and accruals	4,516	373	45,585	50,090	128,416	159,303
Due to primary government	15	57	78	89,438	5,041	4,480
Deferred revenue	137		1,414	659	66,327	83,738
Deferred inflow- derivatives						
Other					34,049	46,607
Noncurrent liabilities:						
Due within one year	140	104	160,631	740	39,182	73,041
Due in more than one year	491	249	1,871,002	3,090	759,137	827,940
Total liabilities	5,299	783	2,078,710	144,017	1,032,152	1,195,109
Net assets						
Invested in capital assets, net of related debt		45	114	1,101	1,527,605	1,371,908
Restricted for:						
Debt service					3,542	740
Capital projects					27,722	63,202
Single family bond programs			508,687			
Other	9,582		9,293	13	172,803	348,748
Permanent and endowment:						
Expendable					11,621	84,910
Nonexpendable					285,760	532,515
Unrestricted		1,072	39,824	(1,101)	812,479	477,097
Total net assets	$ 9,582	$ 1,117	$ 557,918	$ 13	$ 2,841,532	$ 2,879,120

Proprietary Fund Types						
Local Development Authority	Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 15,023	$ 8,060	$ 85,879	$ 23,771	$ 1,520	$ 46,598	$ 2,432,988
				1,008		1,338,210
	3,385	498	12,091	24	1,205	612,569
	1,777					31,707
	143					9,947
	46					14,149
7,287			1,477,909			3,584,811
98	4		33,562	2,487		61,665
			2,128			2,128
1,373	3,110	13,815	96,238			148,767
			82,585			272,036
		1,181				2,864
	406					200,611
	1,707					430,471
	30,209					4,459,538
	5,664					1,016,569
	(11,597)					(2,532,197)
	9					607,722
23,781	42,923	101,373	1,728,284	5,039	47,803	12,694,555
163	1,400	5	25,673	54	2,392	417,970
	80					99,189
			15,768			168,043
			2,128			2,128
	112					80,768
1,035	801		50,035			325,709
6,371	5,431		1,626,808			5,100,519
7,569	7,824	5	1,720,412	54	2,392	6,194,326
	21,088					2,921,861
	329					4,611
						90,924
						508,687
	4,243	14,996				559,678
						96,531
						818,275
16,212	9,439	86,372	7,872	4,985	45,411	1,499,662
$ 16,212	$ 35,099	$ 101,368	$ 7,872	$ 4,985	$ 45,411	$ 6,500,229

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2012

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Component units					
Higher education institutions:					
Board of Regents	$ 2,440,428	$ 915,381	$ 731,216	$ 106,652	$ (687,179)
University of Tennessee	1,958,418	609,373	849,776	116,889	(382,380)
Total higher education institutions	4,398,846	1,524,754	1,580,992	223,541	(1,069,559)
Loan programs:					
Tennessee Student Assistance Corporation	85,587	25,377	11,169		(49,041)
Housing Development Agency	402,609	133,708	306,857		37,956
Local Development Authority	572	360	20		(192)
Federal Family Education Loan Program	176,480	26,387	150,518		425
State School Bond Authority	71,249	59,891	1,100		(10,258)
Total loan programs	736,497	245,723	469,664		(21,110)
Lottery program	1,220,613	1,220,509	48		(56)
Other programs:					
Tennessee CSA	6,591	3,953	2,868		230
Access Tennessee Insurance Plan	41,106	21,098			(20,008)
Veterans' Homes Board	37,282	37,203	17		(62)
Certified Cotton Growers'	868	485	1,072		689
Total other programs	85,847	62,739	3,957		(19,151)
Total	$ 6,441,803	$ 3,053,725	$ 2,054,661	$ 223,541	$ (1,109,876)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
$ 618,205	$ 141,704	$ 5,101	$ 4,434	$ 8,622	$ 90,887	$ 2,750,645	$ 2,841,532
432,546	2,252	6,744		21,248	80,410	2,798,710	2,879,120
1,050,751	143,956	11,845	4,434	29,870	171,297	5,549,355	5,720,652
48,544					(497)	10,079	9,582
		6			37,962	519,956	557,918
					(192)	16,404	16,212
431		133			989	100,379	101,368
	10,299				41	7,831	7,872
48,975	10,299	139			38,303	654,649	692,952
		68			12	1	13
					230	887	1,117
23,049		48			3,089	42,322	45,411
	105				43	35,056	35,099
		13			702	4,283	4,985
23,049	105	61			4,064	82,548	86,612
$ 1,122,775	$ 154,360	$ 12,113	$ 4,434	$ 29,870	$ 213,676	$ 6,286,553	$ 6,500,229

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State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund Type Component Units
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
Revenues			
Interest on investments	$ 720		$ 720
Federal	3,283		3,283
Departmental services	81,085	$ 6,822	87,907
Other	1		1
Total revenues	85,089	6,822	91,911
Expenditures			
Education	85,514		85,514
Health and social services		6,535	6,535
Total expenditures	85,514	6,535	92,049
Excess (deficiency) of revenues over (under) expenditures	(425)	287	(138)
Fund balances, July 1	10,638	1,139	11,777
Fund balances, June 30	$ 10,213	$ 1,426	$ 11,639
Reconciliation to net assets:			
Fund balances per above	$ 10,213	$ 1,426	$ 11,639
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		45	45
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(631)	(354)	(985)
Net assets on Statement of Net Assets	$ 9,582	$ 1,117	$ 10,699

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 133,708	$ 1,219,052	$ 1,126,595	$ 1,086,829	$ 360
Investment income	11,992		3,507	6,069	20
Grants and contributions					
Other		1,457	59,291	73,682	
Total operating revenues	145,700	1,220,509	1,189,393	1,166,580	380
Operating expenses					
Personal services	15,671	12,682	1,383,350	1,223,290	
Contractual services	3,208	115,440			140
Mortgage service fees	7,539				
Materials and supplies	184		543,927	555,162	
Rentals and insurance	100	1,712			
Interest	87,835				432
Depreciation and amortization	886	495	136,144	109,756	
Lottery prizes		757,479			
Nursing home services					
Scholarships and fellowships			352,158	38,948	
Benefits					
Other	12,209	9,331			
Total operating expenses	127,632	897,139	2,415,579	1,927,156	572
Operating income (loss)	18,068	323,370	(1,226,186)	(760,576)	(192)
Nonoperating revenues (expenses)					
Grant income	260,371		595,037	260,836	
Grant expense	(274,977)				
Interest expense			(22,333)	(26,697)	
Interest income		68	7,469	5,825	
Payments from primary government	34,500		618,205	432,546	
Grants and contributions				5,655	
Gifts			5,006	20,680	
Payments to primary government		(323,438)			
Other		12	708	(4,567)	
Total nonoperating revenues (expenses)	19,894	(323,358)	1,204,092	694,278	
Income (loss) before capital grants and contributions	37,962	12	(22,094)	(66,298)	(192)
Capital payments from primary government			59,165	84,047	
Capital grants and gifts			45,198	32,843	
Additions to permanent endowments			8,622	21,248	
Other			(4)	8,570	
Change in net assets	37,962	12	90,887	80,410	(192)
Net assets, July 1	519,956	1	2,750,645	2,798,710	16,404
Net assets, June 30	$ 557,918	$ 13	$ 2,841,532	$ 2,879,120	$ 16,212

Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 31,256	$ 26,387	$ 59,891	$ 485	$ 21,098	$ 3,705,661
		1,100			22,688
	150,518				150,518
43					134,473
31,299	176,905	60,991	485	21,098	4,013,340
25,000					2,659,993
	175,953	1,143	868	933	297,685
					7,539
					1,099,273
					1,812
		58,007			146,274
1,399		781			249,461
					757,479
10,601					10,601
	527				391,633
				39,829	39,829
		11,318		344	33,202
37,000	176,480	71,249	868	41,106	5,694,781
(5,701)	425	(10,258)	(383)	(20,008)	(1,681,441)
5,904		10,299			1,132,447
					(274,977)
(198)					(49,228)
17	133		13	48	13,573
	431			23,049	1,108,731
					5,655
105					25,791
					(323,438)
(84)			1,072		(2,859)
5,744	564	10,299	1,085	23,097	1,635,695
43	989	41	702	3,089	(45,746)
					143,212
					78,041
					29,870
					8,566
43	989	41	702	3,089	213,943
35,056	100,379	7,831	4,283	42,322	6,275,587
$ 35,099	$ 101,368	$ 7,872	$ 4,985	$ 45,411	$ 6,489,530

SUPPLEMENTARY SCHEDULES

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2012

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1) Principal	Interest	Total Require-ments	Facilities Revolving Fund Debt (Note 2) Principal	Interest	Total Require-ments
2013	$ 153,262	$ 61,393	$ 214,655	$ 20,988	$ 6,592	$ 27,580
2014	146,983	58,041	205,024	20,384	6,020	26,404
2015	142,148	52,131	194,279	16,632	5,138	21,770
2016	137,348	46,713	184,061	15,389	4,554	19,943
2017	132,478	41,419	173,897	14,311	3,935	18,246
2018	124,272	36,984	161,256	13,160	3,523	16,683
2019	116,335	32,355	148,690	11,836	3,028	14,864
2020	113,518	27,801	141,319	11,475	2,540	14,015
2021	106,474	23,880	130,354	10,687	2,125	12,812
2022	106,472	19,734	126,206	10,713	1,679	12,392
2023	98,840	16,205	115,045	9,916	1,284	11,200
2024	98,458	12,604	111,062	9,874	913	10,787
2025	90,192	9,298	99,490	9,515	593	10,108
2026	89,904	6,625	96,529	9,385	446	9,831
2027	83,534	3,512	87,046	7,558	160	7,718
2028	75,357	5,337	80,694	6,365	501	6,866
2029	69,030	2,789	71,819	5,080	315	5,395
2030	43,687	955	44,642	3,506	130	3,636
2031	33,031	(495)	32,536	1,879	76	1,955
2032	23,433	(90)	23,343	400	10	410
TOTALS	$ 1,984,756	$ 457,191	$ 2,441,947	$ 209,053	$ 43,562	$ 252,615

Note 1: General obligtion bonds principal is more than that presented in the accompanying financial statements by $70.666 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by $10.541 million, which is a deduction from bonds payable for the deferred amount on refunding.

State of Tennessee
Schedule of Outstanding Debt
All Fund Types
For the Last Five Fiscal Years

Schedule 2

(Expressed in Thousands)

	June 30				
	2008	2009	2010	2011	2012
Enterprise Funds:					
State Loan Program General Obligation Bonds	$ 1,655				
Internal Service Funds:					
General Obligation Commercial Paper	39,819	$ 48,715	$ 70,107	$ 48,060	$ 51,318
Facilities Revolving Fund General Obligation Bonds	164,545	182,081	196,220	209,858	198,512
	204,364	230,796	266,327	257,918	249,830
General Long-Term Debt:					
General Obligation Bonds	1,010,858	1,356,861	1,492,600	1,544,350	1,914,090
General Obligation Commercial Paper	200,807	127,593	171,283	166,157	146,452
	1,211,665	1,484,454	1,663,883	1,710,507	2,060,542
Totals for Primary Government	$ 1,417,684	$ 1,715,250	$ 1,930,210	$ 1,968,425	$ 2,310,372

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2012

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	$ 174,471
Purpose: To finance the construction, improvements, repairs, and replacements of buildings and facilities and the acquisition of land, equipment and other property of the state.	
General Obligation Commercial Paper - Taxable	23,299
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	$ 197,770

State of Tennessee
Schedule of Outstanding Debt
Component Units
For the Last Five Fiscal Years

(Expressed in Thousands)

	June 30				
	2008	2009	2010	2011	2012
Component units:					
Certified Cotton Growers' notes	$ 9,294				
Local Development Authority notes	56,998	$ 53,288	$ 53,919		
Local Development Authority bonds	55,410	51,888	48,242	$ 8,586	$ 7,406
Tennessee Housing Development Agency bonds	1,952,295	1,972,561	2,316,748	2,140,486	2,015,181
Tennessee Housing Development Agency notes	88,720	3,250	3,672	3,250	
Veterans' Homes Board loan	6,231	5,953	5,936	5,657	5,310
Tennessee State School Bond Authority bonds	696,340	945,461	1,075,004	1,487,945	1,423,166
Tennessee State School Bond Authority commercial paper	243,229	174,300	281,782	162,653	253,676
University of Tennessee notes	260	235	211	184	167
University of Tennessee bonds	86,518	85,118	83,644	82,089	80,449
Board of Regents notes	2,597	2,478	2,222	2,098	1,987
Board of Regents bonds	0	800	700	600	500
Board of Regents commercial paper	1,668	4,161	6,431	4,363	4,271
	$ 3,199,560	$ 3,299,493	$ 3,878,511	$ 3,897,911	$ 3,792,113

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2012 and 2011

Schedule 5

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
Taxes:		
Sales and use	$ 2,815,903	$ 2,649,385
Gasoline	8,889	9,205
Motor fuel	3,052	2,998
Gasoline inspection	3,672	3,760
Total fuel taxes	15,613	15,963
Franchise	620,012	449,290
Excise	1,012,879	906,912
Gross receipts	377,375	348,181
Beer	15,109	15,716
Alcoholic beverage	41,900	47,569
Mixed drink	32,051	28,439
Tobacco	30,224	19,628
Business	127,513	121,900
Insurance companies premium	622,850	648,402
Retaliatory	23,265	34,158
Workers compensation premium	41,774	37,572
Enhanced coverage	449,772	349,301
Medicaid provider	11,453	12,258
Other	2,637	2,423
Total business taxes	3,408,814	3,021,749
Income	185,151	184,114
Privilege	246,925	220,484
Inheritance and estate	161,246	111,618
Other	193	(457)
Total other taxes	593,515	515,759
Total taxes	6,833,845	6,202,856
Licenses, fines, fees and permits:		
Motor vehicle registration	43,203	42,897
Motor vehicle title registration fees	9,337	8,352
Drivers licenses	25,613	24,304
Arrests, fines and fees	8,043	7,219
Regulatory board fees	123,520	126,773
Other	119,618	90,208
Total licenses, fines, fees and permits	329,334	299,753
Interest on investments	7,059	10,012
Federal - earned by state departments	9,967,880	10,437,678
Departmental services:		
Charges to the public	323,009	306,440
Interdepartmental charges	1,034,051	1,331,904
Charges to cities, counties, etc.	576,174	541,422
Total departmental services	1,933,234	2,179,766
Other	240,558	202,975
Total revenues by source	$ 19,311,910	$ 19,333,040

State of Tennessee

Comparative Schedules of Expenditures by Function and Department

General Fund

For the Fiscal Years Ended June 30, 2012 and 2011

Schedule 6

(Expressed in Thousands)

Expenditures by function and department	For the Year Ended June 30, 2012	June 30, 2011
General government:		
Legislative	$ 38,594	$ 36,937
Secretary of State	37,941	38,521
Comptroller	84,903	79,039
Treasurer	46,065	47,835
Governor	4,596	4,011
Commissions	73,393	75,510
Finance and Administration	137,676	120,194
Personnel	-	12,067
General Services	25,078	19,412
Revenue	102,683	105,265
Miscellaneous Appropriations	308	206
Total general government	551,237	538,997
Health and social services:		
Veterans Affairs	5,298	4,848
Labor and Workforce Development	206,583	232,262
TennCare	9,588,260	8,967,960
Mental Health	291,459	275,944
Intellectual Disabilities	453,886	803,807
Health	514,325	526,580
Human Services	3,082,173	3,202,879
Cover Tennessee	-	202,281
Children's Services	666,015	656,778
Total health and social services	14,807,999	14,873,339
Law, justice and public safety:		
Judicial	289,884	281,756
Correction	707,399	654,609
Probation and Paroles	86,447	86,120
Military	208,749	139,516
Bureau of Criminal Investigation	65,224	63,832
Safety	165,101	169,026
Total law, justice and public safety	1,522,804	1,394,859
Recreation and resources development:		
Agriculture	83,819	73,262
Tourist Development	18,848	17,915
Environment and Conservation	227,742	251,650
Economic and Community Development	210,591	173,184
Total recreation and resources development	541,000	516,011
Regulation of business and professions:		
Commerce and Insurance	72,763	73,025
Financial Institutions	14,093	16,058
Total regulation of business and professions	86,856	89,083
Intergovernmental revenue sharing	561,585	533,237
Total expenditures by function and department	$ 18,071,481	$ 17,945,526

STATISTICAL SECTION

STATISTICAL SECTION

This part of the State of Tennessee's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the state's overall financial health.

<u>**Contents**</u> <u>**Page**</u>

Financial Trends **200**

These schedules contain trend information to help the reader understand how the state's financial performance and well-being have changed over time.

Revenue Capacity **208**

These schedules contain information to help the reader assess the state's most significant local revenue sources, the sales tax.

Debt Capacity **210**

These schedules present information to help the reader assess the affordability of the state's current levels of outstanding debt and the state's ability to issue additional debt in the future.

Demographic and Economic Information **212**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the state's financial activities take place.

Operating Information **213**

These schedules contain service and infrastructure data to help the reader understand how the information in the state's financial report relates to the services the state provides and the activities it performs.

Component Units **215**

These schedules contain debt information related to the University of Tennessee and the Tennessee Board of Regent's institutions – component units of the state. The schedules assist in understanding the resources available to pay debt service.

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Page references for Securities and Exchange Commission disclosures contained in this report.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement 34 in fiscal year ended June 30, 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET ASSETS
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2003	2004	2005	2006
Expenses				
Governmental activities:				
General government	$ 510,674	$ 546,996	$ 596,016	$ 705,897
Education	4,520,624	4,692,605	5,158,369	5,449,613
Health and social services (5)	9,507,209	10,583,726	11,522,061	10,170,957
Law, justice, and public safety	968,859	1,032,302	1,090,779	1,214,957
Recreation and resources development (2)	376,734	479,251	423,342	466,689
Regulation of business and professions	64,109	81,940	113,902	86,945
Transportation	726,476	787,646	698,450	671,641
Intergovernmental revenue sharing	641,271	647,654	683,925	738,349
Interest on long-term debt	50,610	51,819	42,902	49,460
Payments to fiduciary fund				
Total governmental activities expenses	17,366,566	18,903,939	20,329,746	19,554,508
Business-type activities:				
Employment security (3)	767,202	639,993	476,646	452,043
Insurance programs	379,661	416,871	430,568	471,032
Loan programs	2,273	1,737	1,909	1,487
Other	1,802	2,037	2,498	2,496
Total business-type activities expenses	1,150,938	1,060,638	911,621	927,058
Total primary government expenses	$ 18,517,504	$ 19,964,577	$ 21,241,367	$ 20,481,566
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 273,503	$ 342,154	$ 380,679	$ 375,640
Education	15,922	16,966	13,568	26,785
Health and social services (1)	277,184	943,040	1,027,602	692,186
Law, justice, and public safety	336,115	313,386	316,337	374,715
Recreation and resources development	114,618	124,105	140,227	138,970
Regulation of business and professions	95,953	107,355	115,556	124,435
Transportation	13,339	13,636	15,494	15,118
Operating grants and contributions (4)	7,452,665	8,095,087	8,777,283	8,314,981
Capital grants and contributions	568,221	503,539	520,090	615,584
Total governmental activities program revenues	9,147,520	10,459,268	11,306,836	10,678,414
Business-type activities:				
Charges for services:				
Employment security	437,378	523,372	463,385	381,600
Insurance programs	385,384	422,584	462,441	479,515
Loan programs	12,590	12,733	12,878	12,970
Other	1,998	2,111	2,593	2,803
Operating grants and contributions (4)	256,444	208,296	100,536	131,043
Total business-type activities program revenues	1,093,794	1,169,096	1,041,833	1,007,931
Total primary government program revenues	$ 10,241,314	$ 11,628,364	$ 12,348,669	$ 11,686,345
Net (Expense)/Revenue				
Governmental activities	$ (8,219,046)	$ (8,444,671)	$ (9,022,910)	$ (8,876,094)
Business-type activities	(57,144)	108,458	130,212	80,873
Total primary government net expense	$ (8,276,190)	$ (8,336,213)	$ (8,892,698)	$ (8,795,221)

Schedule 1

(continued on next page)

FOR THE FISCAL YEAR ENDED JUNE 30,					
2007	2008	2009	2010	2011	2012
$ 738,897	$ 837,250	$ 988,309	$ 1,078,294	$ 1,048,423	$ 942,465
5,884,841	6,464,564	6,520,569	6,893,801	7,127,705	7,018,189
10,448,373	11,125,967	11,697,900	12,849,335	13,739,733	13,952,342
1,221,175	1,325,500	1,338,869	1,365,134	1,436,045	1,567,730
485,852	613,902	538,386	499,080	606,317	646,494
129,107	123,391	126,003	132,784	127,887	126,395
835,751	808,591	979,454	1,010,029	911,666	1,012,399
815,832	842,096	810,063	874,094	825,777	851,535
50,003	51,086	51,977	60,566	63,555	62,119
25,950			19,747	63,114	58,453
20,635,781	22,192,347	23,051,530	24,782,864	25,950,222	26,238,121
467,327	541,573	1,427,713	2,135,537	1,613,716	1,232,324
413,483	469,491	514,065	557,371	552,626	540,746
1,473	1,655	1,345	1,406	1,561	1,757
2,595	2,744	2,265	1,385	25	620
884,878	1,015,463	1,945,388	2,695,699	2,167,928	1,775,447
$ 21,520,659	$ 23,207,810	$ 24,996,918	$ 27,478,563	$ 28,118,150	$ 28,013,568
$ 524,306	$ 672,892	$ 753,066	$ 778,352	$ 856,264	$ 673,945
34,819	35,405	35,124	44,813	50,052	56,898
521,508	548,570	615,871	499,694	724,971	772,850
130,885	117,536	122,064	121,201	120,137	125,879
153,048	142,128	142,657	141,278	139,302	151,545
142,805	143,646	151,095	148,788	149,090	168,590
22,542	18,778	15,936	28,322	29,769	29,601
8,481,473	8,612,838	9,758,691	12,076,579	12,677,291	11,897,517
708,384	600,404	592,719	782,188	901,798	903,281
10,719,770	10,892,197	12,187,223	14,621,215	15,648,674	14,780,106
356,064	413,741	585,668	710,113	754,108	769,446
438,275	480,803	504,130	525,662	547,207	542,756
13,803	15,137	15,684	16,584	17,350	15,600
2,644	2,324	1,543	1,043	206	133
116,569	124,576	508,249	1,482,113	1,035,693	749,005
927,355	1,036,581	1,615,274	2,735,515	2,354,564	2,076,940
$ 11,647,125	$ 11,928,778	$ 13,802,497	$ 17,356,730	$ 18,003,238	$ 16,857,046
$ (9,916,011)	$ (11,300,150)	$ (10,864,307)	$ (10,161,649)	$ (10,301,548)	$ (11,458,015)
42,477	21,118	(330,114)	39,816	186,636	301,493
$ (9,873,534)	$ (11,279,032)	$ (11,194,421)	$ (10,121,833)	$ (10,114,912)	$ (11,156,522)

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN NET ASSETS (continued)
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2003	2004	2005	2006
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Sales and use	$ 5,478,642	$ 5,806,268	$ 6,099,159	$ 6,540,224
Fuel	813,554	829,372	846,826	851,362
Business (6)	1,981,099	2,099,081	2,311,448	2,507,653
Other	425,099	526,573	514,938	598,827
Grants and contributions not restricted to specific programs	149,746	152,676	46,807	
Unrestricted investment earnings	11,582	12,079	30,361	81,287
Miscellaneous	230,770	207,653	209,226	185,466
Contributions to permanent funds	381	351	468	369
Transfers	(18,881)	(18,829)	(21,062)	(22,783)
Total governmental activities	9,071,992	9,615,224	10,038,171	10,742,405
Business-type activities:				
Transfers	18,881	18,829	21,062	22,783
Total business-type activities	18,881	18,829	21,062	22,783
Total primary government general revenues and other changes in net assets	$ 9,090,873	$ 9,634,053	$ 10,059,233	$ 10,765,188
Changes in Net Assets				
Governmental activities	$ 852,946	$ 1,170,553	$ 1,015,261	$ 1,866,311
Business-type activities	(38,263)	127,287	151,274	103,656
Total primary government	$ 814,683	$ 1,297,840	$ 1,166,535	$ 1,969,967

(1) The increase in program revenues of the health and social services function between fiscal years 2003 and 2004 resulted from the reclassification of certain revenues from operating grants and contributions to charges for services. The effect of the decrease in operating grants and contributions was neutralized by an increase in federal funding to the Tenncare program to compensate for rising healthcare costs.

(2) The increase in expenses of the recreation and resources development function between fiscal years 2007 and 2008 resulted from the acquisition of conservation easements for wilderness protection.

(3) The increase in expenses of the Employment security program between fiscal years 2008 and 2009 was due to a significant increase in the demand for unemployment benefits. Between 2010 and 2011, continued weeks unemployment claims decreased resulting in a significant decrease in expenses in the Employment security program.

(4) The significant increase in operating grants and contributions revenue for both governmental and business-type activities between fiscal years 2008 and 2009 was due to the increase in federal funds received as a result of the American Recovery and Reinvestment Act. The decline in operating grants for business-type activities between 2010 and 2011 was due to a significant decline in continued weeks unemployment claims. The rise in operating grants and contributions from fiscal year 2010 to 2011 for governmental activities was due to the increase in federal funds for reimbursement of medical and pharmacy costs which increased significantly.

(5) From fiscal years 2010 to 2011, expenses for health and social services have increased due to rising medical and pharmacy program costs.

(6) A new dedicated hospital coverage assessment to fund the TennCare program resulted in an increase in the Business taxes from 2010 to 2011.

FOR THE FISCAL YEAR ENDED JUNE 30,					
2007	2008	2009	2010	2011	2012
$ 6,819,570	$ 6,851,481	$ 6,326,857	$ 6,170,977	$ 6,461,461	$ 6,884,762
867,520	865,181	817,873	874,511	846,384	842,133
2,799,751	2,913,227	2,671,226	2,944,465	3,536,200	3,926,566
734,026	734,029	563,501	504,750	525,192	608,762
113,940	120,523	42,883	7,245	4,602	772
250,344	275,499	226,907	195,414	217,630	253,489
270	239	217	196	180	174
(5,028)	(4,110)	(3,541)	(3,608)	(2,134)	(4,655)
11,580,393	11,756,069	10,645,923	10,693,950	11,589,515	12,512,003
5,028	4,110	3,541	3,608	2,134	4,655
5,028	4,110	3,541	3,608	2,134	4,655
$ 11,585,421	$ 11,760,179	$ 10,649,464	$ 10,697,558	$ 11,591,649	$ 12,516,658
$ 1,664,382	$ 455,919	$ (218,384)	$ 532,301	$ 1,287,967	$ 1,053,988
47,505	25,228	(326,573)	43,424	188,770	306,148
$ 1,711,887	$ 481,147	$ (544,957)	$ 575,725	$ 1,476,737	$ 1,360,136

STATE OF TENNESSEE
FINANCIAL TRENDS - NET ASSETS BY COMPONENT
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	$ 18,119,735	$ 18,691,308	$ 19,406,978	$ 20,204,007
Restricted	703,010	843,889	580,840	725,209
Unrestricted (1)(2)(3)	288,523	743,586	1,306,226	2,204,315
Total governmental activities net assets	19,111,268	20,278,783	21,294,044	23,133,531
Business-type activities				
Invested in capital assets, net of related debt				
Unrestricted	1,232,628	1,359,915	1,511,189	1,614,845
Total business-type activities net assets	1,232,628	1,359,915	1,511,189	1,614,845
Primary Government				
Invested in capital assets, net of related debt	18,119,735	18,691,308	19,406,978	20,204,007
Restricted	703,010	843,889	580,840	725,209
Unrestricted	1,521,151	2,103,501	2,817,415	3,819,160
Total primary government net assets	$ 20,343,896	$ 21,638,698	$ 22,805,233	$ 24,748,376

(1) The increase in unrestricted net assets between fiscal years 2004 and 2005 is attributable, in part, to the implementation of GASB Statement 46 which caused a reduction in restricted net assets. In addition, because the state lottery was operational for only six months during fiscal year 2004, fewer funds were restricted for lottery scholarships when compared fiscal year 2005.

(2) The increase in unrestricted net assets between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net assets resulting from governmental activities, specifically those activities associated with the General fund, which had a $698 million and $662 million increase in fund balance for 2006 and 2007, respectively.

(3) The decrease in unrestricted net assets between fiscal years 2008 and 2009 was mostly attributable to the decrease in cash and cash equivalents caused by a reduction in revenue collections from business and sales taxes and interest on investments.

Schedule 2

FOR THE FISCAL YEAR ENDED JUNE 30,					
2007	2008	2009	2010	2011	2012
$ 21,078,481	$ 21,796,151	$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600
792,542	864,270	965,292	924,902	1,179,519	1,172,812
2,964,957	2,631,478	1,495,656	1,284,192	1,330,947	1,183,704
24,835,980	25,291,899	25,036,800	25,569,101	26,856,959	27,985,116
	51				
1,643,706	1,668,883	1,342,361	1,385,785	1,574,664	1,880,812
1,643,706	1,668,934	1,342,361	1,385,785	1,574,664	1,880,812
21,078,481	21,796,202	22,575,852	23,360,007	24,346,493	25,628,600
792,542	864,270	965,292	924,902	1,179,519	1,172,812
4,608,663	4,300,361	2,838,017	2,669,977	2,905,611	3,064,516
$ 26,479,686	$ 26,960,833	$ 26,379,161	$ 26,954,886	$ 28,431,623	$ 29,865,928

STATE OF TENNESSEE
FINANCIAL TRENDS - FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$ 19,343	$ 18,609
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100,942	63,192
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	235,301	286,918
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,179,652	1,250,677
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	507,501	698,663
Total general fund									$ 2,042,739	$ 2,318,059
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$ 144,426	$ 147,468
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	951,222	980,972
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	191,557	344,696
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	710,582	672,610
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Total all other governmental funds									$ 1,997,787	$ 2,145,746

(1) The schedule was changed due to the implementation of GASB 54, which reclassifies fund balance into the five following categories: nonspendable, restricted, committed, assigned, and unassigned. It was determined that Statistical Schedule 3 would not be restated for the years prior to 2011.

STATE OF TENNESSEE
FINANCIAL TRENDS - CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes	$ 8,608,984	$ 9,272,267	$ 9,819,155	$ 10,488,650	$ 11,249,773	$ 11,333,507	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198
Licenses, fines, fees, and permits	567,243	590,627	624,694	637,522	660,888	672,486	677,766	675,009	693,702	731,752
Interest on investments	28,429	34,102	46,222	102,075	178,080	127,152	23,964	36,443	45,089	17,411
Federal (2)	7,646,384	8,417,534	8,988,687	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256
Departmental services	1,716,159	2,071,252	2,360,891	2,238,968	2,233,450	2,339,870	2,352,198	2,195,707	2,335,508	2,077,429
Other	384,536	488,769	502,074	491,064	537,816	570,634	535,534	519,936	513,919	595,305
Total revenues	18,951,735	20,874,551	22,341,723	22,527,011	23,623,309	23,850,685	23,978,950	26,344,100	28,072,953	28,036,351
Expenditures										
Current:										
General government	392,747	400,069	425,243	530,637	555,545	617,056	581,364	558,013	563,195	575,919
Education	4,432,071	4,630,294	5,100,147	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619
Health and social services	10,342,682	11,308,871	12,518,297	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403	14,873,339	14,807,999
Law, justice, and public safety	970,042	1,042,510	1,109,819	1,216,756	1,275,402	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766
Recreation and resources development	442,915	479,243	491,681	544,744	525,885	707,866	599,885	555,717	682,531	705,043
Regulation of business and professions	71,109	88,580	119,620	92,888	134,955	129,688	131,614	139,200	136,644	135,877
Transportation	1,357,941	1,318,913	1,411,906	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822	1,882,068	1,952,887
Intergovernmental revenue sharing	641,271	647,654	683,925	738,349	815,832	842,096	810,063	874,094	825,777	851,535
Debt service:										
Principal	78,108	80,243	89,474	86,532	81,790	79,107	83,960	101,804	112,234	115,935
Interest	47,964	49,956	43,455	49,319	50,363	51,872	52,110	64,344	68,496	65,471
Debt issuance costs	650	1,945	2,159	1,082	1,173	980	4,362	4,837	4,363	4,793
Capital outlay	132,949	128,167	119,730	253,229	343,712	359,118	472,451	485,937	391,519	483,279
Total expenditures	18,910,449	20,176,445	22,115,456	21,617,892	22,764,346	24,141,752	24,850,865	26,601,596	27,919,427	28,056,123
Revenues over (under) expenditures	41,286	698,106	226,267	909,119	858,963	(291,067)	(871,915)	(257,496)	153,526	(19,772)
Other Financing Sources (Uses)										
Capital lease										
Bonds and commercial paper issued	95,195	206,933	52,979	228,409	196,290	340,021	601,664	415,033	307,318	637,868
Notes/Commercial paper redeemed	(3,900)	(155,796)		(109,908)	(103,498)	(129,333)	(273,443)	(155,973)	(155,382)	(201,235)
Insurance claim recoveries				1,670	4,013	2,361	251			2,734
Premium on bond sale		6,485		2,485	2,049	2,760	30,147	26,358	11,132	37,069
Refunding bonds issued (3)			355,053				91,536	43,985	43,014	464,809
Refunding bond premium (3)			31,929				10,670		2,122	88,775
Refunding payment to escrow (3)			(386,261)				(101,707)	(43,985)	(44,816)	(552,898)
Other								21,146	52,741	
Proceeds from pledged revenue										58,453
Transfers in (1)	679,743	661,064	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701
Transfers out (1)	(708,252)	(691,729)	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)
Total other financing sources (uses)	62,786	26,957	450	48,391	13,680	169,015	299,864	259,814	108,907	454,876
Net Change in Fund Balances	$ 104,072	$ 725,063	$ 226,717	$ 957,510	$ 872,643	$ (122,052)	$ (572,051)	$ 2,318	$ 262,433	$ 435,104
Debt Service as a Percentage of Noncapital Expenditures	0.6937%	0.6691%	0.6241%	0.6566%	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	0.6738%

(1) The increase in transfers in and transfers out between 2007 and 2008 was due to transfers from the General fund to the Education Trust fund for an increase in appropriation requirements and to the Capital Projects fund for capital outlay appropriations.

(2) The increase in federal revenue between 2009 and 2010 is the result of funding provided by the American Recovery and Reinvestment Act.

(3) The state issued approximately $500 million more in refunding bonds in FY 2012 than in the prior year resulting in significant increases to refunding bonds issued, premiums and payments ot escrow.

Schedule 5

STATE OF TENNESSEE
REVENUE CAPACITY - TAXABLE SALES BY CLASSIFICATION
LAST TEN CALENDAR YEARS
(expressed in millions)

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Auto dealers	$ 8,835	$ 9,431	$ 9,444	$ 9,430	$ 9,390	$ 9,505	$ 7,941	$ 6,728	$ 7,682	$ 8,371
Purchases from manufacturers	3,652	3,933	4,150	4,803	4,679	4,745	4,497	3,492	3,657	4,066
Miscellaneous durable goods	12,271	12,892	14,183	15,845	17,209	17,441	16,346	13,745	14,495	15,590
Eating and drinking places	6,564	6,915	7,454	7,960	8,464	8,884	8,984	8,851	9,068	9,513
Food stores	7,983	7,851	7,937	8,195	8,419	8,983	9,165	9,401	9,468	9,745
Liquor stores	408	433	458	495	548	594	636	657	685	726
Hotels and motels	1,777	1,821	1,881	2,044	2,218	2,354	2,312	2,037	2,065	2,359
Other retail and service	21,994	23,174	24,243	25,760	27,089	28,484	28,715	27,268	27,785	29,450
Miscellaneous nondurable goods	6,262	6,282	6,564	7,068	7,335	7,805	7,831	7,410	7,685	8,084
Transportation, communication	5,722	6,016	6,411	6,683	7,356	7,694	7,916	7,736	6,934	7,051
Total taxable sales	$ 75,468	$ 78,748	$ 82,725	$ 88,283	$ 92,707	$ 96,489	$ 94,343	$ 87,325	$ 89,524	$ 94,955

Source: University of Tennessee Economic Report to the Governor

Schedule 6

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX RATES
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	6.00%	6.00%	6.00%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%
Energy fuels used by manufacturers and nurserymen	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	3.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Aircraft exceeding $100,000 sales price	3.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cable and wireless TV (between $15 and $27.50) and satellite services	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	N/A	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Source: State of Tennessee Budget; Department of Finance and Administration, Division of Budget
Note: N/A - Not applicable because this item was not specifically identified with a rate separate from the general rate.

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX COLLECTIONS BY TAXPAYER CLASSIFICATION
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retail:										
Building materials	$ 271,969	$ 328,562	$ 363,952	$ 405,812	$ 423,160	$ 391,271	$ 333,737	$ 311,332	$ 316,016	$ 355,263
General merchandise	654,071	712,426	735,074	767,584	820,549	829,576	810,503	799,387	817,350	840,896
Food stores	478,857	485,947	494,466	508,497	526,981	529,977	520,280	510,104	517,420	539,402
Auto dealers and service stations	751,167	820,454	815,985	817,689	856,109	835,035	672,112	690,797	760,119	830,875
Apparel and accessory stores	160,688	177,017	185,683	194,946	200,131	200,745	191,132	191,110	194,172	205,480
Furniture and home furnishings	189,506	209,525	222,089	238,475	246,569	244,312	215,352	207,398	214,575	224,096
Eating and drinking places	435,505	486,680	518,689	547,547	585,490	605,544	596,893	598,562	615,741	653,210
Miscellaneous retail stores	443,114	491,443	508,694	550,340	580,936	597,649	568,197	560,527	578,884	613,097
Total retail	3,384,877	3,712,054	3,844,632	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319
Services:										
Hotels and lodging places	118,247	124,795	131,675	142,333	154,081	160,909	146,253	137,973	144,129	160,868
Personal services	47,623	51,845	49,818	49,375	51,099	51,151	46,564	46,777	46,923	47,932
Business services	189,019	199,677	218,799	234,810	245,387	254,506	239,143	224,044	236,982	249,083
Auto repair, services, and parking	153,418	163,687	159,935	163,710	174,680	173,481	157,972	153,781	160,268	176,923
Miscellaneous repair services	21,914	23,606	24,873	27,100	28,387	28,441	25,321	22,801	23,189	24,384
Motion pictures	20,868	23,244	22,851	22,282	22,178	21,498	21,512	19,803	17,794	18,972
Amusement services	45,116	49,106	50,854	54,629	59,578	59,636	58,225	57,636	60,071	63,922
Health services	9,137	10,818	11,139	11,710	13,123	13,676	14,228	14,305	13,683	15,122
Other services	23,503	26,747	31,025	34,282	34,400	37,740	43,434	36,802	40,752	42,200
Total services	628,845	673,525	700,969	740,231	782,913	801,038	752,652	713,922	743,791	799,406
Non-retail, non-services:										
Agriculture, forestry, fishing	5,133	5,812	5,968	6,920	7,261	7,451	7,381	7,312	7,259	7,257
Mining	4,126	5,286	5,073	5,635	6,302	7,117	6,126	5,933	5,741	6,491
Construction	38,168	42,275	42,640	48,540	54,075	59,119	52,415	44,038	48,503	49,782
Manufacturing	236,163	261,260	289,494	312,570	305,558	299,223	256,995	225,530	241,844	255,062
Transportation	22,856	26,895	36,239	42,825	46,688	53,866	69,930	34,556	38,345	43,525
Communications	361,677	398,105	385,544	442,837	457,116	475,675	477,281	443,576	430,847	416,347
Electric, gas, and sanitary services	149,710	163,358	174,794	194,574	203,789	215,552	236,692	215,020	237,479	239,531
Wholesale trade	280,882	321,014	349,023	418,607	451,777	450,898	393,100	361,217	398,111	438,113
Finance, insurance, real estate	12,376	11,396	11,037	12,899	17,830	17,908	12,981	17,766	14,027	13,847
Total non-retail, non-services	1,111,091	1,235,401	1,299,812	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955
County Clerk	94,705	108,781	112,753	114,767	126,081	125,355	101,136	110,328	120,986	134,188
Consumer Use Tax	104,786	4,647	5,313	7,545	5,071	4,641	5,250	4,322	4,695	6,334
Flood Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,649)	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(121)
Grand Total	$ 5,324,304	$ 5,734,408	$ 5,963,479	$ 6,378,840	$ 6,704,386	$ 6,751,952	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,672,081

Source: Revenue Collections Reports, Tennessee Department of Revenue
Notes: N/A means not available.
Disaster relief includes May 2010 flood tax rebate, April 2011 disaster relief, and sales tax rebate on storm shelters.

STATE OF TENNESSEE
DEBT CAPACITY - RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(expressed in thousands; except for per capita)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities debt:										
General obligation bonds	$ 1,047,531	$ 1,141,026	$ 1,044,830	$ 1,096,765	$ 1,115,488	$ 1,175,403	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602
General obligation bond anticipation notes										
General obligation commercial paper	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770
Capital leases	788	1,008	1,229	3,619	3,943	11,743	10,810	16,301	15,503	14,666
Total governmental activities debt	1,250,119	1,224,809	1,214,634	1,245,009	1,250,255	1,427,772	1,726,060	1,946,511	1,983,928	2,325,038
Business-type activities debt:										
General obligation bonds	11,070	8,071	5,232	3,378	2,534	1,655	-	-	-	-
Total business-type activities debt	11,070	8,071	5,232	3,378	2,534	1,655	-	-	-	-
Total primary government debt	$ 1,261,189	$ 1,232,880	$ 1,219,866	$ 1,248,387	$ 1,252,789	$ 1,429,427	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038
Debt Ratios										
Personal income	$ 165,402,000	$ 174,741,000	$ 184,637,000	$ 195,085,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	N/A
Ratio of total debt to personal income	0.76%	0.71%	0.66%	0.64%	0.61%	0.67%	0.79%	0.87%	0.85%	
Population	5,842	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403	N/A
Net general bonded debt per capita	$ 216	$ 209	$ 205	$ 206	$ 203	$ 228	$ $270	$ $304	$ $307	
General Bonded Debt:										
General obligation bonds	$ 1,058,601	$ 1,149,097	$ 1,050,062	$ 1,100,143	$ 1,118,022	$ 1,177,058	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602
General obligation bond anticipation notes										
General obligation commercial paper	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770
Assets restricted for debt principal							(14,509)			
Total net bonded debt	$ 1,260,401	$ 1,231,872	$ 1,218,637	$ 1,244,768	$ 1,248,846	$ 1,417,684	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	65.48%	70.45%	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%	41.09%	41.65%

Source: State of Tennessee Comprehensive Annual Financial Report
and the University of Tennessee Economic Report to the Governor
Notes: (1) N/A - not available because the source did not provide the data.
(2) See Schedule 10 for personal income and population data.
(3) Details of the state's debt can be found in Note 5H in the basic financial statements.

STATE OF TENNESSEE
DEBT CAPACITY - LEGAL DEBT SERVICE MARGIN INFORMATION
LAST TEN FISCAL YEARS
(expressed in thousands)

Calculation of 2012 pledged revenues:	Collections for Fiscal Year 2012: Portion Pledged	Collections for Fiscal Year 2012: All Governmental Fund Types	Fiscal Year 2012 Pledged Amount
Gasoline tax	25%	$ 617,991	$ 154,498
Petroleum products fee	100%	63,402	63,402
Motor vehicle registration fee	50%	212,924	106,462
Franchise tax	100%	638,012	638,012
		$ 1,532,329	$ 962,374

Pledged amount	$ 962,374
Legal debt service limit (pledged amount/150%)	641,583
Less: 2012 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds	209,820
Legal debt service margin	$ 431,763

FOR THE FISCAL YEAR ENDED JUNE 30,

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	$ 550,211	$ 578,609	$ 594,778	$ 628,010	$ 673,748	$ 673,070	$ 525,905	$ 489,075	$ 557,098	$ 641,583
Total net debt service applicable to limit	148,079	143,702	155,215	148,033	145,975	145,721	154,803	186,684	203,866	209,820
Legal debt service margin	$ 402,132	$ 434,907	$ 439,563	$ 479,977	$ 527,773	$ 527,349	$ 371,102	$ 302,391	$ 353,232	$ 431,763
Legal debt service margin as a percentage of the debt limit	73.09%	75.16%	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%	63.41%	67.30%

Schedule 10

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST TEN CALENDAR YEARS
(expressed in thousands; except per capita)

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403 (est)
Total personal income	$ 159,173,000	$ 165,622,000	$ 174,727,000	$ 184,567,000	$ 195,656,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000
Per capita personal income	$ 27,434	$ 28,377	$ 29,761	$ 31,127	$ 32,474	$ 33,746	$ 34,995	$ 35,065	$ 36,489	$ 38,233
Unemployment rate	5.2%	5.5%	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%	9.4%	9.1%

Source: Population from www.census.gov
All other from the University of Tennessee Economic Report to the Governor
Note: N/A means not available.

Schedule 11

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION - EMPLOYMENT BY INDUSTRY
PRIOR YEAR AND NINE YEARS AGO

	2011			2002		
Industry	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment
Trade, Transportation, and Utilities	557,700	1	21.14%	577,000	1	21.65%
Government	427,100	2	16.19%	410,200	3	15.39%
Education and Health Services	380,700	3	14.43%	300,100	4	11.26%
Professional and Business Services	313,800	4	11.89%	296,400	5	11.12%
Manufacturing	300,100	5	11.38%	428,500	2	16.08%
Leisure and Hospitality	264,700	6	10.03%	239,900	6	9.00%
Financial Activities	138,400	7	5.25%	138,200	7	5.19%
Natural Resources, Mining, and Construction	110,500	8	4.19%	119,500	8	4.48%
Other Services	100,800	9	3.82%	101,600	9	3.81%
Information	44,300	10	1.68%	53,300	10	2.00%
Total	2,638,100		100.00%	2,664,700		100.00%
	Calendar Year 2011			Calendar Year 2002		
Total State Employment	2,845,020			2,715,040		

Source: An Economic Report to the Governor of the State of Tennessee January 2012
and the Tennessee Department of Labor and Workforce Development

Note: TCA 50-7-701 states, "Information thus obtained pursuant to the administration hereof shall be held confidential and shall not be published or be open to public inspection in any manner revealing the individual's or the employing unit's identity." This TCA prohibits the release of principal employer information from the Tennessee Department of Labor and Workforce Development. The above schedule is being presented as an alternative to the principal employer schedule.

Schedule 12

STATE OF TENNESSEE
OPERATING INFORMATION - FULL TIME EMPLOYEES BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	4,163	4,254	4,394	4,671	4,964	5,040	4,947	4,866	4,786	4,705
Education	966	1,014	1,028	1,025	1,070	1,206	1,157	1,193	1,154	1,128
Health and social services (1)	19,144	19,255	20,431	21,246	21,208	20,990	19,704	19,241	17,917	17,453
Law, justice and public safety	10,569	10,691	10,922	10,987	10,843	11,004	10,530	10,629	10,534	10,592
Recreation and resources development	3,689	3,762	3,757	3,846	3,885	3,901	3,698	3,640	3,564	3,515
Regulation of business and professions	668	680	718	738	776	754	708	717	714	706
Transportation	4,528	4,460	4,454	4,448	4,380	4,294	4,167	4,326	3,940	3,809
Total	43,727	44,116	45,704	46,961	47,126	47,189	44,911	44,612	42,609	41,908

Source: Department of Human Resources

(1) In 2005, in the Department of Human Services, a TennCare appeals unit, and three new family assistance service centers were established.

Schedule 13

STATE OF TENNESSEE
OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Motor pool vehicles	7,701	7,785	6,689	7,067	7,276	7,392	7,562	7,536	7,621	6,530
Buildings	61	61	108	107	107	107	107	107	109	110
Machinery and equipment	3,581	3,861	3,634	3,637	3,586	3,528	3,166	3,888	4,061	4,121
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	223	228	244	219	209	240	242	260	249	307
Health and social services										
Buildings	391	388	342	340	339	329	320	320	316	314
Machinery and equipment	1,973	1,964	2,031	2,142	2,303	2,443	2,462	2,856	2,600	2,862
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	19	19	19	19
Armories	90	86	86	86	86	83	83	83	83	83
Machinery and equipment	1,882	2,009	2,352	2,532	2,586	3,103	3,156	3,732	4,424	4,506
Recreation and resources development										
Acreage of state parks	158,581	158,723	164,251	164,399	164,537	165,486	173,878	163,032	173,382	191,563
Machinery and equipment	2,093	2,185	2,295	2,476	2,543	2,729	2,736	2,949	2,912	3,075
Regulation of business and professions										
Machinery and equipment	68	82	93	104	138	147	140	148	146	151
Transportation										
State highways (in miles)	14,107	14,289	14,151	14,163	13,835	13,887	13,882	13,871	13,867	13,877
Bridges, state and local highways	19,493	19,621	19,646	19,432	19,515	19,563	19,536	19,595	19,595	19,659
Facilities	120	120	122	122	122	122	122	122	122	122
Buildings	671	682	710	713	717	708	708	708	754	754

STATE OF TENNESSEE
OPERATING INFORMATION - OPERATING INDICATORS
FOR THE LAST TEN FISCAL YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Tax returns processed (1)	1,999,458	2,225,891	2,013,809	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798	3,538,518	3,670,716
New corporate charters registered	11,563	11,826	12,103	11,807	11,726	10,745	11,073	11,724	9,717	9,618
Investment return on total portfolio	1.64%	1.11%	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%	0.12%	0.12%
Residential and commercial property reappraisals completed	256,916	265,373	1,441,168	554,798	336,050	255,250	511,050	677,720	525,516	185,965
Education										
Number of public schools (K-12)	1,659	1,677	1,693	1,699	1,714	1,718	1,736	1,736	1,736	1,784
Enrollment of public schools (K-12)	973,170	973,626	976,574	991,489	925,898	929,543	930,525	933,703	934,246	935,317
Number of high school graduates from public schools	48,341	50,203	51,436	53,960	54,191	57,486	60,371	62,526	62,147	
Health and social services										
TennCare enrollees	1,287,600	1,336,700	1,213,800	1,187,500	1,191,233	1,208,871	1,233,208	1,199,611	1,208,527	1,213,521
Food stamp recipients	692,300	791,695	833,687	870,304	861,979	902,500	1,094,500	1,044,900	1,290,200	1,200,000
Percentage of population (4)	11.85%	13.43%	13.98%	14.41%	14.00%	14.52%	17.38%	16.60%	20.33%	18.74%
Temporary assistance recipients	68,300	73,158	72,676	70,108	64,684	60,000	60,000	58,000	61,500	57,000
Percentage of population (4)	1.17%	1.24%	1.22%	1.16%	1.05%	0.97%	0.95%	0.92%	0.97%	0.89%
Children in state custody (2)	10,345	10,869	10,467	9,700	9,048	8,149	7,202	7,336	7,870	8,533
Percentage of population (4)	0.18%	0.18%	0.18%	0.16%	0.15%	0.13%	0.11%	0.12%	0.12%	0.13%
Mental health institutes average daily census	958	960	888	845	808	780	688	575	538	517
Law, justice and public safety										
Correctional institutions average daily census	18,170	19,117	19,141	19,119	26,573	26,998	27,325	27,164	27,782	29,231
Department of Safety citations issued	388,356	423,305	453,630	472,465	403,363	380,586	358,104	347,571	301,394	340,575
Drivers licenses issued	1,271,141	1,334,417	1,351,241	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722	1,409,342	1,714,905
Recreation and resources development										
Hunting/fishing licenses and boats registered	718,307	723,305	733,554	690,426 (est.)	718,397 (est.)	690,313	707,000	689,935	547,660	586,839
Wetland acres acquired	74,831	6,369	782	3,308 (est.)	891 (est.)	3,602	2,327	79	559	1,604
Number of visitors to state parks	26,878,838	26,702,434	27,604,112	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662	30,282,836	31,036,603
Air pollution monitoring sites	92	91	86	87	86	78	89	93	32	32
Regulation of business and professions										
Fire safety inspections		41,402		18,418	34,976	39,518	34,241	37,920	34,539	27,058
Consumer affairs written complaints		4,747		5,528	5,420	5,797	5,481	6,240	5,818	5,541
Transportation										
Lane miles resurfaced (3)	2,194	2,238	2,188	1,632	2,408	1,968	2,893	2,261	2,317	2,298
HELP program services provided	123,809	137,615	148,805	154,362	128,006	130,062	108,460	112,438	116,865	130,941

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, and unruly.
(3) Amounts are reported on a calendar year basis; the 2009 amount is through October 2009.
(4) Population figures used in calculating percentages are from schedule 10.
(5) Blank lines indicate that data is unavailable.

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 413,632	$ 409,612	-	$ 24,804
2004	417,191	406,033	75	24,508
2005	448,955	430,412	66	25,317
2006	484,786	440,014	56	23,896
2007	532,582	471,730	45	26,652
2008	565,963	510,261	35	33,177
2009	599,973	476,333	35	43,577
2010	648,298	493,304	12	43,998
2011	685,003	548,787	-	51,079
2012	584,147	411,729	-	49,835

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 127,638	$ 102,139	-	$ 6,334
2004	140,957	100,602	-	6,291
2005	151,536	106,393	-	5,609
2006	166,652	108,395	-	4,993
2007	177,082	116,006	-	6,013
2008	188,462	123,719	-	6,280
2009	195,365	114,524	-	8,914
2010	214,426	122,480	-	8,914
2011	237,768	133,514	-	8,839
2012	259,510	97,773	-	8,589

Austin Peay State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 42,577	$ 31,100	48	$ 1,516
2004	40,120	30,712	48	1,515
2005	44,332	32,216	-	2,242
2006	50,818	32,684	-	2,104
2007	56,119	34,977	-	2,253
2008	57,821	36,371	-	2,581
2009	62,358	33,427	-	3,512
2010	70,128	39,157	-	3,512
2011	78,214	36,102	-	3,531
2012	85,043	26,502	-	3,330

Middle Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 108,974	$ 82,144	-	$ 6,537
2004	126,161	81,057	-	6,540
2005	136,192	85,305	-	6,937
2006	149,759	86,971	-	6,455
2007	158,641	94,005	-	7,875
2008	168,872	100,859	-	8,011
2009	182,576	92,908	-	12,962
2010	199,352	101,836	-	12,962
2011	223,096	100,110	-	14,928
2012	234,159	74,071	-	14,780

East Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 76,414	$ 79,735	319	$ 2,608
2004	85,854	79,247	315	2,609
2005	92,599	83,221	312	2,824
2006	100,454	86,173	2,242	2,221
2007	107,798	91,709	2,070	2,895
2008	93,073	63,403	1,889	5,172
2009	103,738	58,723	1,699	9,489
2010	121,868	52,643	1,399	9,502
2011	129,854	62,962	1,399	9,229
2012	135,925	46,196	1,399	9,142

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 47,326	$ 34,988	-	$ 3,137
2004	54,375	34,569	-	3,136
2005	57,504	37,110	-	3,001
2006	59,847	37,864	-	2,893
2007	60,537	39,913	-	2,911
2008	85,505	41,775	-	3,506
2009	80,016	38,085	-	4,041
2010	85,831	44,400	-	4,041
2011	91,919	40,831	-	4,071
2012	97,171	28,782	-	4,056

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STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 45,293	$ 40,790	-	$ 415
2004	47,194	40,165	-	897
2005	52,138	42,742	-	1,168
2006	56,568	43,370	-	1,042
2007	61,679	46,012	-	1,242
2008	70,801	48,812	-	1,273
2009	76,045	47,577	-	1,786
2010	81,475	48,133	-	1,786
2011	89,100	50,616	-	3,104
2012	100,915	35,747	-	3,102

Dyersburg State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 4,010	$ 6,108	-	-
2004	5,219	6,035	-	-
2005	5,490	6,386	-	-
2006	5,451	6,490	-	-
2007	6,032	7,118	-	$ 117
2008	6,141	7,612	-	116
2009	6,945	7,276	-	116
2010	9,027	7,758	-	116
2011	9,988	7,985	-	-
2012	10,626	6,570	-	-

Chattanooga State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 15,034	$ 21,108	60	$ 73
2004	17,297	20,802	65	73
2005	18,216	21,977	-	73
2006	19,084	22,336	-	69
2007	20,832	23,697	-	280
2008	22,190	25,074	-	489
2009	26,466	23,937	-	489
2010	29,512	24,926	-	489
2011	34,021	26,901	-	285
2012	36,319	20,643	-	285

Jackson State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 7,173	$ 10,768	-	-
2004	8,290	10,610	-	-
2005	8,958	11,282	-	-
2006	9,280	11,480	-	-
2007	10,614	12,383	-	$ 168
2008	11,512	13,147	-	166
2009	12,383	13,264	-	166
2010	14,749	11,710	-	166
2011	15,739	13,193	-	-
2012	16,009	10,652	-	-

Cleveland State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 4,757	$ 9,212	-	-
2004	5,631	9,053	-	-
2005	5,737	9,580	-	-
2006	6,249	9,683	-	-
2007	6,422	10,317	-	$ 169
2008	7,360	10,856	-	168
2009	8,336	10,379	-	213
2010	9,958	10,992	-	213
2011	10,979	11,432	-	45
2012	11,373	9,088	-	45

Columbia State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 14,921	$ 11,540	-	-
2004	10,799	11,344	-	-
2005	12,133	12,839	-	$ 17
2006	13,027	12,731	-	17
2007	13,829	13,710	-	17
2008	10,903	13,986	-	18
2009	11,755	13,824	-	14
2010	14,406	14,324	-	18
2011	15,413	14,116	-	18
2012	15,599	11,467	-	18

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STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Motlow State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 5,660	$ 8,893	-	-
2004	6,369	8,747	-	-
2005	7,022	9,343	-	-
2006	7,678	9,434	-	-
2007	8,661	10,290	-	$ 171
2008	9,780	10,951	-	170
2009	11,148	12,890	-	170
2010	13,121	9,143	-	170
2011	13,983	11,023	-	-
2012	14,494	9,774	-	-

Nashville State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 13,519	$ 13,099	-	$ 13
2004	12,202	12,730	-	13
2005	13,955	13,449	-	13
2006	15,615	14,045	-	13
2007	15,828	15,185	-	13
2008	17,657	16,370	-	85
2009	19,900	15,619	-	70
2010	24,984	14,585	-	85
2011	30,011	16,451	-	85
2012	30,181	13,965	-	73

Roane State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 9,532	$ 15,779	-	-
2004	10,964	15,518	-	-
2005	11,823	16,470	-	-
2006	12,528	16,660	-	-
2007	13,510	17,892	-	$ 330
2008	14,478	18,976	-	323
2009	15,366	18,104	-	323
2010	18,411	20,103	-	323
2011	20,532	19,098	-	153
2012	21,580	15,571	-	153

Northeast State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 7,283	$ 10,543	-	-
2004	8,910	10,391	-	-
2005	9,883	10,958	-	-
2006	10,505	11,147	-	-
2007	11,731	12,256	-	$ 212
2008	12,086	13,199	-	209
2009	13,534	12,678	-	209
2010	16,728	13,247	-	209
2011	19,302	13,291	-	43
2012	19,865	12,069	-	43

Southwest Tennessee Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 21,839	$ 34,827	-	$ 179
2004	16,472	34,191	-	179
2005	16,749	36,210	-	179
2006	18,166	36,905	-	169
2007	22,042	38,723	-	174
2008	30,403	40,131	-	175
2009	36,691	38,230	-	389
2010	39,546	40,340	-	389
2011	42,093	40,168	-	390
2012	41,966	32,359	-	357

Pellissippi State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 14,393	$ 18,247	-	-
2004	17,109	17,985	-	-
2005	17,376	18,935	-	-
2006	19,184	19,252	-	-
2007	20,801	20,657	-	$ 293
2008	23,917	22,037	-	375
2009	25,530	20,983	-	376
2010	32,052	19,105	-	376
2011	35,757	22,100	-	179
2012	36,322	18,910	-	178

(continued on next page)

(continued from previous page)

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Volunteer State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 10,333	$ 15,641	-	-
2004	12,256	15,417	-	-
2005	13,206	16,303	-	$ 17
2006	14,224	16,548	-	17
2007	14,974	17,995	-	140
2008	16,565	19,245	-	139
2009	17,802	18,351	-	139
2010	22,240	18,944	-	139
2011	24,326	20,729	-	17
2012	26,812	15,650	-	17

Walters State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	$ 9,990	$ 15,909	-	-
2004	11,211	15,689	-	-
2005	11,798	16,643	-	-
2006	12,740	16,860	-	-
2007	14,097	18,249	-	$ 294
2008	15,810	19,429	-	289
2009	17,859	19,601	-	289
2010	21,454	19,180	-	289
2011	21,821	19,986	-	102
2012	23,034	16,078	-	102

Source: Comptroller of the Treasury,
Division of State and Local Finance
Note: Prior year amounts do not reflect later adjustments made by the institutions.

STATE OF TENNESSEE
STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Schedule 16

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 240	$ 9,092	$ 27,582	$ 3,602	$ 5,150
University of Tennessee- Chattanooga	300	7,212	21,558	3,000	5,300
University of Tennessee- Martin	380	7,081	20,237	2,400	4,570
Austin Peay State University	274	6,918	21,714	2,780	5,593
East Tennessee State University	180	6,997	22,369	3,080	4,780
Middle Tennessee State University	408	7,492	22,840	3,110	4,453
Tennessee State University	178	6,702	19,854	3,140	3,264
Tennessee Technological University	58	6,948	21,816	4,982	3,158
University of Memphis	192	8,234	23,684	3,399	5,099
Chattanooga State Technical Community College		3,737	14,369		
Cleveland State Community College		3,671	14,303		
Columbia State Community College		3,673	14,305		
Dyersburg State Community College		3,693	14,325		
Jackson State Community College		3,685	14,317		
Motlow State Community College		3,678	14,310		
Nashville State Technical Community College		3,627	14,259		
Northeast State Technical Community College		3,683	14,315		
Pellissippi State Technical Community College	30	3,719	14,351		
Roane State Community College		3,685	14,317		
Southwest Tennessee Community College		3,717	14,349		
Volunteer State Community College		3,669	14,301		
Walters State Community College		3,681	14,313		

Source: Comptroller of the Treasury,
Division of State and Local Finance

STATE OF TENNESSEE
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2012

Schedule 17

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 495,967	$ 94,187	$ 590,154
Austin Peay State University	35,368	31,727	67,095
East Tennessee State University	109,334	23,504	132,838
Middle Tennessee State University	147,399	74,339	221,738
Tennessee State University	34,176	3,200	37,376
Tennessee Technological University	35,577	9,692	45,269
University of Memphis	101,244	88	101,332
Chattanooga State Technical Community College	1,910	1,625	3,535
Cleveland State Community College	378		378
Columbia State Community College	33	1,581	1,614
Nashville State Technical Community College	589		589
Northeast State Technical Community College	320		320
Pellissippi State Technical Community College	1,435		1,435
Roane State Community College	1,130		1,130
Southwest Tennessee Community College	2,681		2,681
Volunteer State Community College	32		32
Walters State Community College	752		752
	$ 968,325	$ 239,943	$ 1,208,268

Source: Comptroller of the Treasury,
Division of State and Local Finance

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ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Mark Emkes, Commissioner
Mike Morrow, Deputy Commissioner, F&A Operations
Jan Sylvis, Chief of Accounts

The Comprehensive Annual Financial Report was prepared by the Administration and Financial Oversight sections of the Division of Accounts with assistance from the following other sections:

Accounts Payable
Asset Management
Cash Management/Clearing Accounts
Cash Management Improvement Act/Credit Cards
Departmental Accounting
General Ledger
Payroll
Payroll Call Center
Policy Development
Vendor File Maintenance

The Department of Finance and Administration would like to extend special appreciation to all fiscal and accounting personnel throughout the state who contributed the financial information for their agencies.

State of Tennessee

Single Audit Report

For the year ended June 30, 2012

Tennessee Comptroller of the Treasury

Division of State Audit

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
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March 28, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly of Tennessee
State Capitol
Nashville, Tennessee 37243-9034

Ladies and Gentlemen:

We are pleased to submit the twenty-ninth *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2012. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996 and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This *Single Audit Report* reflects federal expenditures of over $15.9 billion. We noted instances of noncompliance that resulted in qualified opinions on compliance for two of the state's thirty-one major federal programs. In addition, we noted other instances of noncompliance that meet the reporting criteria contained in OMB Circular A-133. We also noted material weaknesses and significant deficiencies in internal control over compliance with requirements related to federal programs. The instances of noncompliance, material weaknesses, and significant deficiencies related to federal programs are described in Section III of the Schedule of Findings and Questioned Costs.

The *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2012, has been issued under a separate cover. In accordance with the standards applicable to financial audits contained in generally accepted government auditing standards, we are issuing our report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. We noted two deficiencies that we considered to be material weaknesses in internal control over financial reporting. We noted one deficiency that we considered to be a significant deficiency in internal control over financial reporting. We noted one instance of noncompliance that we considered material to the state's basic financial statements. The material weaknesses, significant deficiency, and instance of noncompliance 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,

Deborah V. Loveless

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

State of Tennessee
Single Audit Report
For the Year Ended June 30, 2012

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Selected Statistical Data

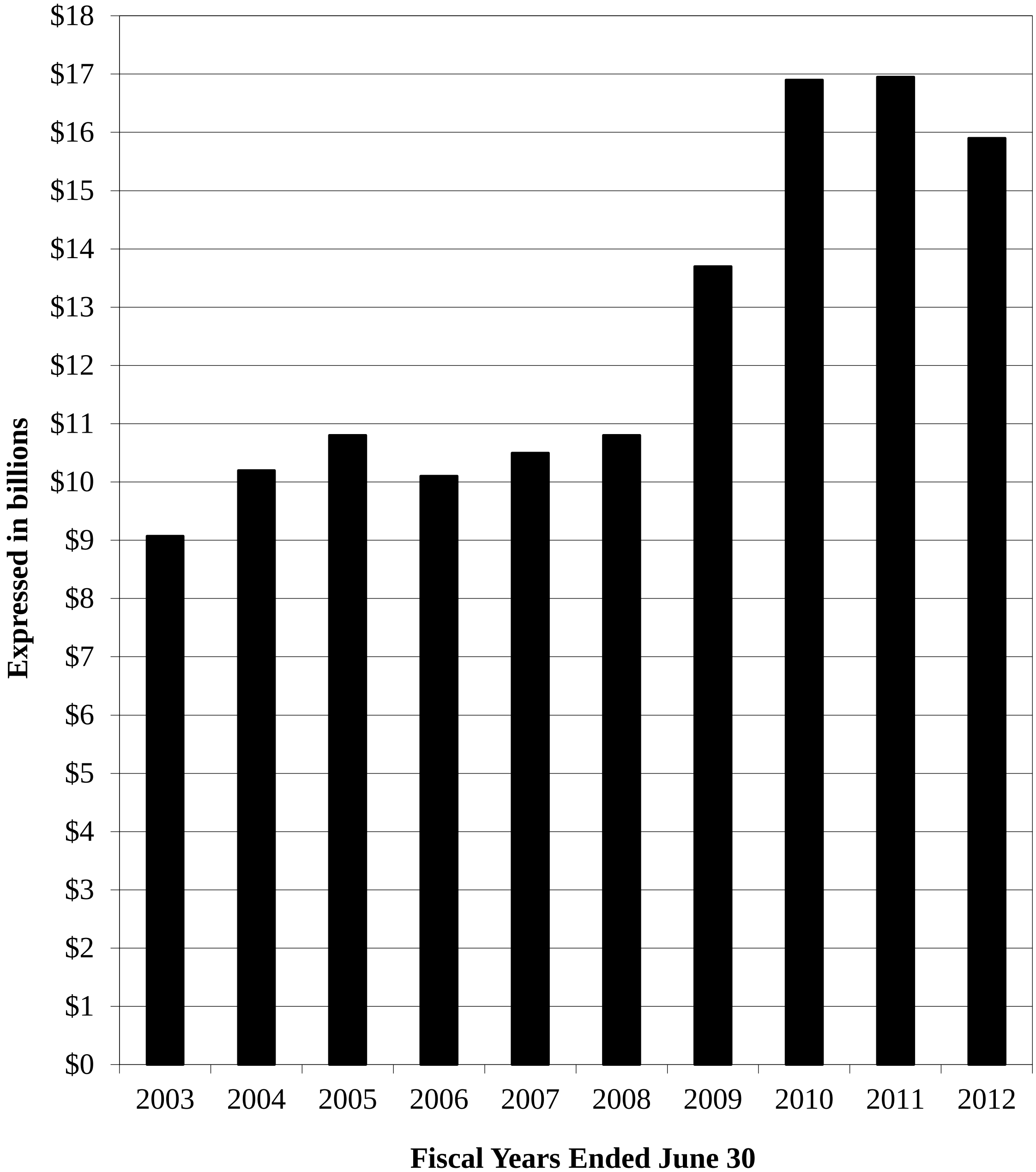
Total Federal Expenditures – Ten-Year Summary

Expenditures by Awarding Agency

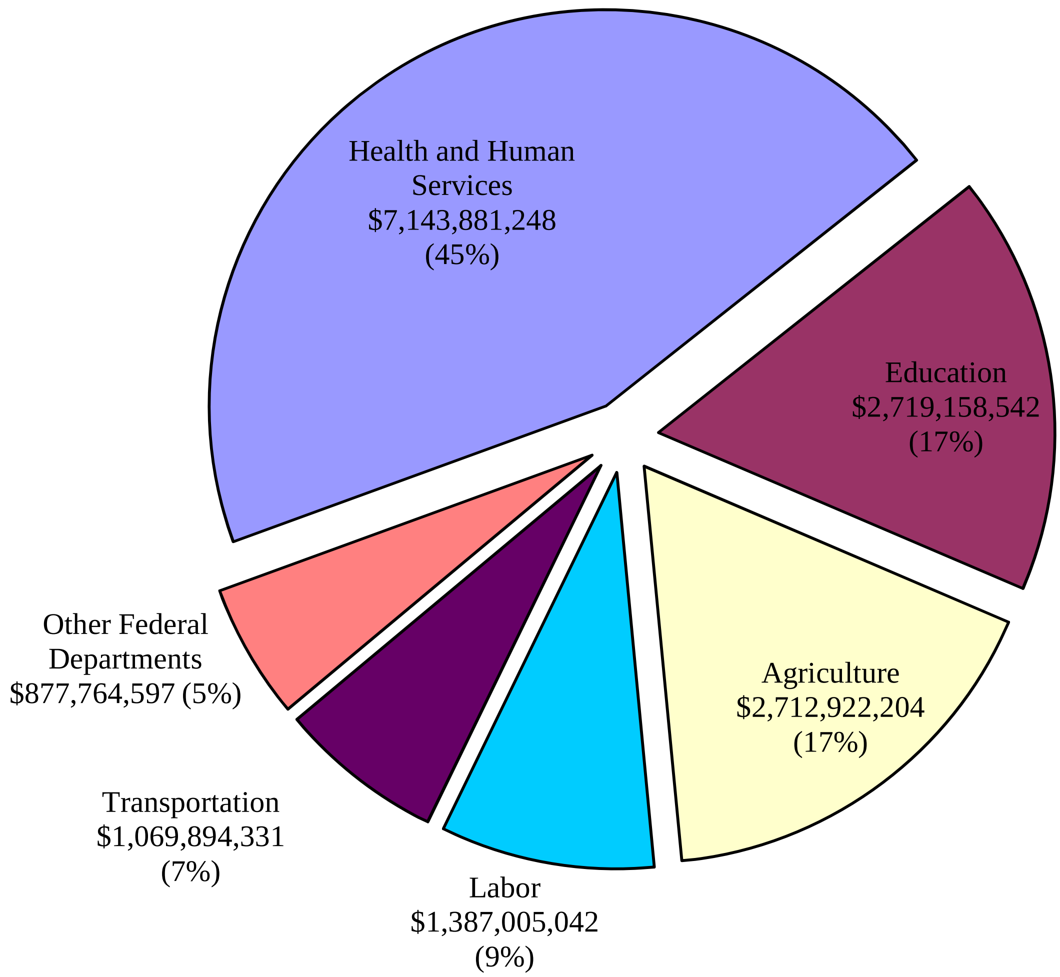
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

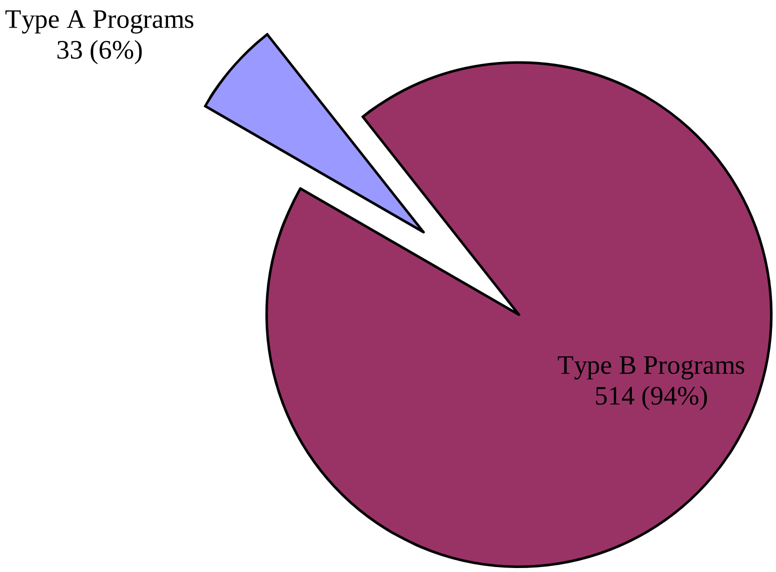
Total Federal Expenditures - Ten-Year Summary



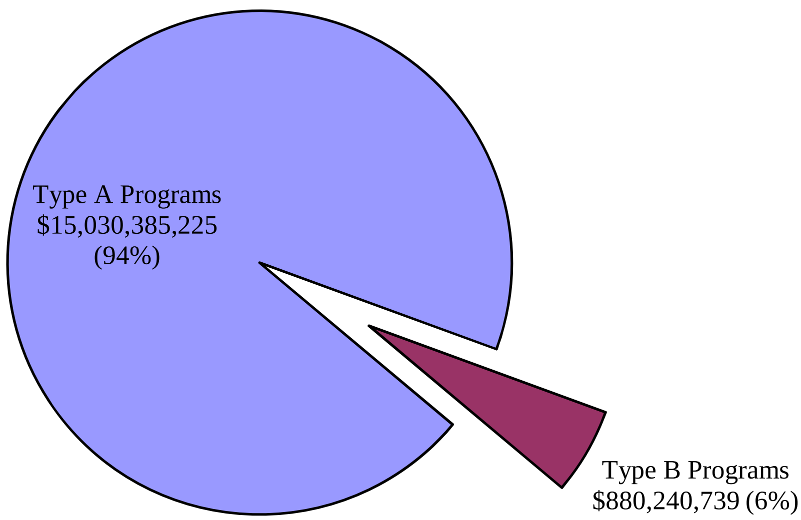
Expenditures by Awarding Agency
July 1, 2011, through June 30, 2012



Number of Type A and Type B Programs



Type A and Type B Program Expenditures



Type A programs for the State of Tennessee are defined as federal programs with expenditures exceeding the larger of $30 million or fifteen-hundredths of one percent (.0015) of total federal awards expended. For the fiscal year ended June 30, 2012, the Type A program threshold for the State of Tennessee was $30,000,000. Those federal programs with expenditures below the Type A threshold are labeled Type B programs.

Auditor’s Reports

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 With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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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*

December 21, 2012

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243-9034

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, 2012, which collectively comprise the State of Tennessee's basic financial statements, and have issued our report thereon dated December 21, 2012. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

Management of the State of Tennessee is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State of Tennessee's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 deficiencies described in 12-LWD-01 and 12-LWD-02 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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 considered the deficiency described in 12-DOT-06 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 an instance of noncompliance or other matter that is required to be reported under generally accepted government auditing standards and which is described in 12-LWD-02 in the accompanying Schedule of Findings and Questioned Costs.

We noted certain matters that we reported to management of the State of Tennessee in separate letters.

The State of Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Tennessee's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ras

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

March 28, 2013

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243-9034

Ladies and Gentlemen:

Compliance

We have audited the State of Tennessee's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Tennessee's major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Tennessee's management. Our responsibility is to express an opinion on the State of Tennessee's compliance based on our audit.

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 generally accepted government auditing standards; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Tennessee's compliance with those requirements.

As described in items 12-DOT-05 and 12-LWD-02 in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with the requirements regarding special tests and provisions applicable to its Highway Planning and Construction Cluster and the requirements regarding eligibility applicable to its Unemployment Insurance program. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Tennessee complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 12-APSU-01, 12-DCS-01, 12-DFA-01 through 12-DFA-04, 12-DHS-01, 12-DHS-03 through 12-DHS-13, 12-DOE-02 through 12-DOE-04, 12-DOT-01 through 12-DOT-04, 12-ETSU-01, 12-LWD-03, 12-LWD-04, 12-LWD-06, 12-LWD-09 through 12-LWD-12, 12-MHSAS-01 through 12-MHSAS-03, 12-UT-01, and 12-UT-02.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 12-DOE-04, 12-DOT-05, 12-LWD-01, 12-LWD-02, 12-LWD-07, and 12-MHSAS-02 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 12-APSU-01, 12-DCS-01, 12-DCS-02, 12-DFA-01 through 12-DFA-03, 12-DHS-01, 12-DHS-02, 12-DHS-04 through 12-DHS-11, 12-DHS-13, 12-DOE-01 through 12-DOE-03, 12-DOT-01 through 12-DOT-04, 12-ETSU-01, 12-LWD-03 through 12-LWD-06, 12-LWD-08, 12-LWD-09, 12-LWD-12, 12-MHSAS-03, 12-UT-01, and 12-UT-02 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

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, 2012, and have issued our report thereon dated December 21, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the State of Tennessee's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the 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 financial statements taken as a whole.

The State of Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Tennessee's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Deborah V. Loveless

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

DVL/ras

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, 2012

Section I – Summary of Auditor's Results

Financial Statements

- We issued an unqualified opinion on the basic financial statements.
- We identified material weaknesses in internal control over financial reporting.
- We identified a significant deficiency in internal control over financial reporting.
- We noted an instance 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 the Unemployment Insurance program and the Highway Planning and Construction Cluster. We issued unqualified opinions for all other major programs.
- We disclosed audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed in OMB Circular A-133, Section 520(b), was $30,000,000.
- The State of Tennessee does not qualify as a low-risk auditee under OMB Circular A-133, Section 530.

Section I – Summary of Auditor's Results

CFDA Number	Name of Major Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
17.225	Unemployment Insurance*
20.509	Formula Grants for Other Than Urbanized Areas*
66.458	Capitalization Grants for Clean Water State Revolving Funds*
66.468	Capitalization Grants for Drinking Water State Revolving Funds*
81.041	State Energy Program*
81.042	Weatherization Assistance for Low-Income Persons*
84.032	Federal Family Education Loans - Guaranty Agencies
84.367	Improving Teacher Quality State Grants
84.395	State Fiscal Stabilization Fund (SFSF)-Race-to-the-Top Incentive Grants*
84.410	Education Jobs Fund*
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.658	Foster Care Title IV-E*
93.659	Adoption Assistance*
93.767	Children's Health Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
-	Research and Development Cluster*
-	Student Financial Assistance Cluster*
-	Child Nutrition Cluster
-	Section 8 Project-Based Cluster
-	Workforce Investment Act Cluster*
-	Highway Planning and Construction Cluster*
-	Title I, Part A Cluster*
-	Special Education Cluster (IDEA)*
-	State Fiscal Stabilization Fund Cluster*
-	Temporary Assistance for Needy Families Cluster
-	Child Care and Development Fund Cluster
-	Medicaid Cluster*
-	Disability Insurance/Supplemental Security Income Cluster

*Program includes ARRA funding

Section II - Financial Statement Findings

Finding Number	12-DOT-06
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Transportation
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Significant Deficiency
Compliance Requirement	N/A
Questioned Costs	N/A

Internal controls over the recording of overweight/overdimensional permit receipts remained inadequate, increasing the risk of material misstatements in the financial statements and the risk of permit fees being misappropriated

Finding

As stated in the prior audit, the Department of Transportation did not have properly designed internal controls over escrow checks received for overweight/overdimensional permits. In the prior audit, auditors noted that the department did not reconcile permit fees entered into the permit issuance system with permit fees entered into the state's accounting system.

In response to the prior finding, the department implemented a reconciliation process. However, this process was flawed in that the report of fees entered into the permit issuance system that was reconciled with the state's accounting system was prepared by the Central Services Division employee who entered the permit fees into the system. The Central Services Division employee, who had access to the checks, could simply omit a misappropriated check from the report, and the Finance Division's reconciliation would fail to detect it.

Overweight/overdimensional permits are required for carrying oversized loads on Tennessee roadways. While some permits are purchased directly from the state, the majority of these permits are purchased from independent wire service transmittal companies. The state requires that the wire service companies send checks in advance of issuing permits and places these checks in escrow. Overweight/overdimensional permit receipts totaled $12,424,676 for fiscal year 2012.

The Director of Finance and the Director of Central Services are responsible for ensuring that internal controls are adequately designed and implemented to prevent or detect material misstatements in the financial statements and to safeguard assets. Subsequent to the audit period, management established additional controls over the receipting of escrow checks. The department sent a notice to each wire service company instructing it to mail all checks directly to the Finance Division, effective November 1, 2012. We obtained and reviewed a copy of the notice that was sent. This new control does appear to mitigate the risk of misappropriation as employees processing permits no longer have access to escrow checks.

We also recommended in the prior audit finding that management investigate a $9,500 difference between the amount recorded in the permit issuance system and the amount recorded in the state's accounting system for fiscal year 2011. Management elected not to investigate the $9,500 difference as it considered the amount immaterial.

Recommendation

The Director of Finance and the Director of Central Services should continue to maintain the newly created separation between issuing permits and custody of checks received for those permits. Because of the risk of fraud that was present, we recommend that the Commissioner of the Department of Transportation reconsider the decision not to investigate the $9,500 variance from the previous audit.

Management's Comment

We concur. The implementation of additional internal controls was completed in November 2012, subsequent to the audit period. These controls will be maintained, and, as stated in the audit report, they appear to mitigate the risk of misstatement and misappropriation. With the assistance of your staff, the $9,500 variance from the fiscal year 2011 audit will be investigated.

Finding Number	12-LWD-01
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Material Weakness
Compliance Requirement	Allowable Costs/Cost Principles and Eligibility
Questioned Costs	N/A

The Department of Labor and Workforce Development's management has threatened the integrity of the Unemployment Insurance Program by failing to provide sufficient internal controls and oversight

Finding

The Department of Labor and Workforce Development's (LWD) management has threatened the integrity of the Unemployment Insurance (UI) program by failing to address critical functions of the program. We found that LWD personnel were unable to manage all of the claims submitted through the program. Specifically, LWD had backlogs in receiving and responding to incoming telephone calls related to new and existing unemployment claims; processing initial unemployment claims; resolving pending claims; and notifying employers of unemployment claims. These backlogs have increased as the state's unemployment level remained high. LWD's efforts to review fraudulent unemployment claims and collect overpayments were also strained. Additionally, we determined that the overall internal controls over the UI program operation needed significant improvements because the controls were ineffective or non-existent. As a result, LWD's number of overpayments to ineligible claimants has risen significantly during the past three years.

Background

The UI program is designed to provide benefits to claimants who lose their jobs through no fault of their own. The program is funded by the Tennessee Unemployment Insurance Trust Fund (UTF), which was established by the State Unemployment Tax Act (SUTA). Employers pay premiums into this fund based on the first $9,000 of wages earned by each covered employee each year. If benefit payments from the UTF exceed premiums collected from employers, LWD is responsible for replenishing the fund and generally accomplishes this by raising premium rates.

The claimants who are approved may qualify to receive unemployment benefits from the state's trust fund for up to 26 weeks based on a calculated weekly benefit amount. Once the initial 26 weeks have been exhausted, unemployment benefits may continue through federally funded grants.

Summary of Findings

LWD management is responsible for establishing and maintaining the processes and internal controls for the UI program. LWD management is also responsible for complying with the federal grant requirements in its operation and oversight of the program in Tennessee. Our audit of this major program determined that LWD had not ensured critical controls and effective processes were in place and operating as needed. We also noted material weaknesses and significant deficiencies in internal control over compliance with requirements related to this federal program. The following noncompliance and control weaknesses are detailed in separate findings in this audit report and indicate that LWD's management is not properly administering the program. A summary of the conditions is described below.

- We found that overpayments due to both fraud and error have increased significantly, and LWD's collection of overpayments is low (Finding 12-LWD-02).

- We found significant backlogs with management's processes of receiving and responding to telephone calls involving initial and existing claims, processing claims, resolving pending claims, and notifying employers of claimants' requests for unemployment. We also found that management did not fully implement the case management system and potentially wasted federal funds on the system (Finding 12-LWD-03).

- We found that management's cross-matches to detect fraudulent claims were not effective (Finding 12-LWD-04).

- We found that management did not verify social security numbers for a large number of claimants during the audit period and over the past three years (Finding 12-LWD-05).

- We found that management did not always identify fraudulent claims and did not correctly calculate the overpayments with penalties and interest. In addition, claimants submitting fraudulent claims were not removed from the program (Finding 12-LWD-06).

- We found that management allowed automated approvals of claims without any verification that the employees separated from employers (Finding 12-LWD-07).

- We found that management did not always require employers who filed partial claims on behalf of employees to obtain certifications from claimants regarding their eligibility status (Finding 12-LWD-08).

The current year *Single Audit Report* reflects federal and state expenditures of over $1.2 billion for the UI program. We are required to report on management's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133. We noted material weaknesses and significant deficiencies in internal control over compliance for the UI program. We have also qualified our opinion at the compliance requirement level for eligibility.

<u>Questioned Costs and Effects on Stakeholders</u>

Questioned costs may arise from material or immaterial instances of noncompliance with federal grant requirements. These questioned costs are reported in single audit findings that involve violations of a provision of law, regulation, contract, grant or other agreement governing the federal expenditures; expenditures that are not supported by adequate documentation; or expenditures where the intended purpose is unnecessary or unreasonable.

The grantor notifies the grantee department how any related costs should be resolved including repayment to the grantor. It is the responsibility of the grantee department (in this case, LWD) to determine and oversee appropriate corrective actions.

Several of the findings listed above contain questioned costs for noncompliance with federal grant-related requirements. The questioned costs in these findings total $944,366. The trust fund and any federal portions of the claims are not separated for the questioned costs presented. The questioned costs were paid from the state trust fund and, if the claimant qualified for extended or emergency benefits after the first 26 weeks of the claim, from the federal grant program. Depending on when the disqualifying events occurred, questioned costs involving unemployment claims will often overlap funding sources.

Management's failure to properly administer this state/federal program jeopardizes the integrity of the program. The state's top officials, the federal grantor, the state's employers, and current and future UI beneficiaries expect LWD management to effectively administer the UI program, which includes strong internal controls and proper oversight of all critical program functions and processes. Without sufficient controls and oversight, LWD:

- will continue to make improper benefit payments to ineligible claimants;
- will not timely pay benefits to eligible claimants;
- will continue to penalize the state's employers by unnecessarily increasing premiums;
- will continue to jeopardize federal funding because of noncompliance;
- will continue to create state budget problems because of trust fund depletion resulting from improper payments; and
- will erode the public's trust in the state's ability to administer unemployment compensation to Tennessee's unemployed workers.

Recommendation

The Commissioner must immediately consult with the Governor to develop a corrective action plan to implement the recommendations in this report. In addition, the Commissioner must work with the Governor to establish a timetable to complete the necessary corrective actions.

The Commissioner should determine if the leadership of the Employment Security Division and Information Technology Division is capable of correcting the many significant problems with existing resources. The Commissioner and Internal Audit Unit should frequently monitor the activities of the individuals responsible for correcting the problems noted here and determine whether adequate progress is being made. The Commissioner should take appropriate action if the problems are not corrected in accordance with the plans of action.

Management's Comment

We concur. Within the next 90 days, a correction action plan with timelines will be developed by the Commissioner and key executive leadership that will put in place adequate internal controls. Additionally, the Commissioner will ensure that knowledgeable leadership is in place to provide appropriate oversight.

Finding Number	12-LWD-02
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$1,612

The Department of Labor and Workforce Development's failure to comply with its procedures to determine claimants' eligibility for the Unemployment Insurance program and to implement proper controls over eligibility determination threatens the integrity of the Unemployment Insurance program and resulted in $73.4 million in overpayments due to fraud during the past six years and overpayments due to error for the past three years

Finding

The Department of Labor and Workforce Development's (LWD) failure to comply with its procedures to determine claimants' eligibility for the Unemployment Insurance (UI) program and failure to implement proper controls over the Unemployment Insurance program claimants' eligibility determination process threatens the integrity of the Unemployment Insurance program and resulted in $73.4 million in overpayments. This is a cumulative total of overpayments resulting from fraud during the past six years and overpayments resulting from error during the past three years.

We determined that management of LWD failed to adequately safeguard the department's assets and failed to meet their fiduciary obligation as a steward of the Tennessee Unemployment Insurance Trust Fund, as evidenced by the large amount of overpayments. LWD's inability to ensure that benefits are only paid to eligible claimants is considered a material weakness in internal control and noncompliance with Office of Management and Budget (OMB) Circular A-133, "Compliance Requirements for Eligibility."

According to information about overpayment and underpayment rates reported to OMB, as required by the Improper Payments Information Act (IPIA), for the fiscal year ended June 30, 2012, a state with a three-year average rate of 14% and above is considered a state with high UI improper payments. Tennessee reported an overpayment rate of 14.91% and ranked 12th among the 16 states that made the highest UI improper payments.

<u>**BACKGROUND AND PROCESSES DESCRIBED**</u>

General

The UI program, also referred to as Unemployment Compensation, provides benefits to unemployed workers for periods of involuntary unemployment (workers that lose their jobs through no fault of their own) and helps stabilize the economy by maintaining the spending power of workers while they are between jobs. The program is funded by the Tennessee Unemployment Insurance Trust Fund (UTF) established by the State Unemployment Tax Act. Employers pay premiums into the fund based on the employer's experience rating calculated as: the employer's cumulative premiums paid minus cumulative benefits charged to the employer's account, divided by the employer's average taxable payroll for the last three full calendar years. Some industries have rates of higher employee turnover, which can increase the employer's rate. Additionally, the rate can be further adjusted by the department in accordance with state law depending on the funding level of the UTF. The employer's rate is then applied to the first $9,000 of wages earned by each covered employee each year.

The claimants who are approved for the UI program are eligible to receive up to 26 weeks of benefits. The amount of benefits that claimants receive is based on a calculated weekly benefit amount, which is funded by the state's trust fund. Once the 26 weeks of benefits have been exhausted, the unemployment benefits can be extended through federally funded grants such as the Emergency Unemployment Compensation (EUC08) and the Extended Benefit (EB) programs. EUC08 has been amended several times and includes eligibility for several tiers of benefits. The first two tiers of benefits (34 weeks) are available in all states; however, tiers three and four are only available in states with higher unemployment rates. For our audit period, Tennessee qualified for tiers three and four, with UI benefits of 13 weeks and 6 weeks, respectively. Tennessee also qualified for the Extended Benefit program for an additional 20 weeks of benefits for a total of 99 weeks. For Tennessee's unemployed, the EB program ended in April 2012.

Claimant Eligibility and Unemployment Benefits

According to state regulations, individuals filing UI claims with the department must meet certain earnings requirements (monetary) from past employment and must be currently unemployed or earning less than their weekly benefit up to the $275 maximum. Once the monetary requirements are met, other eligibility requirements (non-monetary) must be met before a claim is approved. Claimants must have separated from their most recent employer through no fault of their own. Claimants' circumstances generally fall into one of three non-monetary categories:

1. lack of work – the employer lays off the employee,
2. quit – the employee has voluntarily quit with just cause, or
3. discharge – the employee's employment was terminated because of performance issues other than misconduct.

Separation issues and personal eligibility issues (those issues that involve the claimant's ability and availability for work) must be evaluated by department staff before a decision to approve benefits can be made. For departmental staff, the lack-of-work issue is generally the easiest to resolve because it only involves verifying with the employer that the separation was due to lack of work available for the claimant.

Dependents Allowance Benefits

According to Section 50-7-301(e), *Tennessee Code Annotated*, which became effective June 20, 2010, those Tennesseans who are eligible to receive unemployment benefits might also be eligible to receive an additional benefit for dependents. When eligible, UI claimants will receive an additional $15 for each minor child, not to exceed a total of $50.

Overpayment of Benefits

Overpayments of benefits can occur for many reasons. For example, when the department identifies that a claimant has misrepresented his or her income for a particular week or weeks, the department would disqualify the claimant from receiving benefits. LWD determines overpayments have occurred by reviewing and processing new claimant information, such as an increase in a claimant's income or an employer dispute related to separation. LWD establishes an accounts receivable when it determines that an overpayment of UI benefits has occurred.

LWD is required by the Department of Finance and Administration's Policy 23 to "make a reasonable effort to collect all receivables on a systematic and periodic basis." LWD has established a collection process in an effort to fulfill this requirement. Once overpayments are identified, LWD staff attempt to collect overpayments from claimants by sending a monthly "Overpayment Statement" to those claimants. The LWD staff also recoup overpayments by reducing the claimants' current benefit. Once the department has attempted collection, it is allowed to write off the uncollectible overpayments in accordance with state law, as discussed later in this finding.

RESULTS OF OUR TESTWORK

Criteria for Lack of Documentation to Support UI Program Claimants' Eligibility

According to the *LWD Unemployment Insurance Program Manual*, Section 0331 - Case File Documentation:

> Not every case file will need the same documentation. Some case files will require more than others. As a general rule, every case file must have all the documentation related to the claim under investigation and any additional documents that the investigator used during the investigation to verify information. Additional documentation will be obtained by the investigator during the investigation. This documentation includes claimant questionnaires

and statements, employer separation and wage information, new hire and work search statements, and third party information and statements.

<u>Combined Test Results for Eligibility and Dependent Allowance Benefits</u>

We tested a randomly selected, nonstatistical sample of 200 claims from a population of 5,313,157 paid claims (weekly payments) of the UI program for the fiscal year ended June 30, 2012. The sample represented $45,569 out of $1,175,939,586 in total claims paid. Our testwork disclosed that for 47 of the 200 paid claims tested (23.5%), department staff did not maintain required documentation in the case files to support the claimants' eligibility for UI benefits (regular unemployment benefit and dependent allowance benefit). The total amount paid for those 47 claims was $3,522. Of this amount, $1,910 was paid out of the Tennessee Unemployment Insurance Trust Fund. The remaining $1,612 was paid with federal funds and will be considered questioned costs. Specifically, we found the following deficiencies.

<u>Test Results for Eligibility</u>

We reviewed the 200 paid claims and related case files to determine if the claimant was eligible to receive UI benefits. We found that 12 of the 200 case files tested (6%) did not contain required documentation to support the claimant's eligibility for the UI program.

- For 4 of those 12 claims, the claimant obtained benefits by misrepresenting his or her income to the department for multiple weeks. After benefit payments had been made, employers reported to the department that these claimants had earned wages which conflicted with claimant's previous assertions. In addition, for one of these four fraudulent claims, the claimant provided the wrong employer's information, and LWD sent the Time Sensitive Request for Separation Information Letter (a letter sent to verify if the claimant was separated due to no fault of the claimant) to the wrong separating employer.

- For 6 of those 12 claims, LWD staff could not provide documentation to determine the claimant's eligibility for the UI program. Specifically, for two files, there was no separation notice from the employer. One file had no documentation that the lack of work claim was verified. Two files noted receipt of a military discharge letter, but LWD could not provide the actual letter. The last file contained documentation that the claimant was receiving a pension, which could reduce or eliminate the unemployment benefit paid, but there was no documentation of follow-up to obtain the pension information.

- For 2 of those 12 claims, LWD staff did not subject the claims to the eligibility redetermination process for the UI program when required.

Test Results for Dependent Allowance Benefits

We also tested the same sample of the 200 paid UI claims to determine if the claimant was eligible to receive dependent benefit payments. When eligible, the claimant can receive additional benefit payments of $15 for each dependent, up to a maximum of $50 each week. Based on our 200 item sample, we identified 77 claims that included a dependent allowance of at least $15. Our testwork disclosed that for 38 of the 77 (49.4%), LWD staff had not maintained the required documents to support the eligibility for dependents benefit payments. Three of the 38 claims for dependent allowance payments were included in the 12 UI claims discussed above.

Section 50-7-301(e)(2)(C), *Tennessee Code Annotated*, states, "Dependency benefits shall not be paid unless the claimant submits documentation satisfactory to the division establishing the existence of the claimed dependent."

Summary of Testwork Error Rates

Below is a table that summarizes our sample errors and the total benefits paid without proper supporting documentation for the period July 1, 2011, through June 30, 2012:

Category	Eligibility Testing	Dependent Allowance Testing
Sample Size	200	77
Number of Errors (Lack of documentation)	12	38*
Error Rate	6.00%	49.40%
* Three of the 38 errors were also included in the 12 errors in the eligibility testing.		

	Federal Funds	State UI Trust Funds	Total
Eligibility Questioned Costs	$ 1,237	$ 1,295	$ 2,532
Dependent Allowance Questioned Costs	375	615	990
Total Questioned Costs	1,612	1,910	3,522
Sample Dollar Tested / Funding Source	$ 19,725	$ 25,844	$ 45,569
Total UI Claims Paid (Population)	$ 618,245,978	$ 557,693,608	$ 1,175,939,586

Overpayments to UI Program Claimants Due to Fraud and Error

As mentioned above, LWD creates a receivable for any identified UI program overpayment. We obtained the LWD accounting records of overpayments made to ineligible benefit recipients. As of June 30, 2012, the total accounts receivable (A/R) for the UI program was $78,739,200 (actual receivable of $73,496,997 and interest and penalties of $5,242,203). The actual receivable is a cumulative total of overpayments resulting from fraud during the past six years and overpayments resulting from error during the past three years. According to discussion with LWD fiscal management and based on LWD's accounting records, $61,804,505 of the total overpayments recorded in A/R were paid from federal UI program funds and $16,934,695 were paid from the Tennessee Unemployment Insurance Trust Fund. Below is a summary of our analysis of the LWD overpayments from the department's OP 1301 "Statement of Overpayment and Recoveries" Report for June 30, 2012, 2011, and 2010:

Category	FY 2012	FY 2011	FY 2010	FY12 - FY11 $ Increase	% increase	FY11 - FY10 $ Increase	% increase
FRAUD	$ 35,730,805	$ 32,108,391	$ 27,565,699	$ 3,622,414	11%	$ 4,542,692	16%
NON-FRAUD	37,766,192	29,159,550	21,341,649	8,606,642	30%	7,817,901	37%
INTEREST	5,242,203	1,761,793	127,839	3,480,410	198%	1,633,954	1278%
TOTAL A/R	$ 78,739,200	$ 63,029,734	$ 49,035,187	$ 15,709,466	25%	$ 13,994,547	29%

A/R Collections and Write-offs

Based on our testwork, we found that for the period ended June 30, 2012, LWD reduced the accounts receivable balance by $22,740,582.36. Of that amount, only $11,743,059.22 was collected; the remaining balance was written off, reversed due to department error, waived, or no longer owed due to bankruptcy. See details below:

SUMMARY OF FY 2012 A/R COLLECTIONS AND WRITE-OFFS FOR THE UI PROGRAM

CATEGORIES FOR A/R REDUCTION	FRAUD	NON-FRAUD	TOTAL
REIMBURSEMENTS [1]	$ 2,742,916.55	$4,849,584.57	$7,592,501.12
OFFSET CLAIMS [2]	659,467.27	3,491,090.83	4,150,558.10
TOTAL A/R COLLECTION FOR FY 2012	**$ 3,402,383.82**	**$ 8,340,675.40**	**$ 11,743,059.22**
OVERPAYMENTS ESTABLISHED IN ERROR [3]	$ 83,208.00	$ 2,079,316.00	$ 2,162,524.00
WAIVED [4]	-	1,405,567.50	1,405,567.50
WRITE-OFF [5]	3,339,819.80	3,727,586.45	7,067,406.25
BANKRUPTCY JUDGMENT [6]	167,555.25	194,470.14	362,025.39
TOTAL WRITE-OFFS FOR FY 2012	**$ 3,590,583.05**	**$ 7,406,940.09**	**$ 10,997,523.14**
TOTAL A/R REDUCTION FOR FY 2012	**$ 6,992,966.87**	**$15,747,615.49**	**$ 22,740,582.36**

[1] Repayments made by the claimant.
[2] Reductions of portion of the claimant's weekly benefits until repayment is made in full.
[3] Reversal of overpayment established due to department error; not owed by the claimant.
[4] No longer owed by the claimant due to death, review, or administrative readjudication.
[5] Removed from accounts receivable due to time limitation of 3 years for error and 6 years for fraud.
[6] No longer owed by the claimant due to bankruptcy.

Source: OP 1301 Report, "Statement of Overpayment and Recoveries"

Estimates for Overpayment Collection Rates

Management provided us with a schedule of historical overpayment collections data for the fiscal years 1982 through 2012. It showed that LWD was successful in collecting 40% of the UI overpayments dollar amount on average. LWD classified the remaining 60% of the overpayments dollar amount as "Allowance for Doubtful Accounts," collection of which is unlikely to occur. Based on our analysis of the LWD accounting records for the fiscal years 2012, 2011, and 2010, we determined that LWD overstated the successful collection percentage of UI overpayments. When we brought this issue to management, they agreed and performed an analysis of historical collections for fiscal years 2011, 2010, and 2009. Management concluded that their estimate of overpayment collections of 40% was inaccurate, and they reduced it to 23%. Also management increased the "Allowance for Doubtful Accounts" from 60% to 77%.

The reason for the large disparity between estimates was that the department was including all six categories of A/R reductions, identified in the table above, in its collection percentages. LWD inappropriately included overpayments established in error, waived overpayments, write-offs, and bankruptcy waivers in calculating its collection percentage. Based on discussions with management, we do not believe the errors in the estimate were intentional.

We believe management's low percentage of collections demands immediate attention from top state officials. As stated earlier in this finding, the department's collection efforts consist of offset claims (reductions of a portion of the claimant's weekly benefits until repayment is made in full) and monthly collection letters to claimants requesting them to repay. Generally, we expect state agencies to have a strong collection process in place that includes letters, phone calls, and collection agencies when necessary. LWD has not made the follow-up phone calls or used the collection agency to pursue recovery. In addition, as evidenced by the low percentage of collections and LWD's unlikely success in collecting all overpayments even with increased efforts, we believe it is imperative that LWD management establish strong, effective controls to prevent the overpayments in the first place.

Noncompliance With State Regulations Regarding A/R Write-offs

We also determined that LWD was not in compliance with Section 4-4-120, *Tennessee Code Annotated*, and Chapter 0620-1-9 of the *Rules of the Department of Finance and Administration*, which require write-offs to be approved by both the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury. Based on our review, we found that LWD management has written off overpayments as bad debt without following state policies and procedures as prescribed in the law. Management referred us to Sections 50-7-303(d)(3)(A) and (B), *Tennessee Code Annotated*, which require that if LWD has not collected an overpayment debt after a certain length of time, it must release the claimant of the debt. Based on our discussions with management, their interpretation of this waiver is that they did not have to follow established write-off procedures prescribed by Department of Finance and Administration policy and rules; however, we disagree. The department is required to follow the law and related policies for all write-offs.

CONCLUSION

Unless LWD implements proper internal controls over the claimant eligibility process for the UI program, the risk of LWD paying UI benefits to ineligible individuals increases. Given the significant amount of overpayments already paid out to ineligible claimants, as described above, management cannot afford to delay corrective action without further eroding the public's trust in the UI program. Furthermore, LWD has not fulfilled its fiduciary responsibility to the state, the employers, and the federal grantor by continuing to overpay UI benefits and collecting only 23% of the overpayments on average. The remaining 77% of overpaid benefits is uncollectible, and this loss further threatens the viability of the UI program.

Recommendation

The Commissioner should take immediate action to implement a strong system of internal controls over the claimant eligibility process for the UI program. This control system should be designed to prevent and/or detect errors and fraud and mitigate the risk that UI benefits will be paid to ineligible claimants. The UI administrator, in conjunction with the Commissioner, should evaluate the process to collect overpayments of benefits and should ensure that staff follow established state law, policy, and rules governing the write-off of any uncollectible overpayments. This includes ensuring that overpayments waived in accordance with Sections 50-7-303(d)(3)(A) and (B), *Tennessee Code Annotated*, are written off in accordance with Section 4-4-120, *Tennessee Code Annotated*, and Chapter 0620-1-9 of the *Rules of the Department of Finance and Administration*.

Management's Comment

We concur. Within the next 90 days, a plan with timelines for the development of a strong system of internal control over the claimant eligibility process will be put in place by the Commissioner and executive leadership.

Section III – Federal Award Findings and Questioned Costs

Finding Number	12-DOE-02
CFDA Number	10.553, 10.555, and 10.556
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Education
Grant/Contract No.	5TN300330
Federal Award Year	2011 and 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A

The department did not report financial information for the Child Nutrition Cluster in accordance with Federal Funding Accountability and Transparency Act reporting requirements, increasing the risk that the public will not have access to transparent, accurate information regarding expenditures of federal awards

Finding

The United States Department of Agriculture (USDA) requires the Tennessee Department of Education (TDOE) to report financial information for the Child Nutrition Cluster in order to comply with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements. However, TDOE did not always report the Child Nutrition Cluster subawards given to subrecipients in accordance with the FFATA requirements.

Within the Child Nutrition Cluster, the Tennessee Department of Education receives federal funding under the School Breakfast Program, the National School Lunch Program, and the Special Milk Program for Children to distribute to school food authorities who provide food, snacks, and milk to eligible children.

According to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) website, www.fsrs.gov,

> The Federal Funding Accountability and Transparency Act (FFATA) was signed on September 26, 2006. The intent is to empower every American with the ability

> to hold the government accountable for each spending decision. . . . The FFATA legislation requires information on federal awards (federal financial assistance and expenditures) be made available to the public via a single, searchable website, which is www.USASpending.gov.

FSRS is the system used to upload this information onto USASpending.gov.

According to Attachment 1, Summary of FFATA Implementation Procedures, of the memorandum "New Reporting Requirements for State Agencies and Other Primary Grantees Under the Federal Funding Accountability and Transparency Act of 2006," issued by the USDA and dated November 23, 2010,

> A primary grantee must report each action it takes on or after October 1, 2010 that obligates . . . $25,000 or more in Federal funds to a local agency or other entity for a subgrant under a new Federal grant . . . A primary grantee must post the required information to the FFATA Subaward Reporting System (FSRS) (http://www.fsrs.gov) not later than the end of the month following the month in which the obligation was made.

The FFATA reporting requirements had not been established when the Tennessee Department of Education signed the Federal-State Agreement for the Child Nutrition Cluster on August 10, 2005, which, according to the Executive Director of School Nutrition Services, is the most recent grant agreement for the Child Nutrition Cluster. However, by failing to report the subawards in accordance with the FFATA reporting instructions provided by the USDA, the department did not comply with the requirements of the grant agreement for the Child Nutrition Cluster, which states the following:

> By continuing to operate the covered programs after the enactment or issuance of any changed or new statutes or regulations applicable to the programs covered by this agreement and any changed or new instructions, policy memoranda, guidance, and other written directives interpreting these statutes or regulations, the State agency agrees to comply with them.

Test of Subawards to Public School Districts

We tested a sample of 60 subawards that were subject to reporting under the FFATA reporting requirements and subgranted during the fiscal year ended June 30, 2012, to school food authorities that are public school districts. To determine TDOE's compliance with the FFATA reporting requirements, we reviewed supporting documentation and the information on USASpending.gov for these subawards. Based on our testwork, we found that the Information Systems Manager did not report 60 of 60 subawards (100%) in accordance with the FFATA reporting requirements. Specifically, testwork revealed that the Information Systems Manager had not reported 39 of the 60 subawards, totaling $10,479,605, as of October 24, 2012. The Information Systems Manager did not report the remaining 21 of the 60 subawards timely. These subawards were reported between 53 and 146 days late, with an average of 103 days late.

We identified and tested ten subawards that were not included in the population of subawards provided to us by TDOE staff. The Information Systems Manager stated that he had to prepare that population manually and inadvertently excluded some of the subawards from the listing he provided us. These subawards were subject to reporting under the FFATA reporting requirements and were subgranted during the fiscal year ended June 30, 2012, to a school food authority that is a public school district. We reviewed supporting documentation and the information on USASpending.gov for these subawards. Based on our testwork, we found that the Information Systems Manager did not report ten of ten subawards (100%) in accordance with the FFATA reporting requirements. Specifically, testwork revealed that the Information Systems Manager had not reported seven of the ten subawards, totaling $710,966, as of October 26, 2012. The Information Systems Manager did not report the remaining three of the ten subawards timely. These subawards were reported between 84 and 129 days late, with an average of 109 days late.

Test of Subawards to Nonpublic School Districts

In addition, we tested the population of 20 subawards that were subject to reporting under the FFATA reporting requirements and were subgranted during the fiscal year ended June 30, 2012, to school food authorities that are not public school districts. Examples of school food authorities that are not public school districts include orphanages and private schools. Based on our review of supporting documentation and the information on USASpending.gov for these subawards, we found that the Information Systems Manager did not report 20 of 20 subawards (100%) in accordance with the FFATA reporting requirements. Specifically, testwork revealed that the Information Systems Manager had not reported 18 of the 20 subawards, totaling $933,662, as of October 24, 2012, and had not reported 2 of the 20 subawards timely. These subawards were reported between 64 and 129 days late, with an average of 97 days late.

Furthermore, according to the Information Systems Manager, no one at the department reviewed the information that he submitted via FSRS to ensure that all applicable Child Nutrition subawards were reported timely.

According to the Information Systems Manager, these subawards were not reported properly because of several factors. First, the Information Systems Manager stated that he had frequently encountered technical difficulties with FSRS and that, once several subawards had been entered for one monthly report, the FSRS website would begin to slow down, freeze, or delete data that had been previously entered. Also, these problems were so severe that he was never able to report all of the data for any FFATA report. The Federal Service Desk (FSD), which is managed by the General Services Administration, provides technical support for FSRS. The Information Systems Manger stated that he had e-mail documentation of requests he sent to the FSD for technical support, but those e-mails were lost during the state's transition to a new e-mail system. He also indicated that technical support staff within the FSD stated that the FSRS system was not designed to support users manually entering the required elements of the FFATA reports for dozens of subawards, and technical support advised the Information Systems Manager to use the batch upload process instead. We contacted FSD technical support staff, who confirmed that they had responded to the Information Systems Manager's request for technical assistance by informing the Information Systems Manager that the FSRS system was not designed to manage such large, manual data entry and that technical support staff had advised the Information Systems Manager to use the batch upload process. According to the Information Systems Manager, however, he encountered technical difficulties when attempting to upload the information using the batch upload process as well, so he continued entering the information for the FFATA reports manually.

During a walkthrough of the manual data entry process, we observed the Information Systems Manager's process for entering the data into FSRS and noted that he did appear to encounter technical difficulties. While we did observe the issue that he reported, the Information Systems Manager could not provide documentation to demonstrate how frequently this issue was experienced during the audit period or how he attempted to address this problem during the audit period. According to the Information Systems Manager, another factor that contributed to the late reports involved e-mails that indicated that it was permissible to report these subawards quarterly rather than monthly; however, the Information Systems Manager could not provide these e-mails or provide a name of a contact that might have sent them. The Information Systems Manager also could not recall whether the communication originated from a contact within the United States Department of Agriculture, technical support staff within the Federal Service Desk, or staff within another federal agency. The Information Systems Manager also indicated that, in addition to the FFATA reporting that he was required to submit for Child Nutrition Cluster subawards, he was responsible for other job duties, and this also contributed to his failure to report all applicable subawards and to do so in a timely manner.

Failure to provide accurate and timely reports as prescribed by the FFATA requirements increases the risk that the public will not have access to transparent, accurate information regarding expenditures of federal awards.

Recommendation

The Commissioner should ensure that the Information Systems Manager reports the Child Nutrition Cluster subawards in accordance with the FFATA reporting requirements, including the requirement that subawards be reported not later than the end of the month following the month in which the obligation was made. The Commissioner should also ensure that staff is assigned to review the reports submitted via FSRS to ensure that all applicable subawards are reported timely and accurately. These reviews should be conducted by someone other than the Information Systems Manager and should be documented.

If the department encounters difficulties reporting the subawards in accordance with the FFATA requirements, the Information Systems Manager should promptly contact the federal grantor or FSRS technical support personnel to obtain assistance. The Information Systems Manager should maintain documentation of this communication. Finally, the Commissioner should ensure that these risks are included in the department's annual risk assessment and that the corresponding control activities that the department references in its annual risk assessment adequately address these risks.

Management's Comment

We concur. Federal Funding Accountability and Transparency Act (FFATA) reporting is a relatively new federal reporting requirement and was assigned to the Information Systems Manager for the first time during the 2011-12 fiscal year. As he has gained experience using the FFATA Subaward Reporting System (FSRS) website, FFATA data is being entered more timely. The Department's Internal Audit Section will conduct spot checks to further verify timely entry of the data. The Department's risk assessment has been updated to include this risk and control activity.

Finding Number	12-DHS-01
CFDA Number	10.558, 10.559, 93.558, 93.563, 93.568, 93,575, and 93,596
Program Name	Child and Adult Care Food Program Child Nutrition Cluster Temporary Assistance for Needy Families Cluster Child Support Enforcement Low-Income Home Energy Assistance Program Child Care Development Fund Cluster
Federal Agency	Department of Agriculture Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	2010INI09945, 2011INI09945, 2012INI09945, G1002TNTANF, G1102TNTANF, G1202TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1204TN4005, G10B1TNLIEA, G11B1TNLIEA, G12B1TNLIEA 1101TNCCDF, 1201TNCCDF, 1202TNTANF, 1102TNTANF, G0901TNCCDF, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF
Federal Award Year	2008 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A

As noted in the prior audit, the department did not report financial information in accordance with the Federal Funding Accountability and Transparency Act (FFATA), which may result in the loss of federal funds and may be considered grounds for the suspension or termination of grants

Finding

The Department of Human Services expended almost $3 billion in funding during fiscal year ended June 30, 2012, from various federal agencies to administer numerous federal and state services, including but not limited to the Child and Adult Care Food Program (CACFP), the Child Care Development Fund (CCDF), Child Support Enforcement (CSE), the Low-Income Home Energy Assistance Program (LIHEAP), the Summer Food Service Program for Children (Summer Food), and Temporary Assistance for Needy Families (TANF). As a recipient of federal funds, the Department of Human Services is required to report subaward financial information in order to comply with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements. As noted in the prior audit, which covered the period July 1, 2010, through June 30, 2011, the Department of Human Services (DHS) did not report financial information in accordance with FFATA.

In the prior audit, we specifically noted that DHS management and staff

- failed to report financial information for the CACFP and the Summer Food programs; and

- did not report all the required subawards for the CSE program.

Management concurred in part with the prior-year audit finding and stated, “The department has filed reports for CSE and SFP [the Summer Food Program] and continues to work with the reporting agency to submit the CACFP report.”

During the current audit of fiscal year ended June 30, 2012, we noted that DHS management and staff

- reported financial information for the CACFP and Summer Food programs, but the information was not reported in compliance with the FFATA requirements; and

- management once again did not report all of the required subawards for the CSE programs.

These issues are repeated in this finding. In addition to the CACFP, Summer Food, and CSE programs, we noted FFATA reporting deficiencies with the Low-Income Home Energy Program, Child Care Development Fund program, and the Temporary Assistance for Needy Families program.

Description of Programs

CACFP is a year-round program designed to provide meals to children and adults in non-residential daycare settings. Summer Food is designed to provide meals to children in public and nonprofit schools, residential childcare institutions, and summer recreation programs. CCDF provides funds to increase the availability, affordability, and quality of childcare services by subsidizing childcare for low-income families that meet eligibility requirements and by helping to pay for activities to promote overall childcare quality for all children, regardless of subsidy receipt. CSE is designed to enforce support obligations owed by noncustodial parents, locate absent parents, establish paternity, and obtain child and spousal support. TANF provides assistance to help needy families achieve self-sufficiency. DHS also receives federal funding under LIHEAP to help reduce energy burdens on low-income families, the elderly, and disabled individuals.

FFATA Requirements

According to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) website,

> The Federal Funding Accountability and Transparency Act (FFATA) was signed on September 26, 2006. The intent is to empower every American with the ability

> to hold the government accountable for each spending decision. . . . The FFATA legislation requires information on federal awards (federal financial assistance and expenditures) be made available to the public via a single, searchable website, which is www.USASpending.gov.

FSRS is the system used to upload this information onto USASpending.gov. The *Code of Federal Regulations* and the grant award terms and conditions, along with FFATA implementation procedures, require DHS to report subawards of $25,000 or more in federal funds. These subawards must be reported no later than then end of the month following the month in which the subaward was made.

<u>Results of Our Testwork</u>

Based on our testwork, we found that DHS management and staff

- did not report any LIHEAP financial information for FFATA to the Federal Subaward Reporting System (FSRS);
- did not report financial information monthly for CACFP, Summer Food, CCDF, TANF, and CSE programs; and
- did not submit complete subaward information under FFATA for all programs.

<u>LIHEAP Financial Information Not Reported to FSRS</u>

During the audit period, the DHS Budget Coordinator failed to report 19 subawards, subject to FFATA requirements, totaling $51,522,187 for LIHEAP. Based on our review of the FFATA requirements, discussion with the Budget Coordinator, and review of the FSRS, we found that the DHS Budget Coordinator did not report any LIHEAP subaward information to FSRS. The Budget Coordinator stated that he did not submit this data because he was not made aware of this reporting requirement. According to our communication with a Financial Management Specialist with the Administration for Children and Families, United States Department of Health and Human Services, DHS was required to report under FFATA for LIHEAP for the fiscal year ended June 30, 2012.

<u>FFATA Information Not Reported Timely</u>

Also, based on our review of all the DHS FFATA reports for fiscal year 2012, we determined that the DHS Budget Coordinator failed to report subawards for the CACFP, Summer Food, CCDF, TANF, and CSE programs in accordance with the FFATA requirements. The DHS Budget Coordinator reported the financial information for the programs on a quarterly basis instead of the month following the month of the subaward. According to the Budget Director, this occurred because the previous budget coordinator instructed him to report quarterly.

Reported Information Not Complete

Based on our review of DHS expenditures and FFATA reports for fiscal year ended June 30, 2012, we determined that the Budget Coordinator did not report all subawards of $25,000 or more in federal funds during fiscal year 2012. See the table below for details by program.

Program	Number of Subawards DHS Should Have Reported	Number of Subawards Not Reported	Percentage of Subawards Not Reported	Amount of Subawards Not Reported
CACFP	42	42	100%	$24,800,279
Summer Food	18	3	17%	$32,632
TANF	9	4	44%	$26,786,980
CCDF	748	744	99%	$67,070,350
CSE	26	13	50%	$22,544,660

Based on discussion with the Budget Coordinator, he did not report subaward information for providers of the CCDF, CACFP, and Summer Food programs because DHS had an agreement with the providers instead of a contract making the requirement inapplicable; however, according to Title 2, *Code of Federal Regulations*, Part 170, Appendix A(e)(3)(iii), "A subaward may be provided through any legal agreement, including an agreement that you or a subrecipient considers a contract." We noted that the Budget Coordinator reported CACFP information to FSRS that was not subject to the FFATA requirements.

For the CSE program, the Budget Coordinator stated that he did not submit the complete subaward information because he encountered errors when he tried entering the information on FSRS. He stated that he did not contact the federal awarding agency to determine why the errors occurred. Based on further discussions with the Budget Coordinator, we noted that the errors he encountered were due to the use of an incorrect grant number. For the TANF program, the Budget Coordinator did not report the complete subawards because he failed to request, and program fiscal staff did not provide him with, a complete list of contracts that were required for FFATA reporting. We also found that management has not identified the risks of not submitting required FFATA reporting information in accordance with the requirements in its annual risk assessment.

Failure to meet all of the FFATA requirements increases the likelihood that the public will not have access to transparent, accurate information regarding expenditures of federal awards. In addition, according to the grant award terms and conditions, not reporting information in accordance with the FFATA requirements may be considered grounds for the suspension or termination of grants.

Recommendation

The Commissioner should ensure that the Budget Coordinator understands the FFATA reporting requirements. Applicable subawards should be reported in accordance with the FFATA reporting requirements, including the requirement that subawards be reported no later than the end of the month following the month in which the subaward was made. The Commissioner should also ensure that staff are assigned to review the reports submitted via FSRS to ensure that all applicable subawards are reported timely and accurately. These reviews should be conducted by someone other than the Budget Coordinator and should be documented.

If the department encounters difficulties reporting the subawards in accordance with the FFATA requirements, the Budget Coordinator should promptly contact the federal grantor or FSRS technical support personnel to obtain assistance. The Budget Coordinator should maintain documentation of this communication. Finally, the Commissioner should ensure that these risks are included in the department's annual risk assessment and that the corresponding control activities that the department references in its annual risk assessment adequately address these risks.

Management's Comment

We concur. The preparation of the FFATA report for LIHEAP, CACFP, Summer Food Program, CCDF, TANF, and CSE have been centralized across the Fiscal Unit with the appropriate Fiscal Staff, instead of one individual to prepare the reports to ensure timely completion on a monthly basis.

Finding Number	12-DHS-06
CFDA Number	10.558, 10.559, 81.042, 93.558, 93.563, 93.568, 93.575, 93.596, and 96.001
Program Name	Child and Adult Care Food Program Child Nutrition Cluster Weatherization Assistance for Low-Income Persons Program Temporary Assistance for Needy Families Cluster Child Support Enforcement Low-Income Home Energy Assistance Program Child Care and Development Fund Cluster Disability Insurance/SSI Cluster
Federal Agency	Department of Health and Human Services Department of Energy
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2010IN109945, 2011IN109945, 2012IN109945, DE-FG26-07NT43135, DE-EE0000114, G1002TNTANF, G1102TNTANF, G1202TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1205TN4004, G10B1TNLIEA, G11B1TNLIEA, G12B1TNLIEA, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF, G0901TNCCDF, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF 04-09-04TNDI00, 04-10-04TNDI00, 04-11-04TNDI00, 04-12-04TNDI00;
Federal Award Year	2007 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	N/A

Management's lack of review and errors in the cost allocation spreadsheets resulted in the department undercharging and overcharging federal programs for administrative costs

Finding

The Department of Human Services administers various federal grants for the Child and Adult Care Food Program, Summer Food Service Program for Children, Weatherization Assistance for Low-Income Persons Program, Temporary Assistance for Needy Families, Child Support Enforcement, Low-Income Home Energy Assistance Program, Child Care Development Block Grant, and Social Security Disability Insurance. According to federal regulations, the Department of Human Services is allowed to allocate administrative costs that cannot be directly charged to a specific federal program to all the federal programs based on the *State of Tennessee Department of Human Services Cost Allocation Plan* dated July 1, 2008, which is approved by the U. S. Department of Health and Human Services.

The *Code of Federal Regulations* (CFR) §95.507(a) states a cost allocation plan for a state agency must describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency.

Overview of Cost Allocation Process

Based on testwork performed, we found that management performed only a minimal review of the cost allocation process. The Fiscal Director of Administration and Family Assistance; Fiscal Director of Social Security Disability Insurance; Fiscal Director of Childcare, Adult, and Community Service; and Accountant prepared supporting cost allocation spreadsheets without thoroughly reviewing the administrative cost percentages and data used in allocating federal funds, prepared by the Statewide RMS Administrator. According to a Fiscal Director, the fiscal directors performed limited or minimal review of final allocation because it was unclear what to compare amounts to since many of the tables used in the final allocation were prepared by the Statewide RMS Administrator.

We tested the quarter ended December 31, 2011, for testwork on Cost Allocation Process for fiscal year ended June 30, 2012. Based on testwork performed, we found that the RMS Administrator had made errors in the tables used by the Fiscal Directors to create the spreadsheets to calculate the administrative cost percentages for allocation to the federal programs. As a result of these errors, we found that DHS management failed to charge federal programs for all its allowable administrative costs based on the approved Cost Allocation Plan. Those programs were:

- Temporary Assistance for Needy Families (TANF) Cluster
- Low Income Home Energy Assistance Program
- Child Support Enforcement

When the state does not maximize the available federal revenue it must fund the program expenditures with state resources. DHS failed to draw $178,782 in available federal revenue.

Additionally as a result of the errors in the cost allocation spreadsheets, we found that DHS management overcharged the following federal programs based on the approved plan for the same quarter.

- Weatherization Assistance Program
- Child and Adult Care Food Program
- Summer Food Service Program for Children
- Social Security Disability Insurance

The overcharges to each of these federal programs were less than $10,000.

Other Errors Noted

Based on our testwork of the allocation process we also found the DHS management and staff had not maintained adequate supporting documentation for administrative costs associated with the Vision Integration Platform (VIP) system implementation. We discussed this issue with the Statewide Random Moment Sampling (RMS) Administrator who stated that DHS experienced personnel changes and had not maintained data regarding the VIP administrative costs since the first quarter of fiscal year ended June 30, 2012, (July 1, 2011, to September 30, 2011). Without the proper documentation neither we nor management could determine the effect of this inaccurate data when allocating costs to the TANF program. Additionally, we noted the department's Cost Allocation Plan did not describe the process to identify, measure, and allocate the VIP system administrative costs to the TANF program. As a result we were unable to determine if management allocated costs appropriately to the TANF program.

The Office of Management and Budget Circular A-133 requires us to report known questioned costs when likely questioned costs are greater than $10,000. We found the known questioned costs related to overcharges were less than $10,000; however, as noted above, we were unable to determine the impact of the errors in documentation for TANF related costs.

Management had not addressed the risk of inadequate review of cost allocation spreadsheets in management's risk assessment. Without adequate reviews in the process to identify errors and inadequate documentation, management's risk of noncompliance with federal regulations is increased.

Recommendation

The Commissioner should ensure that Fiscal Directors and RMS Administrator adequately review all quarterly cost allocation spreadsheets and maintain supporting documentation to ensure that costs are properly allocated and federal revenue is maximized. The Budget Analyst Coordinator should ensure that the *Cost Allocation Plan* is updated to describe the process to identify, measure, and allocate all the expenditures used the cost allocation tables.

Management's Comment

We concur. It was identified that the Cost Allocation Table (CAT) was not calculating correctly during the October – December 2011 quarter and affected 3 of 30 Tables. Not all programs were impacted by the incorrect CAT calculation. The Random Moment Sample (RMS) Administrator rectified the error. The Department has since revised the cost allocation process to require the Budget Coordinator to review and approve the RMS Administrator's work each month. The Budget Coordinator will review all 30 CATs before the RMS Administrator provides the information to Fiscal Services.

Finding Number	12-DHS-08
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945
Federal Award Year	2010 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility Subrecipient Monitoring
Questioned Costs	$27,011

A subrecipient of the Department of Human Services did not maintain applications, approve applications, or determine eligibility for individuals participating in the Child and Adult Care Food Program, resulting in federal questioned costs of $27,011

Finding

The Child and Adult Care Food Program (CACFP) is funded by the United States Department of Agriculture (USDA) through the National School Lunch Act, and is administered on the state level by the Tennessee Department of Human Services (DHS). Through the CACFP DHS provides payments to its subrecipients (institutions) for eligible meals served to individuals who meet age and income requirements.

According to DHS' *State of Tennessee Child and Adult Care Food Program Policies and Procedures Manual (CACFP Policies and Procedures Manual)*, published in May 2011, "to operate the CACFP and receive reimbursement, all independent child care centers and sponsoring organizations must keep accurate records on the eligibility of enrolled participants for free and reduced-price meals." In order to determine eligibility for individuals, institutions may use the *Income Eligibility Application for Participant* form (eligibility application) or may use alternate approved eligibility applications. The eligibility application includes household size and income or the individual's state case number when they receive benefits under the Supplemental Nutrition Assistance Program (formerly the Food Stamp Program) or the Temporary Assistance for Needy Families (TANF) program. Institutions use the information provided on the eligibility applications and the Federal Register's *Income Eligibility Guidelines* to determine if the individual is eligible to receive meals that are free, reduced, or paid. The individual's eligibility classification determines the institution's reimbursement rate from DHS.

We tested 124 individuals from 25 institutions that participated in CACFP from July 1, 2011, through June 30, 2012. We found that one institution, H. Belle's Child Care Center (H. Belle's) did not maintain applications for 5 of 124 individuals tested. According to the Director at H. Belle's, she stated that she could not locate the eligibility applications for the five individuals we selected for testwork as well as the applications for the forty-seven other individuals that participated in CACFP at H. Belle's. According to the Director none of the applications could be located either because the Accountant/Business Manager took them home or the applications were misplaced in the office. Therefore, we could not determine if the individual's eligibility classification or whether H. Belle's staff had approved (signed and dated) these eligibility applications. Since the Director at H. Belle's did not maintain the eligibility applications for any of the individuals who participated in the program at H. Belle's from July 1, 2011, through June 30, 2012, we have questioned the reimbursement claims that H. Belle's filed with the Department of Human Services resulting in federal questioned costs of $27,011. We believe that H. Belle's was an isolated incident and that it was not reasonable to project the questioned costs to the entire population.

According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 15(e),

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

In addition, the *CACFP Policies and Procedures Manual,* "Free and Reduced-Price Meal Application," states:

> All agencies claiming reimbursement for free or reduced-price meals must maintain adequate income eligibility documentation. Adequate documentation to confirm the free and reduced-price eligibility of each participant includes the following:
>
> 1. A current application must be on file when reimbursement is claimed for free or reduced-price meals.

Additional Testwork Performed

We originally requested the eligibility applications from the Director at H. Belle's on October 18, 2012. When the Director could not locate the eligibility applications on the day of our visit, we followed up on November 13, 2012, and she stated that the applications still could not be located. On December 5, 2012, we received two of the missing eligibility applications from H. Belle's. For these two eligibility applications, the Director did not document the individual's eligibility on the application. To document the eligibility status on an application, the Director should circle free, reduced, or paid on the individual's application. According to our review of the eligibility applications, although the individual was not marked by the Director as free, it was determined by inspection of the application that both individuals were eligible to participate in the program for free price meals. The determination of a free meal was based on the individual's parents income qualifications for free meals according to the *CACFP Income Eligibility Guidelines for Free and Reduced Meals.*

According to 7, CFR 226.17(b)(8),

> Child care centers shall collect and maintain documentation of the enrollment of each child, including information used to determine eligibility for free and reduced price meals in accordance with §226.23(e)(1).

According to the *CACFP Policies and Procedures Manual*, "Determination of Eligibility,"

> The determining official(s) of each institution must determine the appropriate classification of each participant application based on the eligibility requirements for free, reduced-price, or paid (ineligible) meals.

We also reviewed the most recent program monitoring report for H. Belle's and found that the DHS program monitors classified issues noted in the report as findings, instead of serious deficiencies or did not find the issues we noted in their report. According to 7 CFR 226.6 (c)(3)(ii)(F)(H)(I)(K),

> Serious deficiencies for participating institutions are:…Failure to maintain adequate records,…Claiming reimbursement for meals not served to participants, Claiming reimbursement for a significant number of meals that do not meet Program requirements,…Failure of a sponsoring organization to disburse payments to its facilities in accordance with the regulations at §226.16(g) and (h) or in accordance with its management plan….

In the department's 2011 Risk Assessment, management identified the risk of inadequate eligibility documentation and improper federal/state reimbursements to the various institutions and sponsors that receive reimbursements from DHS. To mitigate this risk, management stated in its risk assessment that it monitors and audits for compliance and that if documentation is inadequate, questioned costs are determined and funds reimbursed. We determined that DHS only monitors the CACFP institutions every three years, unless a serious deficiency is noted. Since we found that the DHS program monitors have not appropriately classified deficiencies in the program review monitoring reports we believe management's monitoring efforts and mitigating controls were inadequate.

Failure to mitigate the risk of an institution not properly documenting the eligibility of an individual and approving the individual's eligibility application increases the likelihood that DHS will reimburse institutions inappropriately based on federal regulations.

Recommendation

The Commissioner of DHS should ensure that the Director of Program Monitoring appropriately classifies issues noted in program monitoring reports as serious deficiencies as required by the CFR. The Director of CACFP and the Director of Program Monitoring should ensure through technical assistance and monitoring that institutions maintain eligibility applications for individuals participating in CACFP. The Director of CACFP and the Director of

Program Monitoring should also ensure that institution staff properly determine and approve an individual's eligibility by signing and dating the eligibility applications of individuals participating in CACFP. In addition, to address the risks, management should reassess the mitigating controls related to program monitoring and institutions to ensure the controls effectively mitigate the risks identified.

Management's Comment

The Department concurs with this finding. The Directors of External Program Review and the CACFP Program will reassess the review process to identify improvements in the identification and correction of deficiencies related to the determination, documentation and reporting of participant eligibility. The Director of CACFP will also ensure that additional training and technical assistance are provided to sponsor personnel.

Finding Number	12-DHS-09
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945
Federal Award Year	2010 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles Cash Management Matching, Level of Effort, Earmarking
Questioned Costs	$724

The Department of Human Services did not ensure Child and Adult Care Food Program sponsoring organizations followed proper claim reimbursement and payment procedures, resulting in federal questioned costs of $724

Finding

The Department of Human Services (DHS) manages the Child and Adult Care Food Program (CACFP), which is funded by the United States Department of Agriculture (USDA) through the National School Lunch Act. CACFP provides payments to homes or centers that provide eligible meals to eligible participants. In addition, CACFP provides payments to cover administrative costs of the sponsoring organizations that sponsor the child care homes, unaffiliated child care centers, and adult care centers participating in the program. According to the *State of Tennessee, Child and Adult Care Food Program, Policies and Procedures Manual (CACFP Policies and Procedures Manual),* published in May 2011, a sponsoring organization is defined as

> A public or private non-profit organization that is entirely responsible for the administration of the CACFP in two (2) or more child or adult care center(s) which are or are not legally distinct from the sponsoring organization. The term "sponsoring organization" also includes a for-profit organization which is entirely responsible for administration of the CACFP in any combination of two or more centers which are part of the same legal entity as the sponsoring organization. In addition, the term 'sponsoring organization' includes public or private non-profit organizations which are entirely responsible for the administration of the CACFP in child care homes.

Sponsoring Organizations of Unaffiliated Centers

Sponsoring organizations of unaffiliated centers must submit claims for meal reimbursement to DHS monthly. Based on DHS' guidelines, sponsoring organizations must submit the reimbursement claim based on a full months meal activity. Sponsors are also expected to use the claiming percentages method to file its monthly claims. To follow the claiming percentages method, a sponsor must report how many meals of each type (breakfast, lunch, supper, supplement) were served during a given month and how many children were in each category (free, reduced, paid) for that month. DHS calculates the sponsoring organizations' reimbursement payments based on the percentage of children in each eligibility category (free, reduced, paid) multiplied by the number of meals of each type. The product is then multiplied by the respective federal rates of reimbursement. Also, according to the *CACFP Policies and Procedures Manual*, "Sponsoring organizations of unaffiliated centers must maintain records of their administrative costs, if any portion of the meal payments received from the TDHS are used for administrative purposes." According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 16(b)(1), no more than 15% of meal reimbursements received from DHS may be used for administrative costs.

Sponsoring Organizations of Homes

Sponsoring organizations of day care homes must also submit claims for meal reimbursement to DHS monthly. DHS calculates payments for meal reimbursement by multiplying the number of meals of each type served by the appropriate Tier I or Tier II reimbursement rates for each type of meal (breakfast, lunch, supper, supplements). Sponsoring organizations of day care homes also receive monthly administrative payments from DHS. The department calculates administrative payments by multiplying the number of homes submitting a reimbursement claim by the appropriate reimbursement rate.

The USDA annually updates reimbursement rates, which are effective July 1 of each year. The following reimbursement rates were in effect for July 1, 2011, through June 30, 2012:

Sponsors of Child Care Homes Administrative Funds	
First 50 homes	$106
Next 150 homes	$81
Next 800 homes	$63
Over 1,000 homes	$55

Meal Rates for Sponsors of Child Care Centers						
Eligibility	**Breakfast**		**Lunch/Dinner**		**Supplements**	
Free	$	1.51	$	2.9925	$	0.76
Reduced	$	1.21	$	2.5925	$	0.38
Paid	$	0.27	$	0.4825	$	0.07

Meal Rates for Sponsors of Child Care Homes						
Eligibility	**Breakfast**		**Lunch/Dinner**		**Supplements**	
Tier 1	$	1.24	$	2.32	$	0.69
Tier 2	$	0.45	$	1.40	$	0.19

We selected 22 sponsoring organizations of child care homes and unaffiliated child care centers that participated in CACFP and received meal reimbursement payments from July 1, 2011, through June 30, 2012. For these 22 sponsors, we randomly selected a monthly reimbursement received by each sponsoring organization from fiscal year ended June 30, 2012. From that monthly reimbursement, we randomly chose five centers or homes that were reimbursed by the sponsor. If the reimbursement claim was for less than five centers or homes, we tested all the centers or homes that were reimbursed, which involved 76 feeding sites. Based on testwork performed, we found that the Director of Program Monitoring and the Director of CACFP at DHS did not ensure that sponsoring organizations followed proper procedures in submitting claims to DHS and/or disbursing reimbursement claims to the centers or homes while participating in CACFP, resulting in federal questioned costs of $724.

Under the current process DHS management and staff must rely on its monitoring efforts to ensure sponsoring organizations seek reimbursement based on actual meals served. Based on the results of our testwork, we also determined that DHS's monitoring efforts were not sufficient to detect problematic billings from sponsoring organizations. See details below.

Administrative Funds Claimed Incorrectly

For the 22 sponsoring organizations tested, there were 12 sponsors of child care homes that received a payment from an original reimbursement claim for administrative funds. Based on testwork performed, we determined that the Director of CACFP at DHS did not properly reimburse one of 12 sponsors of child care homes tested (8%) for its administrative costs. The Center Supervisor at Chattanooga Human Services Department (CHSD) claimed five homes instead of four homes on the January 2012 reimbursement claim. This resulted in an overpayment of $106 for administrative costs. The Center Supervisor at CHSD agreed the reimbursement claim was incorrect. 7 CFR 226.6(b)(4)(iv), instructs sponsors to "Have a system in place to ensure that administrative costs funded from Program reimbursements do not exceed regulatory limits set forth at §§ 226.12(a) and 226.16(b)(1)."

DHS Did Not Discover Inaccurate Reimbursement Claims

Based on testwork performed, we found that sponsors submitted inaccurate reimbursement claims to DHS for 7 of 76 feeding sites tested (9%). We specifically found that the sponsors submitted claims that were not based on actual meals served.

- For four of the seven feeding sites tested, the Center Supervisor at CHSD overstated the lunch meal counts by 120 on the January 2012 reimbursement claim. We compared the reimbursement claim submitted by CHSD to the meal counts submitted by the feeding sites to determine the overstatement. This resulted in an overpayment of $278.40 for meals served. The Center Supervisor at CHSD agreed the reimbursement claim was incorrect.

- For two of the seven feeding sites tested, the Director for the Child Care Centers at Karamu Nutrition Program overstated the breakfast, lunch, dinner, and supplement meal counts on the revised October 2011 reimbursement claim. The child care centers submit a claim sheet every month that shows attendance totals, the maximum number of meals the center could claim in the month, and the actual number of meals served. The two child care centers received a payment for the maximum number of meals they could have claimed instead of a payment for the actual number of meals served. Pyramid Quality Childcare Center, Incorporated (Inc.) actually served 304 breakfasts, 304 lunches, 158 dinners, and 375 supplements but was paid for the maximum number of meals allowed at 390 breakfasts, 310 lunches, 159 dinners, and 469 supplements. This resulted in an overpayment of $203.80. JoAnn's Kids Learning Academy actually served 142 breakfasts and 142 lunches but was paid for the maximum number of meals allowed at 220 breakfasts and 220 lunches. The payment for supplements was correct. This resulted in an overpayment of $103.81. According to the Director at Karamu Nutrition Program, he set up a program that had edit checks to ensure that allowable meal counts were claimed by the two feeding sites. However based on our review of the *Karamu Center Reimbursement Statements* we determined that the program set up by the Director did not have sufficient edit checks to ensure that centers were reimbursed for allowable meals served.

- For one of the seven feeding sites tested, the staff member of the Child Care Homes at Karamu Nutrition Program overstated the breakfast, lunch, dinner, and supplement meal counts on the March 2012 reimbursement claim. The child care home actually served 54 breakfasts, 64 lunches, 61 dinners, and 54 supplements but was paid for the maximum number of meals allowed at 66 breakfast, 66 lunches, 66 dinners, and 66 supplements. We noted on the attendance sheet for March 19, 2012, the initials "MC" were written where meals would normally be claimed. Karamu Nutrition Program's monitor, "MC," made a site visit that day and wrote her initials down for

> any child who was not present that day; therefore, meals claimed for children not present should have been disallowed. This resulted in an overpayment of $39.40. According to the staff member at Karamu Nutrition Program, staff did not review the attendance sheet and the claim sheet submitted by the child care home to check for disallowances in meal counts.

According to 7 CFR 226.10(c),

> Prior to submitting its consolidated monthly claim to the State agency, each sponsoring organization must perform edit checks on each facility's meal claim. At a minimum, the sponsoring organization's edit checks must: (1) Verify that each facility has been approved to serve the types of meals claimed; (2) Compare the number of children enrolled for care at each facility, multiplied by the number of days on which the facility is approved to serve meals, to the total number of meals claimed by the facility for that month. Discrepancies between the facility's meal claim and its enrollment must be subjected to more thorough review to determine if the claim is accurate.

DHS was Unaware That a Sponsoring Organization Calculated Feeding Sites Payments Incorrectly

For the 76 feeding sites tested, the sponsoring organization was required to calculate payment to 72 feeding sites. Sponsoring organizations use the attendance records and meal counts submitted by the feeding sites to calculate the claim for meal reimbursement submitted to DHS. The Director at Learning Block Nutrition Services, Inc. incorrectly calculated the July 2011 claim payments for 2 of 72 feeding sites tested (3%) based on the attendance records and meal counts. Feeding site number 1 was reimbursed $499.20; based on our recalculations, this site should have received $510.00, resulting in an underpayment of $10.80. Feeding site number 2 was reimbursed $636.10; based on our recalculations, this site should have received $633.13, resulting in an overpayment of $2.97. The Director at Learning Block Nutrition Services, Inc. stated the discrepancies were due to mathematical errors. He stated that he normally performs reimbursement calculations in Excel, but these calculations were done by hand for this particular month. We reviewed the hand written calculations due to the errors found and determined the errors to be mathematical errors. According to 7 CFR 226.6(b)(C)(2)(iii), each site must ensure that it "Has a financial system with management controls specified in writing…. That claims will be processed accurately, and in a timely manner."

DHS Allowed a Sponsoring Organization to Reimburse Feeding Sites Beyond the 5 Day Requirement

For the 76 feeding sites tested, the sponsoring organization was required to disburse payment to 72 feeding sites within five days. Based on testwork performed, the sponsoring organization, Wright's Human Resources, did not disburse the payment received from DHS to 5 of 72 feeding sites tested (7%) within five working days. Wright's Human Resources received payments from DHS on February 8, 2012, and February 15, 2012, for the January 2012 (original and revised) reimbursement claim; however, the Director at Wright's Human Resources did not disburse these payments until February 29, 2012. Since, the Director at Wright's Human Resources was not able to explain to us which feeding sites were reimbursed from the two DHS payments received, we could not determine which claim the feeding sites were reimbursed for on the payment received from the sponsoring organization on February 29, 2012. We calculated the number of days late based on the February 8, 2012, and February 15, 2012, payments received, which is fourteen to nine working days before the sponsoring organization disbursed payments to the feeding sites. In addition to the 5 feeding sites tested, the Director at Wright's Human Resources did not disburse payments received from DHS to its other 13 feeding sites. According to 7 CFR 226.16(h), "Sponsoring organizations shall make payments of program funds to child care centers, adult day care centers, emergency shelters, at-risk afterschool care centers, or outside-school-hours care centers within five working days of receipt from the State agency…."

Review of Management's Monitoring Efforts

We reviewed the most recent program monitoring reports for each of the sponsoring organizations noted above and found that program monitors classify issues noted in its reports as findings instead of serious deficiencies or did not report the issues we noted. According to 7 CFR 226.6 (c)(3)(ii)(F)(H)(I)(K),

> Serious deficiencies for participating institutions are:…Failure to maintain adequate records,…Claiming reimbursement for meals not served to participants, Claiming reimbursement for a significant number of meals that do not meet Program requirements,…Failure of a sponsoring organization to disburse payments to its facilities in accordance with the regulations at §226.16(g) and (h) or in accordance with its management plan….

We also reviewed the corrective actions for the program monitoring reports for each of the sponsoring organizations noted above and found that the corrective actions were not reliable. Specifically, the sponsoring organizations did not explain the actions needed to be taken to correct the issues noted in the monitoring reports, yet these corrective actions were accepted by DHS.

In the department's 2011 risk assessment, management identified the risks of verifying claims, falsifying claims, and inflating meal counts by sponsoring organizations. To mitigate these risks, management monitors sponsoring organizations for compliance every three years and has a corrective action process in place. We determined that DHS only monitors the CACFP sponsoring organizations every three years, unless a serious deficiency is noted in the program review monitoring report and that the corrective action process was not reliable. Our testwork revealed the DHS program monitors did not properly classify monitoring deficiencies as discussed in finding 12-DHS-08; therefore, management's monitoring efforts and mitigating controls were inadequate.

These issues resulted in federal questioned costs of $724. Our testwork included a review of 22 sponsoring organizations, representing $710,191 of reimbursement claims to sponsoring organizations from a total population of $20,597,959. The Office of Management and Budget Circular A-133 requires us to report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program. We believe that likely questioned costs could exceed $10,000.

Failure to mitigate the risk of sponsoring organizations

- receiving the improper amount of administrative funds;
- calculating meals claimed incorrectly; and
- disbursing amounts to feeding sites based on incorrect amounts claimed

increases the likelihood of sponsoring organizations' and feeding sites' receiving reimbursement payments they are not entitled to. Also, failure to mitigate the risk of sponsoring organizations making untimely reimbursement payments increases the likelihood of sponsoring organization causing undue hardship to homes and centers participating in CACFP.

Recommendation

The Commissioner of DHS should ensure that the Director of Program Monitoring classifies issues noted in program monitoring reports as serious deficiencies as defined by the CFR. The Director of Program Monitoring and the Director of CACFP should ensure that the sponsoring organizations submit corrective actions that specifically state the steps needed to be taken to correct the issues noted in the program monitoring reports. The Director of Program Monitoring should also ensure that program monitoring staff perform monitoring activities to ensure that sponsoring organizations

- receive the proper amount of administrative funds;
- calculate meals claimed correctly;
- disburse amounts to feeding sites based on the amounts claimed; and
- disburse meal reimbursement payments in accordance with the five-day time limit.

The Director of CACFP should also provide additional technical assistance to sponsoring organizations that have issues noted in the program monitoring reports. In addition, to address the risks, management should reassess the mitigating controls related to verifying claims, falsifying claims, and inflating meal counts by sponsoring organizations.

Management's Comment

The Department concurs with this finding. The Director of External Program Review will reassess monitoring operations and take all necessary steps to ensure the timely identification of sponsor deficiencies. The Director of CACFP will also ensure that additional training and technical assistance are provided to sponsor personnel.

Finding Number	12-DHS-13
CFDA Number	10.558, 10.559, 81.042, 93.558, 93.563, 93.568, 93.575, 93.596, and 96.001
Program Name	Child and Adult Care Food Program Summer Food Service Program for Children Weatherization Assistance Program for Low-Income Persons Temporary Assistance for Needy Families Cluster Child Support Enforcement Low-Income Home Energy Assistance Program Child Care and Development Fund Cluster Disability Insurance/SSI Cluster
Federal Agency	Department Agriculture Department of Energy Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	2010INI09945, 2011INI09945, 2012INI09945, DE-FG26-07NT43135, DE-EE0000114, G1002TNTANF, G1102TNTANF, G1202TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1205TN4004, G10B1TNLIEA, G11B1TNLIEA, G12B1TNLIEA, G0901TNCCDF, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF, 04-09-04TNDI100, 04-10-04TNDI100, 04-11-04TNDI100, 04-12-04TNDI100
Federal Award Year	2007 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Cash Management
Questioned Costs	$6,094,932 (93.596)

The department did not properly review and approve federal cash drawdowns or ensure that cash management duties were properly segregated prior to requesting funds from the federal awarding agencies; in addition, the department's Edison review process did not detect a miscoded transaction that affected federal cash drawdowns, increasing the risk of overdrawn federal funds

Finding

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

For the Child Care and Development Fund (CCDF) program, the state is required to fund or match a percentage of certain expenditures as prescribed by the United States Department of Health and Human Services annually. The department uses a report generated by Edison, the State's accounting system, called the "TN_GR03 Billing Summary" (GR03 report), which contains a list of expenditures by federal programs, to assist them in preparing the federal cash drawdowns.

Based on our work performed during the audit, we discovered two issues involving the cash management process. We found that management

- failed to document supervisory review and approval of federal cash drawdowns prior to drawing funds from the federal awarding agency; and

- approved a miscoded transaction within Edison which was incorrectly charged to the Child Care Mandatory and Matching Funds for the CCDF, resulting in an overdraw of federal funds for this program.

No Documentation of Supervisory Review

Under the current process, the Fiscal Director over Administration and Family Assistance oversees the department's federal cash drawdown process for all federal programs it administers. An Accountant III who reports to the Fiscal Director over Administration and Family Assistance is responsible to determine the draw amounts for each federal program using the GR03 report and for drawing the funds. Once the state receives the federal funds, an Accounting Technician records the receipt of federal funds in Edison.

For the fiscal year ended June 30, 2012, we tested 64 federal expenditures to determine if the department's federal draws were proper. Based on our testwork, we found that the Fiscal Director over Administration and Family Assistance did not document or adequately document his supervisory review and approval of the GR03 report for 52 of the 64 expenditures tested (81%) prior to initiating the drawdown of federal funds.

Specifically, we found that for 3 of the 52 errors (6%) noted above, the Fiscal Director documented his review by signing the GR03; however, for two of the three errors, he documented his review after the Accountant III requested federal funds. For the other one, he signed the GR03 but did not date it, so we could not determine if he reviewed it prior to the draw.

For the remaining 49 errors (94%), the Fiscal Director did not document his review and approval of the GR03.

No Segregation of Duties

The Fiscal Director over Administration and Family Assistance also failed to properly segregate duties surrounding cash management and the cash drawdown process. We found that between February and May 2012, the Fiscal Director reviewed and approved the GR03 report the Accountant III prepared; however, in May 2012, the Accountant III went on extended leave, and the Fiscal Director performed all the cash management functions. The Fiscal Director used the GR03 to determine the amounts to draw, did his own review, and drew the funds from the federal awarding agencies. During our discussions with the Fiscal Director about the results of our work, because of limited staff, the Fiscal Director did not have another employee to properly maintain segregation of duties. He stated he understands a supervisory review needs to take place prior to requesting funds from the federal awarding agencies. According to the Fiscal Director, he will continue to work on the procedures over cash drawdowns and the approval process and is currently training another accountant to ensure that he maintains segregation of duties.

The Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 6 Internal Controls, "describes characteristics of internal control …that should reasonably assure compliance with the requirements of Federal laws, regulations, and program compliance requirements." The Compliance Supplement suggests that internal controls for cash management would involve an "appropriate assignment of responsibility for approval of cash drawdowns, requests for reimbursement, and payments to subrecipients." The Compliance Supplement also suggests an "appropriate level of supervisory review of cash management activities." A program-wide control activity includes an "adequate segregation of duties provided between performance, review, and recordkeeping of a task."

Miscoded Transaction Billed to Child Care Mandatory and Matching Funds for the CCDF Program

The former Fiscal Director over Adult and Community Services was responsible for CCDF's program accounting and ensuring the state's federal matching percentage of program expenditures was proper. The Accountant III for the CCDF program entered transactions into Edison, and the former Fiscal Director approved them. The maximum allowable amount of federal funds that DHS can draw is based on the Federal Medical Assistance Percentages (FMAP) applicable for the audit period and is the federal government's participation for CCDF program.

Based on our reconciliation of CCDF program expenditures to cash drawdowns recorded to the CCDF program, we determined that the Fiscal Director over Adult and Community Services drew more federal funds than was allowed for this program. When we brought this issue to management's attention, we were told that the Accountant III miscoded a closing journal entry totaling $6,094,932 that should have been credited back to the CCDF program. Because of the miscoding, this credit did not appear on the GR03 report and the federal drawdowns were not adjusted before June 30, 2012. As a result, we are questioning $6,094,932 in federal questioned costs.

After discussions with the Director of Operations, the Accountant III for the CCDF program, and the Fiscal Director over Administration and Family Assistance, the Accountant III corrected the error and ultimately corrected the federal cash draws on December 11, 2012.

The OMB Circular A-133 Compliance Supplement, Part 6 Internal Controls, under Control Activities, suggests that internal controls for matching involve an "adequate review of monthly cost reports and adjusting entries," and a "supervisory review of matching…performed to assess the accuracy and allowability of transactions and determinations…."

When a Fiscal Director does not review or approve the federal cash drawdowns or fails to detect errors that affects the federal cash drawdowns, the risk that federal funds could be overdrawn and not detected promptly is increased, and the state may owe the federal government accumulated interest on any amount overdrawn. Furthermore, we noted that the department did not address the risk of overdrawn federal funds or payment of unnecessary interest incurred for overdrawn federal funds in its risk assessment.

Recommendation

The Assistant Commissioner for Finance and Administration at the Department of Human Services should ensure that documentation used to determine cash drawdown amounts are reviewed and approved prior to requesting federal funds. He should also ensure that staff are properly trained in the federal drawdown process and that duties are properly segregated. The Assistant Commissioner should also ensure that staff reviews federal transactions for all programs requiring matching funds annually to ensure the department only draws the amount allowed. In addition, the Assistant Commissioner should ensure that the risks noted in this finding are addressed in the department's annual risk assessment.

Management's Comment

We concur. The Department has revised the federal revenue drawdown process to require documented pre-approval by another staff before drawing federal revenue. The Department is also in the process of adding another staff member to assist with the federal revenue draw.

Finding Number	12-DOE-04
CFDA Number	10.560, 84.010, 84.389, 84.027, 84.196, 84.358, 84.365, 84.367, 84.377, 84.388, and 84.386
Program Name	State Administrative Expenses for Child Nutrition Title I, Part A Cluster Special Education Cluster (IDEA) Education of Homeless Children and Youth Cluster Rural Education English Language Acquisition State Grants Improving Teacher Quality State Grants School Improvement Grants Cluster Educational Technology State Grants Cluster
Federal Agency	Department of Agriculture Department of Education
State Agency	Department of Education
Grant/Contract No.	2011IN253345, 2012IN253345, S010A090042, S010A100042, S010A110042, S389A090042, H027A070052, H027A090052, H027A100052, H027A110052, S196A090044, S196A100044, S196A110044, S358B090042, S358B100042, S358B110042, S365A090042, S365A100042, S365A110042, S367A090040, S367A100040, S367A110040, S377A090043, S388A090043, S386A090042
Federal Award Year	2007 through 2013
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	\$69,155 (10.560) \$195,991 (84.010) \$48,873 (84.389) \$92,399 (84.027) \$14,537 (84.196) \$18,763 (84.358) \$9,012 (84.367) \$2,969 (84.386)

The Tennessee Department of Education did not ensure that personnel expenditures charged to federal awards were supported by adequate, timely documentation and did not ensure that Improving Teacher Quality and Title I, Part A funds were used for allowable activities, resulting in federal questioned costs of \$451,699

Finding

The Tennessee Department of Education (TDOE) did not adhere to federal requirements prescribed by Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," and the United States Department of Education for documenting personnel expenditures charged to various federal awards. In addition, the department did not ensure that school improvement funds from the department's Title I Grants to Local Educational Agencies award and state activities funds from the department's Improving Teacher Quality award were used for allowable activities.

Inadequate Time and Effort Documentation

We tested the population of 52 TDOE employees whose personnel expenditures were fully or partially funded using consolidated state administrative funds and ultimately charged as direct costs to the grants. Consolidated state administrative funds are funds provided for state administration from programs originally authorized by the Elementary and Secondary Education Act of 1965 (ESEA). The department consolidates these amounts and uses the funds to administer various ESEA programs (for example, English Language Acquisition State Grants and Improving Teacher Quality State Grants). In order to determine whether the personnel expenditures charged to the consolidated state administrative funds for these employees were supported by adequate documentation in accordance with federal requirements, we compared the funding sources the department used to compensate the employees to the department's time and effort documentation.

Based on our review, we found that for 51 of 52 employees tested (98%), the former Fiscal Director, the Budget Director, the Executive Director of Federal Programs, and the former Executive Director of Technology did not ensure that the employees' personnel expenditures were adequately documented in accordance with OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," Attachment B, paragraphs 8.h.(3-5), and did not ensure that allocations of personnel expenditures to federal awards were performed in accordance with the substitute system approved by the United States Department of Education.

OMB Circular A-87, Attachment B, paragraph 8.h., establishes standards for documenting employee time and effort when personnel expenditures are charged to federal awards. Specifically, employees that work solely on one federal award (single cost objective employees) must prepare certifications that meet federal requirements and must prepare these certifications at least semi-annually. Employees that work on a federal award and on other federal or state awards and activities (multiple cost objective employees) must prepare personnel activity reports (or equivalent documentation) that meet certain requirements and must prepare this documentation at least monthly, unless a substitute method is approved by the cognizant federal agency.

Our testwork revealed that the department did not ensure that personnel expenditures charged to the following federal programs and clusters were supported by adequate documentation:

- State Administrative Expenses for Child Nutrition (CFDA 10.560)
- Title I, Part A Cluster (CFDA 84.010 and 84.389)

- Special Education - Grants to States program (CFDA 84.027) within the Special Education Cluster (IDEA [Individuals with Disabilities Education Act])

- Education for Homeless Children and Youth program (CFDA 84.196) within the Education of Homeless Children and Youth Cluster

- Rural Education (CFDA 84.358)

- English Language Acquisition State Grants (CFDA 84.365)

- Improving Teacher Quality State Grants (CFDA 84.367)

- School Improvement Grants Cluster (CFDA 84.377 and 84.388)

- Education Technology State Grants, Recovery Act program (CFDA 84.386) within the Educational Technology State Grants Cluster

We found that documentation supporting personnel expenditures charged to the consolidated administrative funds for single cost objective employees and multiple cost objective employees was inadequate due to numerous deficiencies, including the following:

- time and effort documentation was not always signed and/or dated;

- employees signed time and effort documentation prior to the end of the time period to which the documentation was applicable;

- employees did not always prepare time and effort documentation;

- time and effort documentation did not always specify the cost objectives on which employees worked; and

- time and effort documentation did not include leave as a cost objective.

For TDOE's multiple cost objective employees who worked as administrative staff in TDOE's field offices, the United States Department of Education approved a substitute system for time and effort reporting. Based on our testwork, we found that TDOE did not allocate personnel expenditures for these employees to federal awards based on the approved substitute system. The approved substitute system required allocations of personnel expenditures for certain administrative staff in field offices to be based on personnel activity reports (PARs) prepared by program staff that worked in the field offices alongside the administrative staff. We found that the former Fiscal Director and the Budget Director did not base allocations of administrative staff's personnel expenditures on PARs. Instead, the former Fiscal Director and the Budget Director inappropriately allocated administrative staff's personnel expenditures to federal awards based on the proportion of program staff in the field offices that worked on each federal award or state activity.

In addition to the 52 employees tested, we found that the Executive Director of School Nutrition Services did not ensure that the personnel expenditures for 20 employees in the Division of School Nutrition Services charged to the State Administrative Expenses for Child Nutrition (SAE) program during the fiscal year ended June 30, 2012, were supported by adequate time and effort documentation. According to the Executive Director of School Nutrition Services, employees within the Division of School Nutrition Services did not maintain time and effort documentation during the fiscal year and had not prepared this documentation in years.

Discussions with the Executive Director of Federal Programs, the former Fiscal Director, and the Executive Director of School Nutrition Services revealed that personnel expenditures for these employees were not supported by adequate documentation because of a variety of factors. These factors included employees' lack of awareness of federal requirements for time and effort documentation, the former Fiscal Director's belief that program personnel were responsible for ensuring that personnel expenditures were allocated to federal awards in accordance with the substitute system approved by the United States Department of Education, and the Executive Director of Federal Programs' belief that payroll records in Edison (the state's accounting system) met the federal requirements for time and effort documentation. In addition, we noted that after receiving a letter dated November 12, 2008, from the United States Department of Education identifying deficiencies in TDOE's standard PARs, TDOE did not revise its time and effort documentation to address these deficiencies.

For TDOE's single cost objective employees, after we brought these issues to the Executive Director of School Nutrition Services' and the Executive Director of Federal Programs' attention, the Executive Directors addressed these problems by preparing certifications that met federal requirements or by having the employees prepare certifications that met federal requirements. Federal regulations require employees working on a single cost objective to prepare certifications at least semi-annually. The new and revised certifications we were provided were prepared between 4 and 14 months after the end of the certification period. We contacted a Program Attorney within the United States Department of Education's Office of General Counsel, and he indicated that, as part of the audit resolution process, his department has accepted late certifications for single cost objective employees as adequate support for costs charged to federal awards in the past. As a result, we did not question the personnel expenditures charged to federal awards for single cost objective employees.

Because the Executive Director of Federal Programs, the former Fiscal Director, and the Budget Director could not provide adequate time and effort documentation to support personnel expenditures charged to federal awards for the multiple cost objective employees, we questioned $316,628 in federal costs charged to various awards. See the chart below for programs and questioned costs.

CFDA No.	Program	Federal Questioned Costs
10.560	State Administrative Expenses for Child Nutrition	$69,155
84.010	Title I Grants to Local Educational Agencies	113,346
84.027	Special Education - Grants to States	92,399
84.358	Rural Education	18,763
84.367	Improving Teacher Quality State Grants	5,459
84.196	Education for Homeless Children and Youth	14,537
84.386	Education Technology State Grants, Recovery Act	2,969
	Total	$316,628

After we brought this matter to the attention of the Executive Director of Federal Programs, the Executive Director of Federal Programs and fiscal personnel reversed $21,793 of the personnel expenditures inappropriately charged to federal awards and charged the expenditures to state revenue funds. Specifically, the Executive Director and fiscal personnel reversed the following expenditures and charged them to state revenue sources:

CFDA No.	Program	Reversed Expenditures
84.010	Title I Grants to Local Educational Agencies	$3,896
84.367	Improving Teacher Quality State Grants	391
84.196	Education for Homeless Children and Youth	14,537
84.386	Education Technology State Grants, Recovery Act	2,969
	Total	$21,793

Unallowable Activities

During our review of time and effort documentation, we also found that the Executive Director of Federal Programs failed to ensure that amounts reserved for school improvement activities from the department’s Title I, Part A grant funds and amounts reserved for state activities from the department’s Improving Teacher Quality grant funds were used for allowable activities in accordance with Title 20, *United States Code* (USC), Section 6303(a), and 20 USC 6613(a), respectively, resulting in $135,071 in federal questioned costs.

According to 20 USC 7821(a), TDOE may only consolidate funds specifically made available for state administration. According to 20 USC 6303(a) and 20 USC 6613(a), neither school improvement funds nor state activities funds are specifically made available for state administration. Since TDOE was not permitted to consolidate school improvement funds or state activities funds with its consolidated administrative funds, the Executive Director of Federal Programs should not have charged personnel expenditures for five employees working on the consolidated administrative cost objective to school improvement funds or state activities funds. Therefore, we questioned federal costs of $135,071 charged to various awards. See the chart below for programs and questioned costs.

CFDA No.	Program	Federal Questioned Costs
84.010	Title I Grants to Local Educational Agencies	$82,645
84.367	Improving Teacher Quality State Grants	3,553
84.389	ARRA-Title 1 Grants to Local Educational Agencies, Recovery Act	48,873
	Total	$135,071

Discussions with the Executive Director of Federal Programs revealed that she was not aware that personnel expenditures for the five employees were charged to Title I, Part A school improvement activities funds and to Improving Teacher Quality state activities funds until we brought this matter to her attention. According to the Executive Director, school improvement funds and state activities funds were expended for unallowable activities because staff within the department's fiscal office were confused regarding whether the Title I, Part A school improvement funds and Improving Teacher Quality state activities funds were consolidated administrative funds. After we brought this matter to the attention of the Executive Director of Federal Programs, the Executive Director of Federal Programs and fiscal personnel reversed the personnel expenditures charged to federal awards and charged the expenditures to the consolidated administrative funds, as appropriate.

Conclusion

Failure to comply with federal requirements for documenting employee time and effort increases the likelihood that federal funds may be charged for services that were not performed. In addition, failure to ensure that federal funds are only expended for allowable activities increases the likelihood that the objectives of federal awards may not be met. We also noted that the risks relating to inadequate support for personnel expenditures charged to federal awards and the risks relating to expenditures of federal awards for unallowable activities were not included in management's annual risk assessment.

Recommendation

The Commissioner of the Tennessee Department of Education should ensure that personnel expenditures charged by staff to federal awards are supported by timely, adequate documentation prepared in accordance with federal requirements. The Commissioner should also ensure that staff revise the department's standard PARs to comply with federal requirements. In addition, he should ensure that both program staff and fiscal staff are adequately trained with respect to federal requirements for documenting employee time and effort.

The Commissioner should require supervisors and program directors to periodically compare the funding sources used to compensate employees with the employees' job duties and corresponding time and effort documentation to ensure that the employees' personnel costs are being charged to the appropriate funding source(s). Supervisors and program directors should promptly notify fiscal personnel in the event that any errors in payroll information are identified. In addition, the Commissioner should require fiscal personnel to obtain and maintain prior, written approval from program directors before making accounting adjustments to federal awards.

Finally, management should include the risks noted in this finding in management's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner.

Management's Comment

We concur that there were weaknesses in the TDOE's time and effort procedures and documentation. As noted in the audit report, the TDOE has taken proactive steps to correct these issues as they were identified. Further, we have reconfigured expenditures to ensure they are charged to the appropriate programs and have amended our policies and procedures to ensure proper accounting going forward. As a result of these measures, we believe we have addressed and will have remedied all questioned costs by March 31, 2013.

Time and effort documentation was inadequate.

We concur that there were deficiencies in the FY12 (2011-12) time and effort documentation. As these deficiencies were identified during the audit, immediate corrective action was taken to address the FY12 concerns: semi-annual certifications of ESEA Consultants and others were amended to reflect appropriate signatures, dates and cost objectives. In addition, as recognized by the auditors and as noted in the audit finding, the TDOE reversed $21,793 of the personnel expenditures inappropriately charged to federal awards and charged the expenditures to state revenue funds.

In the current fiscal year (2012-13), the responsibility for the communication, collection, and review of the PARs and semi-annual certifications has been reassigned to supervisory staff to ensure adequate oversight and review. Departmental forms, including New Hire information forms, PAR and semi-annual certifications have been revised to include all elements required in OMB Circular A-87. The TDOE has also instituted a policy requiring a supervisory signature on all time and effort documentation to ensure compliance with federal grant regulations as well as provide pertinent information on employee effort. The TDOE has provided time and effort training for employees paid with federal and state-match funds. To date, 75 percent of these employees have been trained, and by March 31, 2013, we expect to have trained 100 percent of these employees. In addition, effective for the quarter ending March 31, 2013, information from the TDOE budget office will be disseminated to supervisors and directors at least quarterly, allowing even greater oversight of employee time and effort.

In FY14 (2013-14), TDOE personnel will continue to use PARs and semi-annual certifications to document time and effort, including regional directors and secretaries. The TDOE will no longer use a substitute system for regional office administrative staff.

It is our goal to ultimately utilize Edison as the system of record to document time and effort. This will create more uniformity and ease the reporting burden on employees. Task profiles will be created to identify employee cost objectives, allowing for an ongoing reconciliation of time and effort.

Approved substitute system not followed in regional offices.

We concur that the approved substitute system for the regional (CORE) offices was not implemented as approved. To address the questioned cost associated with this part of the finding ($276,072), for FY12 (2011-12), the TDOE has recalculated CORE office compensation for regional directors and secretaries to determine the amounts allocable to federal grant funds if the substitute system approved by the U.S. Department of Education had been implemented with fidelity across the CORE offices. This recalculation has allowed a comparison between amounts actually charged to specific grant programs with amounts that would have been charged if the approved substitute system had been used. The results indicate Special Education and Child Nutrition programs were under-billed while ESEA/NCLB programs were over-billed. The overbilling of $12,745 to ESEA/NCLB programs will be corrected through accounting entries and a corresponding adjustment to a drawdown of federal funds. These adjustments should be completed no later than March 31, 2013, within the Tydings period.

For FY13 (2012-13), CORE staff persons have ceased using any substitute system, and employees paid with federal grant funds have reconstructed their time and effort for July 1, 2012 – December 31, 2012. After the fact attestations of effort performed have been developed by affected employees.

Effective January 1, 2013, and continuing into FY14 (2013-14), all employees statewide paid with federal grant or state matching funds will complete the appropriate time and effort documentation (PAR / semi-annual certification) and submit this documentation to their supervisors. Supervisors will review time and effort documentation as indicated by his/her signature and date and submit to the TDOE accounting office for quarterly reconciliation.

Unallowable activities, including Title I and Teacher Quality

In FY12 we concur that there were deficiencies in our internal procedures for program budget, revisions, and allowable expenditures for certain grants, notably around ESEA/NCLB consolidated administration and Teacher Quality state program funds. As recognized by the auditors and as noted in the audit finding, after this matter was brought to the attention of TDOE management, all of the expenditures questioned for this part of the finding ($135,071) were reversed well within the Tydings period, and the personnel expenditures were charged to consolidated administrative funds, as appropriate.

Effective January 1, 2013, new departmental policies have been implemented requiring project director authorization when budget changes are necessitated. These procedures and controls will keep project directors and program offices involved with the budgets for which they are accountable.

<u>Current Status of Action on Questioned Cost of $451,699</u>

Accounting entries have been made to date to reverse $156,864 in questioned costs:

As recognized by the auditors and as noted in the audit finding, the TDOE has taken action to reverse $156,864 of the costs that were charged inappropriately. For these $156,864 of personnel expenditures for which there was not adequate documentation to support the cost or the cost was unallowable, the TDOE reversed the charges from the federal accounts and charged the expenditures to state revenue sources or other allowable federal cost objectives.

Questioned cost ($276,072) associated with allocation of compensation of regional directors and secretaries to federal programs:

Based on the TDOE's recalculation of the allocations based on the compensable hours method approved by the U.S. Department of Education, the TDOE believes it has a liability of $12,745 that should be credited to ESEA/NCLB programs. The TDOE will make the necessary accounting entries and properly credit these programs by March 31, 2013, within the Tydings period.

Questioned cost of $18,763 associated with lack of adequate documentation to support personnel expenditures charged to the Rural Education Program:

The $18,763 in questioned costs represents the total amount charged to the Rural Education program, including leave. The PARs were amended to provide additional information and descriptions of the cost objectives to comply with requirements in OMB A-87. A proportionate amount of leave was reversed from federal accounts and charged to state revenue sources. TDOE believes we have no remaining liability in the $18,763 of questioned costs.

Recommendation	Anticipated Corrective Action	Anticipated Completion Date
Ensure that personnel expenditures charged by staff to federal awards are supported by timely, adequate documentation prepared in accordance with federal requirements	Procedural change in the methodology and forms as well as the submission and review process to ensure supervisors are aware of how their employees' efforts align with their budgeted amounts.	July 1, 2012: substitute system no longer used in regional offices January 1, 2013 and ongoing: PARs used to document time and effort
Revise the department's standard PAR form to comply with federal requirements	The department's time and effort Personnel Activity Report (PAR) and semi-annual certification forms have been revised to address the deficiencies noted in the report, including annual/sick leave and the inclusion of specific cost objectives	Completed: January 22, 2013
Ensure both program and fiscal staff are adequately trained with respect to federal time and effort requirements	Identify and provide training for 100% of employees paid with federal or state match funds; include time and effort training as part of new employee orientation. Provide time and effort training to subgrantees to ensure compliance with federal requirements	Completed: Training sessions for state employees were held January 23, January 24, February 11, 2013. No later than April 15, 2013, 100% of employees will be trained. Ongoing: Training session held February 12, 2013 for district personnel administering federal grant funds. Additional regional trainings scheduled for April 16, 24, 30; May 6, 2013.
Require supervisors and program directors to periodically compare funding sources with employees' job duties to ensure appropriate funding sources	Provide supervisors and program directors with quarterly reports on personnel and budget detail.	Report for quarter ending March 31, 2013 will be submitted via email to supervisors and program directors by the 5th working day of the following month.
Include the audit findings in management's documented risk assessment	The time and effort issues will be added to the risk assessment.	Completed: December 28, 2012

Finding Number	12-LWD-01
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Material Weakness
Compliance Requirement	Allowable Costs/Cost Principles and Eligibility
Questioned Costs	N/A

The Department of Labor and Workforce Development's management has threatened the integrity of the Unemployment Insurance Program by failing to provide sufficient internal controls and oversight

Finding

The Department of Labor and Workforce Development's (LWD) management has threatened the integrity of the Unemployment Insurance (UI) program by failing to address critical functions of the program. We found that LWD personnel were unable to manage all of the claims submitted through the program. Specifically, LWD had backlogs in receiving and responding to incoming telephone calls related to new and existing unemployment claims; processing initial unemployment claims; resolving pending claims; and notifying employers of unemployment claims. These backlogs have increased as the state's unemployment level remained high. LWD's efforts to review fraudulent unemployment claims and collect overpayments were also strained. Additionally, we determined that the overall internal controls over the UI program operation needed significant improvements because the controls were ineffective or non-existent. As a result, LWD's number of overpayments to ineligible claimants has risen significantly during the past three years.

Background

The UI program is designed to provide benefits to claimants who lose their jobs through no fault of their own. The program is funded by the Tennessee Unemployment Insurance Trust Fund (UTF), which was established by the State Unemployment Tax Act (SUTA). Employers pay premiums into this fund based on the first $9,000 of wages earned by each covered employee each year. If benefit payments from the UTF exceed premiums collected from employers, LWD is responsible for replenishing the fund and generally accomplishes this by raising premium rates.

The claimants who are approved may qualify to receive unemployment benefits from the state's trust fund for up to 26 weeks based on a calculated weekly benefit amount. Once the initial 26 weeks have been exhausted, unemployment benefits may continue through federally funded grants.

Summary of Findings

LWD management is responsible for establishing and maintaining the processes and internal controls for the UI program. LWD management is also responsible for complying with the federal grant requirements in its operation and oversight of the program in Tennessee. Our audit of this major program determined that LWD had not ensured critical controls and effective processes were in place and operating as needed. We also noted material weaknesses and significant deficiencies in internal control over compliance with requirements related to this federal program. The following noncompliance and control weaknesses are detailed in separate findings in this audit report and indicate that LWD's management is not properly administering the program. A summary of the conditions is described below.

- We found that overpayments due to both fraud and error have increased significantly, and LWD's collection of overpayments is low (Finding 12-LWD-02).

- We found significant backlogs with management's processes of receiving and responding to telephone calls involving initial and existing claims, processing claims, resolving pending claims, and notifying employers of claimants' requests for unemployment. We also found that management did not fully implement the case management system and potentially wasted federal funds on the system (Finding 12-LWD-03).

- We found that management's cross-matches to detect fraudulent claims were not effective (Finding 12-LWD-04).

- We found that management did not verify social security numbers for a large number of claimants during the audit period and over the past three years (Finding 12-LWD-05).

- We found that management did not always identify fraudulent claims and did not correctly calculate the overpayments with penalties and interest. In addition, claimants submitting fraudulent claims were not removed from the program (Finding 12-LWD-06).

- We found that management allowed automated approvals of claims without any verification that the employees separated from employers (Finding 12-LWD-07).

- We found that management did not always require employers who filed partial claims on behalf of employees to obtain certifications from claimants regarding their eligibility status (Finding 12-LWD-08).

The current year *Single Audit Report* reflects federal and state expenditures of over $1.2 billion for the UI program. We are required to report on management's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133. We noted material weaknesses and significant deficiencies in internal control over compliance for the UI program. We have also qualified our opinion at the compliance requirement level for eligibility.

<u>Questioned Costs and Effects on Stakeholders</u>

Questioned costs may arise from material or immaterial instances of noncompliance with federal grant requirements. These questioned costs are reported in single audit findings that involve violations of a provision of law, regulation, contract, grant or other agreement governing the federal expenditures; expenditures that are not supported by adequate documentation; or expenditures where the intended purpose is unnecessary or unreasonable.

The grantor notifies the grantee department how any related costs should be resolved including repayment to the grantor. It is the responsibility of the grantee department (in this case, LWD) to determine and oversee appropriate corrective actions.

Several of the findings listed above contain questioned costs for noncompliance with federal grant-related requirements. The questioned costs in these findings total $944,366. The trust fund and any federal portions of the claims are not separated for the questioned costs presented. The questioned costs were paid from the state trust fund and, if the claimant qualified for extended or emergency benefits after the first 26 weeks of the claim, from the federal grant program. Depending on when the disqualifying events occurred, questioned costs involving unemployment claims will often overlap funding sources.

Management's failure to properly administer this state/federal program jeopardizes the integrity of the program. The state's top officials, the federal grantor, the state's employers, and current and future UI beneficiaries expect LWD management to effectively administer the UI program, which includes strong internal controls and proper oversight of all critical program functions and processes. Without sufficient controls and oversight, LWD:

- will continue to make improper benefit payments to ineligible claimants;
- will not timely pay benefits to eligible claimants;
- will continue to penalize the state's employers by unnecessarily increasing premiums;
- will continue to jeopardize federal funding because of noncompliance;
- will continue to create state budget problems because of trust fund depletion resulting from improper payments; and
- will erode the public's trust in the state's ability to administer unemployment compensation to Tennessee's unemployed workers.

Recommendation

The Commissioner must immediately consult with the Governor to develop a corrective action plan to implement the recommendations in this report. In addition, the Commissioner must work with the Governor to establish a timetable to complete the necessary corrective actions.

The Commissioner should determine if the leadership of the Employment Security Division and Information Technology Division is capable of correcting the many significant problems with existing resources. The Commissioner and Internal Audit Unit should frequently monitor the activities of the individuals responsible for correcting the problems noted here and determine whether adequate progress is being made. The Commissioner should take appropriate action if the problems are not corrected in accordance with the plans of action.

Management's Comment

We concur. Within the next 90 days, a correction action plan with timelines will be developed by the Commissioner and key executive leadership that will put in place adequate internal controls. Additionally, the Commissioner will ensure that knowledgeable leadership is in place to provide appropriate oversight.

Finding Number	12-LWD-02
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$1,612

The Department of Labor and Workforce Development's failure to comply with its procedures to determine claimants' eligibility for the Unemployment Insurance program and to implement proper controls over eligibility determination threatens the integrity of the Unemployment Insurance program and resulted in $73.4 million in overpayments due to fraud during the past six years and overpayments due to error for the past three years

Finding

The Department of Labor and Workforce Development's (LWD) failure to comply with its procedures to determine claimants' eligibility for the Unemployment Insurance (UI) program and failure to implement proper controls over the Unemployment Insurance program claimants' eligibility determination process threatens the integrity of the Unemployment Insurance program and resulted in $73.4 million in overpayments. This is a cumulative total of overpayments resulting from fraud during the past six years and overpayments resulting from error during the past three years.

We determined that management of LWD failed to adequately safeguard the department's assets and failed to meet their fiduciary obligation as a steward of the Tennessee Unemployment Insurance Trust Fund, as evidenced by the large amount of overpayments. LWD's inability to ensure that benefits are only paid to eligible claimants is considered a material weakness in internal control and noncompliance with Office of Management and Budget (OMB) Circular A-133, "Compliance Requirements for Eligibility."

According to information about overpayment and underpayment rates reported to OMB, as required by the Improper Payments Information Act (IPIA), for the fiscal year ended June 30, 2012, a state with a three-year average rate of 14% and above is considered a state with high UI improper payments. Tennessee reported an overpayment rate of 14.91% and ranked 12th among the 16 states that made the highest UI improper payments.

BACKGROUND AND PROCESSES DESCRIBED

General

The UI program, also referred to as Unemployment Compensation, provides benefits to unemployed workers for periods of involuntary unemployment (workers that lose their jobs through no fault of their own) and helps stabilize the economy by maintaining the spending power of workers while they are between jobs. The program is funded by the Tennessee Unemployment Insurance Trust Fund (UTF) established by the State Unemployment Tax Act. Employers pay premiums into the fund based on the employer's experience rating calculated as: the employer's cumulative premiums paid minus cumulative benefits charged to the employer's account, divided by the employer's average taxable payroll for the last three full calendar years. Some industries have rates of higher employee turnover, which can increase the employer's rate. Additionally, the rate can be further adjusted by the department in accordance with state law depending on the funding level of the UTF. The employer's rate is then applied to the first $9,000 of wages earned by each covered employee each year.

The claimants who are approved for the UI program are eligible to receive up to 26 weeks of benefits. The amount of benefits that claimants receive is based on a calculated weekly benefit amount, which is funded by the state's trust fund. Once the 26 weeks of benefits have been exhausted, the unemployment benefits can be extended through federally funded grants such as the Emergency Unemployment Compensation (EUC08) and the Extended Benefit (EB) programs. EUC08 has been amended several times and includes eligibility for several tiers of benefits. The first two tiers of benefits (34 weeks) are available in all states; however, tiers three and four are only available in states with higher unemployment rates. For our audit period, Tennessee qualified for tiers three and four, with UI benefits of 13 weeks and 6 weeks, respectively. Tennessee also qualified for the Extended Benefit program for an additional 20 weeks of benefits for a total of 99 weeks. For Tennessee's unemployed, the EB program ended in April 2012.

Claimant Eligibility and Unemployment Benefits

According to state regulations, individuals filing UI claims with the department must meet certain earnings requirements (monetary) from past employment and must be currently unemployed or earning less than their weekly benefit up to the $275 maximum. Once the monetary requirements are met, other eligibility requirements (non-monetary) must be met before a claim is approved. Claimants must have separated from their most recent employer through no fault of their own. Claimants' circumstances generally fall into one of three non-monetary categories:

1. lack of work – the employer lays off the employee,
2. quit – the employee has voluntarily quit with just cause, or
3. discharge – the employee's employment was terminated because of performance issues other than misconduct.

Separation issues and personal eligibility issues (those issues that involve the claimant's ability and availability for work) must be evaluated by department staff before a decision to approve benefits can be made. For departmental staff, the lack-of-work issue is generally the easiest to resolve because it only involves verifying with the employer that the separation was due to lack of work available for the claimant.

Dependents Allowance Benefits

According to Section 50-7-301(e), *Tennessee Code Annotated*, which became effective June 20, 2010, those Tennesseans who are eligible to receive unemployment benefits might also be eligible to receive an additional benefit for dependents. When eligible, UI claimants will receive an additional $15 for each minor child, not to exceed a total of $50.

Overpayment of Benefits

Overpayments of benefits can occur for many reasons. For example, when the department identifies that a claimant has misrepresented his or her income for a particular week or weeks, the department would disqualify the claimant from receiving benefits. LWD determines overpayments have occurred by reviewing and processing new claimant information, such as an increase in a claimant's income or an employer dispute related to separation. LWD establishes an accounts receivable when it determines that an overpayment of UI benefits has occurred.

LWD is required by the Department of Finance and Administration's Policy 23 to "make a reasonable effort to collect all receivables on a systematic and periodic basis." LWD has established a collection process in an effort to fulfill this requirement. Once overpayments are identified, LWD staff attempt to collect overpayments from claimants by sending a monthly "Overpayment Statement" to those claimants. The LWD staff also recoup overpayments by reducing the claimants' current benefit. Once the department has attempted collection, it is allowed to write off the uncollectible overpayments in accordance with state law, as discussed later in this finding.

RESULTS OF OUR TESTWORK

Criteria for Lack of Documentation to Support UI Program Claimants' Eligibility

According to the *LWD Unemployment Insurance Program Manual*, Section 0331 - Case File Documentation:

> Not every case file will need the same documentation. Some case files will require more than others. As a general rule, every case file must have all the documentation related to the claim under investigation and any additional documents that the investigator used during the investigation to verify information. Additional documentation will be obtained by the investigator during the investigation. This documentation includes claimant questionnaires

and statements, employer separation and wage information, new hire and work search statements, and third party information and statements.

Combined Test Results for Eligibility and Dependent Allowance Benefits

We tested a randomly selected, nonstatistical sample of 200 claims from a population of 5,313,157 paid claims (weekly payments) of the UI program for the fiscal year ended June 30, 2012. The sample represented $45,569 out of $1,175,939,586 in total claims paid. Our testwork disclosed that for 47 of the 200 paid claims tested (23.5%), department staff did not maintain required documentation in the case files to support the claimants' eligibility for UI benefits (regular unemployment benefit and dependent allowance benefit). The total amount paid for those 47 claims was $3,522. Of this amount, $1,910 was paid out of the Tennessee Unemployment Insurance Trust Fund. The remaining $1,612 was paid with federal funds and will be considered questioned costs. Specifically, we found the following deficiencies.

Test Results for Eligibility

We reviewed the 200 paid claims and related case files to determine if the claimant was eligible to receive UI benefits. We found that 12 of the 200 case files tested (6%) did not contain required documentation to support the claimant's eligibility for the UI program.

- For 4 of those 12 claims, the claimant obtained benefits by misrepresenting his or her income to the department for multiple weeks. After benefit payments had been made, employers reported to the department that these claimants had earned wages which conflicted with claimant's previous assertions. In addition, for one of these four fraudulent claims, the claimant provided the wrong employer's information, and LWD sent the Time Sensitive Request for Separation Information Letter (a letter sent to verify if the claimant was separated due to no fault of the claimant) to the wrong separating employer.

- For 6 of those 12 claims, LWD staff could not provide documentation to determine the claimant's eligibility for the UI program. Specifically, for two files, there was no separation notice from the employer. One file had no documentation that the lack of work claim was verified. Two files noted receipt of a military discharge letter, but LWD could not provide the actual letter. The last file contained documentation that the claimant was receiving a pension, which could reduce or eliminate the unemployment benefit paid, but there was no documentation of follow-up to obtain the pension information.

- For 2 of those 12 claims, LWD staff did not subject the claims to the eligibility redetermination process for the UI program when required.

Test Results for Dependent Allowance Benefits

We also tested the same sample of the 200 paid UI claims to determine if the claimant was eligible to receive dependent benefit payments. When eligible, the claimant can receive additional benefit payments of $15 for each dependent, up to a maximum of $50 each week. Based on our 200 item sample, we identified 77 claims that included a dependent allowance of at least $15. Our testwork disclosed that for 38 of the 77 (49.4%), LWD staff had not maintained the required documents to support the eligibility for dependents benefit payments. Three of the 38 claims for dependent allowance payments were included in the 12 UI claims discussed above.

Section 50-7-301(e)(2)(C), *Tennessee Code Annotated*, states, "Dependency benefits shall not be paid unless the claimant submits documentation satisfactory to the division establishing the existence of the claimed dependent."

Summary of Testwork Error Rates

Below is a table that summarizes our sample errors and the total benefits paid without proper supporting documentation for the period July 1, 2011, through June 30, 2012:

Category	Eligibility Testing	Dependent Allowance Testing
Sample Size	200	77
Number of Errors (Lack of documentation)	12	38*
Error Rate	6.00%	49.40%
* Three of the 38 errors were also included in the 12 errors in the eligibility testing.		

	Federal Funds	State UI Trust Funds	Total
Eligibility Questioned Costs	$ 1,237	$ 1,295	$ 2,532
Dependent Allowance Questioned Costs	375	615	990
Total Questioned Costs	1,612	1,910	3,522
Sample Dollar Tested / Funding Source	$ 19,725	$ 25,844	$ 45,569
Total UI Claims Paid (Population)	$ 618,245,978	$ 557,693,608	$ 1,175,939,586

Overpayments to UI Program Claimants Due to Fraud and Error

As mentioned above, LWD creates a receivable for any identified UI program overpayment. We obtained the LWD accounting records of overpayments made to ineligible benefit recipients. As of June 30, 2012, the total accounts receivable (A/R) for the UI program was $78,739,200 (actual receivable of $73,496,997 and interest and penalties of $5,242,203). The actual receivable is a cumulative total of overpayments resulting from fraud during the past six years and overpayments resulting from error during the past three years. According to discussion with LWD fiscal management and based on LWD's accounting records, $61,804,505 of the total overpayments recorded in A/R were paid from federal UI program funds and $16,934,695 were paid from the Tennessee Unemployment Insurance Trust Fund. Below is a summary of our analysis of the LWD overpayments from the department's OP 1301 "Statement of Overpayment and Recoveries" Report for June 30, 2012, 2011, and 2010:

Category	FY 2012	FY 2011	FY 2010	FY12 - FY11 $ Increase	% increase	FY11 - FY10 $ Increase	% increase
FRAUD	$ 35,730,805	$ 32,108,391	$ 27,565,699	$ 3,622,414	11%	$ 4,542,692	16%
NON-FRAUD	37,766,192	29,159,550	21,341,649	8,606,642	30%	7,817,901	37%
INTEREST	5,242,203	1,761,793	127,839	3,480,410	198%	1,633,954	1278%
TOTAL A/R	$ 78,739,200	$ 63,029,734	$ 49,035,187	$ 15,709,466	25%	$ 13,994,547	29%

A/R Collections and Write-offs

Based on our testwork, we found that for the period ended June 30, 2012, LWD reduced the accounts receivable balance by $22,740,582.36. Of that amount, only $11,743,059.22 was collected; the remaining balance was written off, reversed due to department error, waived, or no longer owed due to bankruptcy. See details below:

SUMMARY OF FY 2012 A/R COLLECTIONS AND WRITE-OFFS FOR THE UI PROGRAM

CATEGORIES FOR A/R REDUCTION	FRAUD	NON-FRAUD	TOTAL
REIMBURSEMENTS [1]	$ 2,742,916.55	$4,849,584.57	$7,592,501.12
OFFSET CLAIMS [2]	659,467.27	3,491,090.83	4,150,558.10
TOTAL A/R COLLECTION FOR FY 2012	**$ 3,402,383.82**	**$ 8,340,675.40**	**$ 11,743,059.22**
OVERPAYMENTS ESTABLISHED IN ERROR [3]	$ 83,208.00	$ 2,079,316.00	$ 2,162,524.00
WAIVED [4]	-	1,405,567.50	1,405,567.50
WRITE-OFF [5]	3,339,819.80	3,727,586.45	7,067,406.25
BANKRUPTCY JUDGMENT [6]	167,555.25	194,470.14	362,025.39
TOTAL WRITE-OFFS FOR FY 2012	**$ 3,590,583.05**	**$ 7,406,940.09**	**$ 10,997,523.14**
TOTAL A/R REDUCTION FOR FY 2012	**$ 6,992,966.87**	**$ 15,747,615.49**	**$ 22,740,582.36**

[1] Repayments made by the claimant.

[2] Reductions of portion of the claimant's weekly benefits until repayment is made in full.

[3] Reversal of overpayment established due to department error; not owed by the claimant.

[4] No longer owed by the claimant due to death, review, or administrative readjudication.

[5] Removed from accounts receivable due to time limitation of 3 years for error and 6 years for fraud.

[6] No longer owed by the claimant due to bankruptcy.

Source: OP 1301 Report, "Statement of Overpayment and Recoveries"

Estimates for Overpayment Collection Rates

Management provided us with a schedule of historical overpayment collections data for the fiscal years 1982 through 2012. It showed that LWD was successful in collecting 40% of the

UI overpayments dollar amount on average. LWD classified the remaining 60% of the overpayments dollar amount as "Allowance for Doubtful Accounts," collection of which is unlikely to occur. Based on our analysis of the LWD accounting records for the fiscal years 2012, 2011, and 2010, we determined that LWD overstated the successful collection percentage of UI overpayments. When we brought this issue to management, they agreed and performed an analysis of historical collections for fiscal years 2011, 2010, and 2009. Management concluded that their estimate of overpayment collections of 40% was inaccurate, and they reduced it to 23%. Also management increased the "Allowance for Doubtful Accounts" from 60% to 77%.

The reason for the large disparity between estimates was that the department was including all six categories of A/R reductions, identified in the table above, in its collection percentages. LWD inappropriately included overpayments established in error, waived overpayments, write-offs, and bankruptcy waivers in calculating its collection percentage. Based on discussions with management, we do not believe the errors in the estimate were intentional.

We believe management's low percentage of collections demands immediate attention from top state officials. As stated earlier in this finding, the department's collection efforts consist of offset claims (reductions of a portion of the claimant's weekly benefits until repayment is made in full) and monthly collection letters to claimants requesting them to repay. Generally, we expect state agencies to have a strong collection process in place that includes letters, phone calls, and collection agencies when necessary. LWD has not made the follow-up phone calls or used the collection agency to pursue recovery. In addition, as evidenced by the low percentage of collections and LWD's unlikely success in collecting all overpayments even with increased efforts, we believe it is imperative that LWD management establish strong, effective controls to prevent the overpayments in the first place.

Noncompliance With State Regulations Regarding A/R Write-offs

We also determined that LWD was not in compliance with Section 4-4-120, *Tennessee Code Annotated*, and Chapter 0620-1-9 of the *Rules of the Department of Finance and Administration*, which require write-offs to be approved by both the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury. Based on our review, we found that LWD management has written off overpayments as bad debt without following state policies and procedures as prescribed in the law. Management referred us to Sections 50-7-303(d)(3)(A) and (B), *Tennessee Code Annotated*, which require that if LWD has not collected an overpayment debt after a certain length of time, it must release the claimant of the debt. Based on our discussions with management, their interpretation of this waiver is that they did not have to follow established write-off procedures prescribed by Department of Finance and Administration policy and rules; however, we disagree. The department is required to follow the law and related policies for all write-offs.

CONCLUSION

Unless LWD implements proper internal controls over the claimant eligibility process for the UI program, the risk of LWD paying UI benefits to ineligible individuals increases. Given the significant amount of overpayments already paid out to ineligible claimants, as described above, management cannot afford to delay corrective action without further eroding the public's trust in the UI program. Furthermore, LWD has not fulfilled its fiduciary responsibility to the state, the employers, and the federal grantor by continuing to overpay UI benefits and collecting only 23% of the overpayments on average. The remaining 77% of overpaid benefits is uncollectible, and this loss further threatens the viability of the UI program.

Recommendation

The Commissioner should take immediate action to implement a strong system of internal controls over the claimant eligibility process for the UI program. This control system should be designed to prevent and/or detect errors and fraud and mitigate the risk that UI benefits will be paid to ineligible claimants. The UI administrator, in conjunction with the Commissioner, should evaluate the process to collect overpayments of benefits and should ensure that staff follow established state law, policy, and rules governing the write-off of any uncollectible overpayments. This includes ensuring that overpayments waived in accordance with Sections 50-7-303(d)(3)(A) and (B), *Tennessee Code Annotated*, are written off in accordance with Section 4-4-120, *Tennessee Code Annotated*, and Chapter 0620-1-9 of the *Rules of the Department of Finance and Administration*.

Management's Comment

We concur. Within the next 90 days, a plan with timelines for the development of a strong system of internal control over the claimant eligibility process will be put in place by the Commissioner and executive leadership.

Finding Number	12-LWD-03
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles and Eligibility
Questioned Costs	$800,000

The Department of Labor and Workforce Development's inability to address a backlog of employer requests to protest benefit charges and a backlog of new and pending claims, along with a limited implementation of the case management system, has threatened the integrity of the Unemployment Insurance program and resulted in $800,000 of questioned costs

Finding

The Department of Labor and Workforce Development (LWD) did not address a backlog of new and pending Unemployment Insurance (UI) claims for the audit period July 1, 2011, through June 30, 2012. The department was unable to handle the volume of incoming telephone calls to process new claims, resolve issues with pending claims, provide additional support to existing claims, and process the volume of employer requests to protest unemployment benefit charges. The department's effort to improve the efficiency of the intake of claims failed with its unsuccessful attempt to fully implement the case management system, which resulted in $800,000 of questioned costs.

Background

LWD's Employment Security Division manages the UI program, which provides a safety net for workers who have lost their jobs through no fault of their own, according to the department's website. The division reported that claimants filed approximately 400,000 initial and partial claims annually. Furthermore, the department stated that the division worked with over 100,000 employers to collect unemployment premiums.

Claimants filing unemployment insurance claims with the department must meet certain earnings requirements from past employers and must be currently unemployed or earning less than the weekly benefit up to the $275 maximum. Claimants must have separated from their most recent employment through no fault of their own, and claims generally fall into one of three categories:

1. lack-of-work – the employer lays off the employee,
2. quit – the employee has voluntarily quit with a just cause, or
3. discharge – the employee's employment was terminated because of performance issues other than misconduct.

Once a claimant's benefits are approved, claimants are required to certify weekly online or over the telephone in order to meet benefit eligibility conditions as required by state law. Claimants are required to certify that they remain unemployed, are not earning wages, and are actively looking for work.

The Employment Security Combined Online Technology (ESCOT) system used to process claims automatically issues weekly unemployment benefits to approved claimants (except for partial claims, see 12-LWD-08) who submit a weekly certification regarding continued eligibility, provided that no other new information has been processed that would result in a denied claim. The division pays claimants for the initial 26 weeks of benefits from the Tennessee Unemployment Insurance Trust Fund, which is funded through premiums paid by employers. Claimants may also receive extended benefits beyond 26 weeks through federally funded programs such as the Emergency Unemployment Compensation and Extended Benefits programs.

Background: Claimant Options

Claimants can file initial unemployment claims online, over the telephone, or in person, except for Combined Wage Claims, Unemployment Compensation for Federal Employees, and Unemployment Insurance for former Military personnel, which cannot be filed online. Lack-of-work claims can be both filed and completed online. All other claims require the claimant to call the Claims Center in order to complete the claims process. Claims disputed by employers also require the claimant to call the Claims Center. Claimants filing in person can only have their claims processed when the reason for the claim results from a lack-of-work; otherwise, they are directed to call the Claims Center. Claims Center employees' responding efficiently and effectively to claimant phone calls is critical to the claims process.

Background: Claims Center

Employment Security Division interviewers are responsible for answering phone calls in the Claims Center and obtaining information regarding initial claims. Separation issues and personal eligibility issues, including the claimant's ability and availability to work, require detailed information from the claimant and often from the respective employer. Telephone calls received by the Claims Center are routed to the next available interviewer.

The division had approximately 100 interviewers during the audit period who were responsible for answering telephones for the intake of new claims and for obtaining information regarding employment separation and personal eligibility issues. These same interviewers are also responsible for fielding questions from employers regarding benefit issues; following up with questions from claimants for claims already filed; and assisting claimants who have been approved but need assistance with their weekly certifications.

After interviewers have collected information regarding the claimant's separation and personal eligibility, they transfer non-lack-of-work claims and information collected from the claimant to staff, known as "adjudicators," who evaluate the claim information and determine whether the claim should be approved. Initial claims that lack information are placed in a collection of pending claims and are not paid until approved by an adjudicator.

The Division Was Unable to Handle the Volume of Claims Center Calls

Our review of the division's process for the intake of new claims determined that it was unable to answer the majority of telephone calls from claimants.

We attempted 10 different times to reach the division's automated telephone system. We were able to reach the automated system for 5 of the 10 attempts. For the remaining 5, we received an automated message several minutes long that informed us that no interviewers were available, and then we were disconnected. We conducted follow-up discussions with the Claims Center management and determined that the division opened the phone lines at the beginning of each hour, and then several minutes later, management blocked calls because of high call volume.

The Claims Center management provided statistics for those callers who were successful in reaching the Claims Center through the automated telephone system. According to these statistics, for August 2012, 47,000 calls reached the automated system. Of the 47,000 calls, only 15,000 (32%) were answered by division interviewers, with an average wait time of two hours, and those remaining calls, approximately 32,000 (68%), were abandoned. The division has no way to know how many call attempts were made by callers who were unable to connect with the division's automated system.

Claims Center management also stated the number of interviewers, including part-time workers, increased from 95 statewide at the beginning of July 2011 to 122 at the end of October 2012. Based on the statistics above, the additional 27 interviewers had a negligible impact on reducing the Claims Center backlog.

Background: Adjudicators

Adjudicators approve or deny claims based upon their evaluation of the information collected. The adjudicators record their approvals and denials in the division's ESCOT system.

In addition to initial pending claims, when the division receives new information from other state departments, claimants, or employers, the division places the current claim of unemployment in a pending status until the new information can be considered by an adjudicator. New information may include reports from other departments on new hires, death certifications reported to the state, claimants reporting that they have found employment, employers reporting they have hired claimants, or employers reporting wages paid to claimants. Generally, the department continues to pay on pending claims (other than initial pending claims) until claimants are determined to be ineligible.

The Division's Adjudicators Were Unable to Process the Backlog of Pending Claims

Based on our observation of the division's pending claims process, we determined that adjudicators were unable to handle the current volume. In fact, the number of pending claims has doubled from 5,219 at the beginning of the audit period, July 2011, to 10,968 in August 2012. Claims Center management responded to this backlog by increasing the number of adjudicators and supervisors by 2 from 41 in July 2011 to 43 in October 2012. Also, division officials stated that due to the backlog, it typically takes eight weeks before an adjudicator is assigned to a claim. As a result of the backlog and delays in assigning the claims to adjudicators, claimants may not receive their first unemployment benefit for eight weeks or more, depending on the complexity of the issues surrounding that claim.

The pending claims backlog had become so large that claims older than 180 days were abandoned by the division. Pending claims are tracked by the division through an internal report. Division management informed us that the division's prior management had the pending report reprogrammed so that claims that were over 180 days old and under 28 days old from the file date would no longer appear on the pending claims report.

We discussed the reasons for the report changes with the former Employment Security Division managers, who stated that the claims less than 28 days old were not processed because the backlog noted above was so large that the claims under 28 days would eventually be reported on the pending report and adjudicators could focus on the older claims. The former Employment Security Division managers also stated that for those claims over 180 days old, the claimant would likely have filed a second time or abandoned the claim request.

We determined that for the period July 1, 2011, through August 2012, management removed 77 initial claims (not yet approved) over 180 days old from the pending reports, which resulted in the division's failure to adjudicate these 77 claims.

The department has reported to the U.S. Department of Labor (USDOL) that its processing of initial UI benefits payments is below government standards. According to the USDOL's *Employment and Training Handbook 336*, to achieve an acceptable level of promptness, the department must pay 87% of all first-benefit payments to eligible claimants within 14 days from the filing of the claim. The department's reported monthly percentage of benefit payments processed within 14 days of the claim was 82.9% in July 2011 and went as high as 86.1% for January 2012. Subsequently, it has declined every month since and fell to a rate of 69.3% in June 2012 due to processing delays presented in this finding. The department's reported monthly percentage has been below the USDOL's acceptable level of promptness since January 2009.

The percentages above incorporate all claim types, including the non-disputed lack-of-work claims that are approved automatically within 14 days. If lack-of-work claims were removed from the percentages above, the actual rate for those claims processed by adjudicators and paid within 14 days would be zero percent due to the eight-week backlog.

Background: Benefit Charge Unit

ESCOT generates and sends benefit charge cards to employers each time the division approves a claimant for benefits. The benefit charge cards are notices to employers that their former employee has been approved for UI benefits. The division calculates employer premiums yearly based on a formula which considers the number of employees that separated from that employer, at no fault of their own. The division does not include separations in the premium calculation when those separations result because the employee quits or is dismissed because of misconduct. Employers must communicate to the department those instances where they can justify that the separation should not be charged to them. Employers are required to complete and return the benefit charge cards for this purpose. The cards are processed by the one employee in the Benefit Charge Unit.

The Division Was Unable to Process the Backlog of Returned Employer Benefit Charge Cards

The division had only one employee in the Benefit Charge Unit to process the benefit charge cards returned by the employers during the audit period. We noted for the week of August 17, 2012, that this one employee in the Benefit Charge Unit processed 547 benefit charge cards based on a first-in, first-out methodology; however, 839 total benefit charge cards were received by the unit. The inability of this one employee to process all the cards for this one week resulted in an addition of 292 benefit charge cards to the existing backlog, which totaled 22,877 at that time.

By not processing these charge cards and removing any incorrect charges from employers' accounts promptly, the division's Employer Services Unit may be charging employers higher premiums than warranted. For example, the employer's tax rate is determined every September based in part on the number of charges assessed against the employer during the previous calendar year. When the unit cannot process the employer's dispute of charges within a reasonable period and certainly within nine months of receipt, the division could calculate the employer's tax rate incorrectly.

We contacted the staff member in the Benefit Charge Unit to obtain the current backlog and determine the date of the oldest charge card. As of February 23, 2013, the existing backlog is 31,433, and the division received the oldest charge cards in mid-October 2012, resulting in four months of unprocessed charge cards.

The Department Failed to Fully Implement the Case Management System

The department's attempt to improve the efficiency of the claims process involved efforts to implement a new case management system. This new system contained a document imaging feature used to scan claim documentation and a workflow feature to manage the processing, reviewing, and tracking of claims. The purpose of the workflow feature was to automatically forward claims to appropriate units along each step of the claims process.

The department partially implemented the case management system on March 5, 2012, with only the document imaging feature operational. Based on inquiry and observation, we determined that the workflow feature for tracking claims was not implemented with the new system. When we requested eligibility documentation to support our testwork, the Claims Center staff were only able to produce a few supporting documents from the new system—the vast majority of support was obtained from the old imaging system.

The department spent approximately $800,000 of federal funds for the implementation of the system. The department's IT Administrator informed us that most of the modules of the system had not been implemented because the work request prepared for the vendor to describe system requirements was poorly written; both the general and specific system requirements were incomplete. Additionally, the IT Administrator stated that inadequate testing and monitoring of the project also contributed to the lack of implementation of the new case management system. The previous project managers are no longer with the department, and a new project manager has been assigned and is working with the vendor to address issues with the case management system, according to the IT Administrator. Based on our discussion with management and review of project proposals, revisions, and status reports, we question whether management used appropriate care when spending federal award funding to implement this system. The $800,000 cost of this system will be questioned because it was not used efficiently and effectively for the purpose of the program.

Conclusion

Given management's inability to address the high volume of Claims Center calls, the growing pending claim and benefit charge backlog, and failure to fully implement the information system that would improve its claims processes, the viability of the state's UI program is threatened. In fact, management has not performed its due diligence to provide available UI program services and benefits to program applicants, eligible claimants, and employers. Continuing delays resulting from backlogs for initial claims, resolution of pending claims, and employer benefit charges creates an undue burden on those dependent on UI benefits and the employers and governments that fund the program.

Recommendation

The Commissioner should immediately take steps needed to restore the integrity of the Unemployment Insurance program. To address the failed processes noted above, the Commissioner should develop an action plan that includes deadlines for specific improvements, regular meetings, and assessments with Employment Security Division management charged with specific tasks. Further, the Commissioner should determine appropriate staffing and training needs to support the division's Claims Center, the adjudication process, the benefit charge card process, and departmental IT functions governing the new case management system implementation.

Division management should continue to evaluate and modify the self-help module on the telephone system to speed the average wait times for claimants calling the Claims Center. They should also consider alternatives to taking claims over the telephone, simplify the interview claims process, and consider expanding the hours of operation of the Claims Center.

Division management should address the backlog of initial pending claims through available means. For example, division management should consider expanding the department's "SIDES" application, which is already used by employers to communicate separation notifications. This application could assist adjudicators in resolving pending claims through communications with employers. Division management should also ensure pending reports include all pending claims that have not been resolved.

Division management should address the needs of premium-paying employers, who support the majority of the benefits paid in the UI program, by reducing the backlog of returned employer benefit charge cards. Division management should immediately fill vacancies in the Benefit Charge Unit.

The department's management should review and evaluate the case management system to determine if it can be salvaged and modified to meet its intended purpose. Department and Employment Security Division management should also ensure that information system implementations are properly planned, the requirements are attainable and documented effectively, and that the vendor's work is adequately supervised.

Management's Comment

We concur. Within the next 90 days, a plan with timelines will be developed by the Commissioner and executive leadership that will address the failed processes and systems.

Finding Number	12-LWD-04
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$138,856

One of the Employment Security Division's key controls for detecting fraudulent claims was ineffective and failed to identify ineligible payments of $138,856 to state employees and deceased individuals

Finding

The Employment Security Division (division) of the Department of Labor and Workforce Development (LWD) is responsible for ensuring not only that unemployment benefit claimants meet eligibility requirements before claims are paid, but also that the claimants continue to remain eligible for benefits. If claimants continue to collect benefits when they are no longer eligible, it is either a result of a fraudulent claim or an unintentional overpayment. The division relies on data matches as its main control to detect benefit fraud and overpayments. We found that these controls were not always effective and discovered the department paid unemployment benefits totaling over $135,000 to ineligible individuals who were either state employees or recently deceased.

Background

The division performs data cross-matches by comparing data in the unemployment benefits computer system to data obtained from third parties. Cross-matches of data are intended to provide independent verification of the information provided by claimants. For example, the division compares unemployment benefit recipients to state payroll to ensure that no active state employees are receiving unemployment benefits. The division also performs other cross-matches, which include comparing unemployment benefit recipients with the following: deceased individuals (vital statistics), new hires for Tennessee and national employers, and prison inmates.

In order for management to use the data cross-matches as an effective control to detect ineligible benefit recipients, the data matches must be programmed correctly, the cross-match results have to be reviewed by management and staff, and staff must take any necessary corrective action to follow up on potential benefit overpayments due to error or fraud. We performed testwork on the state employee and vital statistics cross-matches and found that management and staff did not ensure these cross-match controls were effective, as described below.

State Employee Cross-Match

In order to determine if the division's state employee cross-match was effective, we performed our own cross-match, comparing unemployment benefit recipients to state payroll for the month of July 2011, to ensure that no active state employees received unemployment benefits. Our cross-match identified 24 state employees who inappropriately received unemployment benefits. Twenty-three of the employees left state employment before our audit. We reported the one current state employee to the Commissioner of the respective department, and that employee was terminated.

We communicated the results of our cross-match to the division, so it could investigate how the overpayments occurred and determine why the cross-match was ineffective in detecting the overpayments. Eighteen of the state employees fraudulently certified that they were unemployed while they were working for the state. The six other employees were overpaid through no fault of their own, due to the short time lag between benefits received and state employment, which appeared reasonable.

These 24 former state employees owed LWD a total of $126,469 in overpayments and penalties. We confirmed that the division recorded the amounts owed in October and November 2012 and that it has taken actions to collect these amounts.

The division determined, and we confirmed, that these 24 employees were not identified in LWD's cross-match because the employees received emergency or extended benefits. LWD failed to reprogram the state employee cross-match when the United States Congress passed the Emergency Unemployment Compensation Act of 2008. As a result, any state employees receiving emergency and extended benefits were omitted from the match from 2008 through October 2012, when we brought this issue to the division's attention. At that time, the division reprogrammed the cross-match to include state employees who were recipients of emergency and extended benefits.

Vital Statistics Cross-Match

In order to determine if the division's vital statistics cross-match was effective, we performed our own cross-match comparing unemployment benefit recipients to deceased individuals for our entire audit period, July 1, 2011, to June 30, 2012. We specifically used the Department of Health's Office of Vital Records quarterly data for individuals who died in Tennessee; our office has received and maintained that data in a cumulative file since January 1990. We identified seven individuals reported as deceased but who received benefit payments at least three weeks after their date of death. We allowed a three-week time lag in order to avoid matches resulting from unavoidable timing issues on the part of LWD staff in processing claimant information. The Department of Health's Office of Vital Records provides its vital statistics files every two weeks. This file contains only those individuals who died in Tennessee in a two-week period.

We communicated the results of our cross-match to the division so it could investigate how the overpayments occurred and determine why the cross-match was ineffective in detecting the overpayments. For all seven individuals, it appears that someone fraudulently made certifications on the deceased individual's behalf in order to continue receiving benefit payments. These certifications were made online and included answering questions concerning whether the claimant was still unemployed and actively looking for work.

The division determined, and we confirmed, that these seven individuals were not identified in LWD's cross-match due to one of two reasons. Six of the seven individuals were not identified by the cross-match due to a flaw in the programming logic described below. The other individual was not included in the date-of-death files sent to LWD every two weeks by the Department of Health's Office of Vital Records.

We found that LWD made benefit overpayments totaling $12,387 to these seven individuals after they were deceased. The division sent letters to the families of the deceased claimants in an effort to collect the overpayments.

As a result of our testwork, we determined that the division management had programmed the vital statistics cross-match parameters incorrectly. Specifically, we found that if a claimant had more than one unemployment claim (multiple unemployment claims filed based on separation from different employers), then the most recent claim for benefits was omitted from the cross-match; thus, division staff would never identify the most recent claim as one paid subsequent to the date of death. According to the LWD's Information Technology administrators, they corrected this flaw in the programming logic in October 2012, after we brought it to management's attention.

We also noted that the division did not maintain or use the cumulative quarterly file of death certifications available from the Department of Health's Office of Vital Records for the cross-match but instead used the separate files provided every two weeks by the Department of Health. These separate files contain only the deceased that have been recorded since the last two-week file. Because the division did not use the cumulative file, which contains all individuals that died in Tennessee during the last quarter, there was an increased risk that an individual could use the identity of a deceased individual to fraudulently obtain unemployment benefits. After we brought this to management's attention in October 2012, LWD took steps necessary to use cumulative data for future vital statistics cross-matches.

In addition, we found that division staff did not review or follow up on the vital statistics cross-match results at all from June 19, 2012, through September 10, 2012. Based on inquiries with management, we determined that a former supervisor unintentionally changed the distribution of the printed cross-match error report to a different section in the division. No one questioned the change or reviewed the cross-match results after the change was made. After we brought this to the attention of division staff, they reviewed the respective reports and found one improper payment of $90 to a deceased individual. The division has since recorded this overpayment and requested payment from the respective family. The division also corrected the distribution of the cross-match report.

Issues With Both Cross-Matches

During our testwork, we noted that LWD included unnecessary data in both cross-matches every time the matches were performed. For both the state employee and vital statistics cross-matches, LWD included all benefit payments as far back as 10 years, regardless of the employee's date of hire or the individual's date of death, respectively. As a result, the division's staff were forced to sort through more historical data than was necessary to search for potential overpayments of fraud.

For the state employee match, the division should match only a current benefit period to a current pay period. For the vital statistics match, management should compare a current benefit period to the cumulative dates of death to identify payments made to deceased beneficiaries. With properly designed matches, management can avoid having to follow up on match results that are not truly overpayments.

We also determined that division staff failed to perform supervisory reviews of either of the cross-matches during our audit period, July 1, 2011, through June 30, 2012. If the vital statistics cross-match had been reviewed by a supervisor, the issue with the redistribution of the report could have been detected in a timely manner rather than discovered through our audit. Without proper supervision, management cannot be certain that staff followed up on match results and performed necessary corrective actions to address benefit overpayments due to error or fraud.

The department's payment of unemployment benefits to ineligible individuals who were either state employees or recently deceased resulted in questioned costs of $138,856. For a detailed description of all questioned costs involving unemployment benefits, see finding 12-LWD-01.

Recommendation

In light of the issues noted in this finding, the Employment Security Division management, in conjunction with Information Technology staff, should analyze the input and output of all of the division's cross-matches to ensure the data match programs are actually working as intended to provide effective controls. Division management should request that IT staff make any necessary program changes as a result of this review, including removing the unnecessary data from the state employee and vital statistics cross-matches that we identified above.

Division management should ensure that cross-match reports are properly reviewed and retained. Also, division management and IT Administrators should ensure that any changes to the distribution of reports are properly approved and that the approved requests are maintained.

Division management, in conjunction with Information Technology staff, should evaluate match parameters again for the vital statistics records after determining what data is available to them. Division and IT management should explore other resources, such as national databases or other state department databases, which could be utilized to enhance their current cross-matches.

Furthermore, division management should continue to pursue collection of overpayments and penalties identified in this finding.

Management's Comment

We concur. Changes have been made to the cross-matching process to make sure that the programs are working as intended and unnecessary data is removed. A periodic review of the cross-matching process will be conducted by management to ensure all processes are functioning properly.

Finding Number	12-LWD-05
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Significant Deficiency
Compliance Requirement	Eligibility
Questioned Costs	N/A

The Department of Labor and Workforce Development failed to comply with state law and federal regulations when the Information Technology Division and Claims Center Management jointly failed to verify the identities of unemployment claimants

Finding

The Department of Labor and Workforce Development (LWD) failed to comply with state law and federal regulations when the Information Technology (IT) Division and Claims Center management jointly failed to verify the identities of unemployment claimants. Based on inquiries with management and review of corroborating documentation, we learned that LWD had not verified the social security numbers (SSNs) for the vast majority of claimants for almost three years. Also, for those claimants whose SSN information was verifiable, Claims Center staff failed to investigate all claimants' information that was returned by the U.S. Social Security Administration (SSA) with non-matching data. Although our eligibility testwork of 200 paid claims did not reveal claimants with an invalid SSN, LWD's failure to verify the identities of claimants significantly increased the risk that the department made benefit payments to ineligible individuals.

Requirements

LWD is responsible for ensuring that unemployment benefit claimants meet eligibility requirements before claims are paid. For example, LWD is required by the *Social Security Act*, Section 1137(a), to ensure that the name and SSN used in establishing eligibility actually belongs to the claimant. In addition, LWD is required by the Social Security Act and Section 4-58-103, *Tennessee Code Annotated*, to verify that each applicant who applies for public benefits is a U.S. citizen or lawfully present in the U.S. In order to determine if these eligibility requirements have been met for U.S. citizens, LWD compares the SSN reported by the claimant with the SSN on file with the SSA. For non-U.S. citizens, who account for less than 2% of all Tennessee unemployment claims, LWD compares the claimants' information with the U.S. Department of Homeland Security's database for verification of identification. During the course of our audit, however, we learned that, unbeknownst to LWD, the SSA was unable to process the majority of claimants who were U.S. citizens because LWD failed to provide SSA with properly formatted claimant data.

Background

Prior to 2006, unemployment claims could only be filed in person. Claims Center and local office interviewers were required by LWD policy to verify the claimant's identity through inspection of the claimant's social security card and driver's license.

In 2006, LWD began accepting unemployment claims filed via telephone and internet. At that time, Claims Center staff started electronically verifying the identities of new claimants. This was accomplished through computer programs which transmitted the claimant's first and last name, SSN, gender, and date of birth from LWD's unemployment insurance database, Employment Security Combined Online Technology (ESCOT), to the SSA's database.

LWD would transmit the data from ESCOT to the SSA in real time during the day (while the SSA's system was online) to determine if the claimant's information, including their SSN, was valid and agreed with the SSA's database. The SSA transmitted back to LWD the results of the verification, which included specific error codes for those claimants whose information did not match. According to LWD's policies and procedures, Claims Center staff were required to contact those claimants for proof of identity.

In November 2009, LWD also began transmitting data from ESCOT to the SSA by batch. LWD used this processing method for online claims that were filed after operating hours (when the SSA's system was off-line).

Electronic Verification of Claimant Identification Failed

While conducting inquiries with LWD management, they informed us that in July 2012, the regional SSA office notified them that the SSA was only able to successfully process verifications for about 20% (approximately 65,000) of the claimants. The SSA was unable to process the remaining 80% (approximately 225,000) of the claimants because the data was formatted incorrectly. Consequently, there were no error codes generated by the SSA for these claimants, which would have indicated to LWD that there was a problem.

When the regional SSA office notified LWD of the processing issue, the SSA only stated that the format of the data was the problem, but they did not identify the specific formatting issue. LWD IT staff looked into the matter and determined that the format LWD used for the claimant's date of birth was inconsistent with the format required by the SSA. Specifically, the issue was only with those claims that were batch processed (claims submitted online after operating hours). The SSA program requires a format of month-day-year for the date of birth; however, LWD was sending the batch requests in a year-month-day format. As a result, the SSA was unable to process any of the verification requests that were sent by batch. The format used by LWD for claims processed in real-time (claims submitted online during operating hours and telephone claims) was determined to be consistent with the SSA's format. In August 2012, LWD's IT staff corrected the date of birth format for batch processing.

As a result of the improper formatting, LWD approved unemployment benefit payments for approximately 225,000 of the 290,000 claimants during the audit period ended June 30, 2012, without performing any identity verification procedures. In addition, LWD IT staff informed us that the format of the data sent to the SSA had been the same since the implementation of batch processing of online after-hour claims. So, unbeknownst to LWD until July 2012, the data had been incorrectly formatted and was unable to be processed by the SSA since November 2009. As a result, Claims Center staff approved the majority of unemployment benefit claims, those that were filed online and batch processed, without performing any identity verification procedures either for those claims within our audit period or for claims filed for the last three years.

We asked the regional SSA office why it took them almost three years to inform LWD about the SSA's inability to verify the identities of the majority of Tennessee's claimants. A regional SSA office representative stated that they just happened to notice Tennessee's processing issue while they were reviewing the traffic of verification requests on their system for other reasons. The regional office was unable to confirm that Tennessee's processing issue had started almost three years prior to their communication with LWD. Despite the lack of an earlier communication from the SSA, however, Claims Center management should have understood the contents of the responses from SSA and established controls to detect this problem. If the Claims Center staff had reconciled the number of identification requests sent to the SSA to the total number of verifications and errors received back from the SSA, they would have detected this problem quickly.

<u>Manual Verification of Claimant Identification Was Not Performed</u>

For those claimants whose data was able to be processed by the SSA, the SSA transmitted back to LWD the verification results, which included specific error codes for those claimants whose information did not match. According to LWD's policies and procedures, Claims Center staff were required to contact those claimants for proof of identity; however, during our inquiries of management, we were told that the Claims Center staff failed to do so. In fact, according to Claims Center staff, they only rejected the claims with invalid SSNs. They processed other claims with errors [i.e., those with names, SSNs (as opposed to invalid SSNs), and date of birth that did not match the SSA] without obtaining verification of the claimants' identities. Claims Center management stated that their staff were not requesting proof of identity for those claims with specific errors because of the high volume of workload in new claims, which occurred at the same time the Claims Center management were centralizing the claims process away from the local offices.

<u>Conclusion</u>

We tested the eligibility of a sample of 200 paid unemployment claims for the fiscal year ended June 30, 2012. Although our testwork did not reveal claimants with an invalid SSN, the lack of verification significantly increased the risk that payments were made to ineligible individuals.

LWD's risk assessment states that the verification of a claimant's identity through the SSA's database would act as a control to prevent a claimant from filing a fraudulent claim using another SSN. If LWD does not verify claimants' identities when SSA has identified errors in claimants' data, the risk of LWD paying claimants' benefits either in error or as a result of fraud increases.

Recommendation

Claims Center staff should follow department policies and obtain proof of identification for those claims that are returned from the SSA with error codes. Claims Center management should properly supervise their staff to ensure that this is done.

IT management should ensure that a program is developed to enable the display of record counts from the SSA. Once this is accomplished, Claims Center management should ensure that record counts from the SSA are reconciled to the count of records submitted to the SSA.

Finally, the Commissioner should ensure that controls identified in the department's annual risk assessment are actually in place and working effectively.

Management's Comment

We concur. The formatting error that caused the problems with the SSA matching process has been corrected. The Commissioner will ensure that controls identified in the department's annual risk assessment are actually in place and working. Management will determine the appropriate frequency of review.

Finding Number	12-LWD-06
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$3,898

The Department of Labor and Workforce Development's staff improperly classified overpayments of unemployment claims with fraud indicators as overpayments due to errors rather than frauds, which increased the risk that claimants submitting fraudulent claims could remain in the system for possible future benefits

Finding

The Commissioner of the Department of Labor and Workforce Development (LWD) reported to us that former Employment Security Division (division) management allegedly overrode LWD's procedures for processing unemployment claims with fraud indicators at the end of the 2011 calendar year. Fraud indicators are documents or statements that are misleading or are intended to conceal earnings and/or other facts regarding a claimant's eligibility for unemployment benefits. LWD procedures require claims with fraud indicators to be reviewed exclusively by division investigators within the Benefit Payment Control (BPC) unit.

BPC unit investigators are responsible for determining whether LWD has overpaid claimants and whether penalties and any corresponding interest should be assessed on claimants when their claims have fraud indicators. The investigators also determine disqualification periods for claimants who have submitted fraudulent claims, based on the number of weekly benefit payments made as a result of fraud on the part of the claimant, as mandated by state law. The Commissioner reported that former division management allegedly directed staff working in the local unemployment offices to process the Unemployment Insurance (UI) claims without regard to fraud indicators. Our audit confirmed that staff other than the BPC unit investigators processed unemployment claims with fraud indicators, which increased the risk that claimants who had committed fraud were not properly disqualified from the program. Additionally, this increased the risk that LWD was not collecting penalties and interest for fraudulent claims as prescribed by state law.

Section 50-7-303 (a) (7), *Tennessee Code Annotated*, states that a claimant will be disqualified for benefits

> for the week or weeks in which the administrator finds that the claimant has made any false or fraudulent representation or intentionally withheld material information for the purpose of obtaining benefits contrary to this chapter and for not less than four (4) nor more than the fifty-two (52) next following weeks, beginning with the week following the week in which the findings were made, as determined by the administrator in each case according to the seriousness of the facts. In addition, the claimant shall remain disqualified from future benefits so long as any portion of the overpayment or interest on the overpayment is still outstanding.

Staff Reviews of New Information

The division approves claims and pays unemployment benefits based on weekly certifications made by claimants. Division staff flag current claims for review when they receive new information from other departments, claimants, or employers. New information includes other departments reporting on new hires and deaths, claimants submitting a second unemployment claim based upon separation from a second employer during the period the claimant is receiving unemployment benefits from their first unemployment claim, employers reporting they have hired recipients, or employers reporting wages paid to recipients. Generally, payments of unemployment benefits are continued until staff can consider the new information. Local office staff are responsible for processing the new information on a daily basis and reevaluating claimants' eligibility accordingly.

Local Staff Procedures

Local office staff frequently determine that a claimant received an overpayment (an unemployment benefit payment issued to a claimant who is no longer eligible for such benefits or is only eligible for a reduced amount) in their review of new information. Division policy directs local office staff to first gather pertinent documentation regarding the reevaluation of the claimant's eligibility. Local office staff are then responsible for resolving any issues regarding the claimant's eligibility. For example, when wages are reported by an employer for a claimant receiving unemployment benefits, a written statement from the employer regarding the weekly earnings of the claimant is required. The local office staff must calculate any resulting overpayment of benefits for claims when the overpayment is the result of an error. LWD policy regarding claims with fraud indicators requires the local office staff to gather sufficient information regarding the claimant's eligibility and then forward the information to the investigators in the BPC unit. As stated above, fraud indicators, which are intended to mislead or conceal facts that make a claimant ineligible for continuing or future benefits, include unreported wages, claimant misrepresentations, or falsified eligibility documents.

BPC Unit Staff Procedures

The BPC investigators are responsible for reviewing all cases with fraud indicators and making rulings on disqualifications and overpayments. The outcome of the BPC unit review can result in either a continuation of payments or the placement of a stop order on the claim. If the claim is determined to be fraudulent, the investigator enters a stop code into the Employment Security Combined Online Technology (ESCOT) system, which ends payments to the claimant. Investigators also establish an overpayment of benefits to the claimant if the claimant received unemployment benefits to which they were not entitled. BPC investigators also include penalties and interest associated with the fraudulent claims in their overpayment calculations.

Results of Our Inquiries and Testwork

To address the potential override of controls regarding the overpayment review process, we interviewed staff of both the local offices and the BPC unit. We also interviewed former members of division management regarding the alleged instructions to staff.

Backlog of Claims

We determined through inquiries with division management that they were not prepared for the state's significant rise in UI claims and had not staffed the BPC unit accordingly. Division management also stated that they had a backlog of approximately 300 flagged claims waiting to be reviewed by the BPC unit in the fall of 2011.

To gain a better understanding of the backlog of overpaid claims, we obtained the total overpayments during the last two fiscal years from the ESCOT system. We noted that the total number of overpayments during this time increased by 4,822. We also determined that the local office staff handled 84% of this increase, issuing decisions for 4,031 overpayments.

Assignment of Backlog to Local Office Staff

According to some local office staff, former division upper management redirected these backlogged claims with fraud indicators from the BPC unit, instructing local staff to treat the flagged claims as claims with errors rather than as claims with fraud indicators, presumably to expedite the claims overpayment review. Typically the BPC unit takes longer to investigate claims with fraud indicators because of the high risk of fraud. This investigation review period also includes the unit's assessment of penalties and disqualification periods. Former division management stated that those flagged claims with fraud indicators were originally assigned to BPC unit investigators but were determined to be the result of errors and were given to local staff to resolve.

Perceived Change to Division Policy on Fraudulent Claims

Based on our interviews with local office staff, we were told that they perceived a change in the division's policy regarding the definition of fraudulent claim indicators. This change apparently occurred when BPC staff told former division management that many claims overpayments did not contain fraud indicators and should be analyzed as claim errors by local office staff.

Former division management stated that, although they did not make any significant change in policy as a result of the backlog, they subsequently wrote a new policy to clarify the definition of fraud indicators.

Lack of Communication Between Management, Staff, and Various Units

Based on our interviews, we found that division management, local office staff, and the BPC unit had not fully communicated with each other to ensure the overpayment review process was operating efficiently, which contributed to the backlog.

Testwork Identifies Local Office Staff Improperly Handled Claims

We performed procedures to determine whether selected overpayments, processed predominantly in the fall of 2011, contained fraud indicators and to determine if the overpayment amounts were calculated correctly. LWD's internal audit staff initiated testwork relating to this issue. Their working papers contained a random sample of 69 overpayment decisions made by local office staff and labeled as errors. Of the 69, we reviewed the 15 claims that the internal auditor identified as having possible fraud indicators. We also reviewed the 5 highest-dollar overpayments processed as errors that we obtained from the division's computer system.

Based on our testwork of the 20 claims, we determined that 11 of the 15 claims related to internal audit's 69 item sample (11 of 69 or 16%) and all 5 high-dollar overpayments (100%) had fraud indicators that had not been identified as such by local office staff. Based on our review, all of these 16 claimants should have been assessed penalties and disqualified from the program. Although the claimants were not disqualified from the program, we found that LWD has not paid any additional benefit payments to these 16 claimants. We referred these 16 claims back to the division for its determination of the amount of penalties and interest that should have been assessed but was not.

Testwork Identifies Incorrect Calculations on Overpayments

From the testwork performed, we also noted that for 3 of 20 overpayments (15%), the local office staff did not correctly identify the proper number of weeks or benefit amounts used to calculate the overpayment of benefits (not including penalties and interest). In all three cases, staff calculated the overpayment at an amount less than what was due to the state, resulting in an understatement of the accounts receivable totaling $3,898 for these claims. This amount will be considered questioned costs. For a detailed description of all questioned costs involving unemployment benefits, see finding 12-LWD-01.

Conclusion

As noted above, management has made the local offices responsible for overpayments due to error and the BPC unit responsible for overpayments with fraud indicators. Based on the discussions with local office staff and based on the results of our own testwork, we believe management may have improperly classified the claims as claims with errors to avoid further delays and an increased backlog in the claims analyzed for fraud indicators.

Through observation and inquiry, we determined that the following factors contributed to the local office staff improperly processing fraudulent claims:

- the large volume of claims submitted with new information without a significant increase of staff to handle the influx of claims;
- the lack of consistent interpretations of policy and examples of fraudulent claims included in the policy;
- the local office staff's failure to gather all necessary information and resolve all eligibility issues before sending claims to the BPC unit;
- the local office staff's failure to provide the BPC unit with an explanation for why the claim was considered fraudulent;
- the lack of training of local office and BPC unit staff on assessing fraud; and
- the former and current management's overreliance on the federally mandated reviews performed by other departmental units. (Several division units are required to test the timeliness and accuracy of determinations the local office staff makes on claims and overpayments. Upper management has stated that they rely on these tests to detect problems with the overpayment determination process. The tests performed by other division units did not, however, detect the issues noted in this finding.)

When division management does not ensure that overpayments are properly classified as to error or fraud indicators, and when management does not provide adequate resources for the local office or the BPC unit to perform required functions, management's risk that claimants who commit fraud will not be properly disqualified from the program is increased. Additionally, management is at an increased risk that the division will not collect penalties and interest for fraudulent claims as prescribed by state law.

Management's Subsequent Corrective Action

In order to address some of these issues, management of the local office and the BPC unit implemented a new policy on April 27, 2012. This policy clarifies existing definitions of fraud in LWD's manual; establishes the fact-finding steps the local office staff should take to resolve outstanding eligibility issues; and requires local office staff to provide written explanation of the suspected fraud with claims forwarded to the BPC unit. Even though the new policy went into effect during our audit period, its effectiveness is yet to be determined.

Recommendation

Upper management of the Employment Security Division, in conjunction with the management of the local office staff and the BPC unit, should consider staffing needs and develop a plan of action to handle future claims should the number of claims increase again. Additionally, management of the local office staff and the BPC unit should further refine the definition of potentially fraudulent claims and include more examples of those types of claims that should be sent to the BPC unit.

Management of the local office staff and the BPC unit should continue to train staff on the use of the new policy.

Upper management of the division should reevaluate the information they receive from the federally mandated reviews of claims by other division units. They should determine whether those reviews can be relied upon to potentially detect issues such as the overpayments of claims due to frauds rather than errors.

Upper management, in conjunction with management of the BPC unit, should review the 16 fraudulent claims identified in our testwork and determine what corrective actions should be taken, including the collection of any applicable penalties and interest.

Upper management, in conjunction with the internal auditor, should periodically monitor overpayment decisions made by the local office staff, including high-dollar overpayments, to determine whether local office staff are properly processing only those overpayments due to errors rather than fraud and similarly to determine whether the BPC unit is properly processing overpayments with fraud indicators.

The Commissioner should ensure that the risk of fraud overpayments being adjudicated as errors is specifically addressed in LWD's risk assessment and that mitigating internal controls, in addition to the federally mandated reviews mentioned above, are placed into operation.

Management's Comment

We concur. In the next 90 days, a plan will be in place to address staffing needs when claims dramatically increase. Local office training and compliance with the new policies will continue.

Finding Number	12-LWD-07
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Material Weakness
Compliance Requirement	Eligibility
Questioned Costs	N/A

The Department of Labor and Workforce Development's lack of controls over its online automated approval process for unemployment claims increased the risk that payments were made to ineligible claimants

Finding

The Department of Labor and Workforce Development did not have adequate controls over its online automated Unemployment Insurance Claims (UI) approval process to prevent or detect improper payments to ineligible claimants. Before the initiation of our audit fieldwork, the Commissioner expressed specific concerns related to this process. To address our (and management's) concerns, we performed audit procedures and found that the controls over the department's online automated approval process were not sufficient to provide management and staff with a mechanism for proper verification of eligibility of all claimants who requested UI benefits due to lack of work.

We were unable to test the online automated approval process because UI management could not provide us with the population of payments made specifically through this process. In total, the department processed over 5,313,157 checks for 290,620 claimants in the amount of $1,175,939,586 for the fiscal year ended June 30, 2012. Management estimated that approximately 35 to 47% of all claims were automatically processed and approved through the online process.

Although we could not test the population of online automatically approved claims, we did perform eligibility testwork, and we have reported the number of ineligible claims and questioned costs related to management's lack of controls for both the online and manually processed claims in our overpayment finding (12-LWD-02).

Background

According to state regulations, individuals filing UI claims with the department must meet certain earnings requirements (monetary) from past employment and must be currently unemployed or earning less than their weekly benefit amount and/or the $275 maximum. Once the monetary requirements are met, other eligibility requirements (non-monetary) must be met before a claim is approved. Claimants must have separated from their most recent employer through no fault of their own. Claimants' circumstances generally fall into one of three non-monetary categories:

1. lack of work – where the employer lays off the employee,
2. quit – where the employee has voluntarily quit with just cause, or
3. discharge – where the employee's employment was terminated because of performance issues other than misconduct.

Separation issues and personal eligibility issues (those issues that involve claimants' ability and availability for work) often need to be evaluated by department staff before a decision to approve benefits can be made. For departmental staff, lack of work is generally the easiest issue to resolve as it only involves verification with the employer that the separation was due to lack of work available for the claimant.

<u>Online Automated Approval Process</u>

In 2007, due to an increase of unemployed individuals filing claims for UI benefits, UI management implemented a computer program to assist in processing lack-of-work claims. This program automated the approval process for online lack-of-work claims and lack-of-work claims filed over the telephone at the Claims Center or local offices.

The online claims were processed daily in the department's Employment Security Comprehensive Online Technology (ESCOT) system. This system assigns a decision/issue code of 45/00 when the claimant separated from the employer for lack of work with no other issues (for example, additional earnings from a second source). Once a code 45/00 claim is filed, the system generates a verification letter that is mailed to the separating employer stating that the claimant has filed a claim for lack of work. The department requests that the employer respond to the department within 14 days, but only if the employer disagrees with the employee's assertion that he or she separated employment due to lack of work. If the department does not receive a response from the employer within 14 days of the claim date, the computer program automatically approves the claim (virtually approving online claims without a department staff member reviewing any part of the claim) and benefits begin. Again, the employers' responses verify employment and identify only those employees who separated for reasons other than lack of work since all other claim types must be approved manually.

<u>Problem Identified by Management</u>

Within the last several years, UI management determined that verification letters relating to the online lack-of-work claims were not always reaching the separating employers. According to UI management, several employers received notice that their unemployment premiums had risen due to claimants for which they had not received verification letters. UI management's review of this issue revealed programming issues with ESCOT and the online claims processing.

To address the problem, UI management changed the programming in an attempt to correct the problem; however, we found that the first attempt failed. Although we provided management with detailed information regarding our programming concerns, the wording of this finding does not identify the specific vulnerabilities that could allow someone to exploit them. UI management then made a second effort to correct the problem, as described below.

Additional Departmental Measures

In April 2012, UI management implemented a manual review of code 45/00 claims. Management's intent was to ensure that each code 45/00 claim would be examined by department staff before approving the claimant's request for benefits (before the 14-day period expired).

Our Testwork on the Additional Departmental Measures

Management did not design the database to capture and maintain details related to the initial coding for 45/00 claims, and the codes change to 01/00 once the claims are approved. Therefore, the department could not provide us with the complete population of 45/00 claims.

We were able to identify and test 12 code 01/00 claims that were previously 45/00 claims and determine if Claims Center staff reviewed the claims before approval. We found that only 6 of the 12 claims (50%) were reviewed by Claims Center staff. As a result, management failed to ensure that the additional measures implemented served as a compensating control for the programming issue.

Procedures Over Undeliverable Mail Were Unreliable

We also discussed with Claims Center management the procedures they followed when the department received returned mail containing undeliverable lack-of-work verification letters. Although the Claims Center staff stated they attempted to resolve the issue before payment, we found that staff did not prevent the code 45/00 claims from being automatically approved and paid.

In August 2012, after our inquiries about the process for handling returned mail, the Claims Center initiated a procedure to place stop codes on the 45/00 claims, preventing them from automatically approving when the lack-of-work verification letters were returned as undeliverable.

Additional Audit Procedures Performed

Our audit procedures also included interviews with current and prior management of the UI program as well as our observation of the current process. Given the nature of this online automated approval process and the fact that department staff have no interaction with the lack-of-work benefit claim type, we performed specific audit procedures to determine whether current and prior management of the UI program or their friends and family members had improperly received benefits through this process. We found no evidence of improper benefits or manipulation of specific claims involving any current and prior management. Furthermore, we found no evidence to suggest the online automated approval program was installed for the purposes other than expediting the claims process as stated by prior management.

We also discussed the installation of the online automated approval program with the Regional UI Division Director of the U.S. Department of Labor, and she was clear that the responsibilities for the system applications used in the state's UI program are completely the state's responsibility and that the installation did not require the approval of the U.S. Department of Labor. The director also stated that most states use a similar version of the online automated approval program that sends a lack-of-work verification letter to the separating employers and only requires a response if the claimant was not separated for lack of work.

<u>State Information Data Exchange System (SIDES)</u>

The department is currently working on the State Information Data Exchange System project, which will assist the department in communications with employers and could significantly improve the lack-of-work verification process. The project is being developed through a strategic partnership with the U.S. Department of Labor and is not yet fully implemented. Based on our understanding from discussions with management, if employers sign up to participate in SIDES, they can have information posted electronically to their account. Employers can view and respond to this information electronically by logging into their account. If employers have a SIDES account, the lack-of-work verification letter would be posted so the employers could view and respond electronically through the account.

<u>Conclusion</u>

If employers do not receive the lack-of-work verification letter, they do not get a chance to dispute the assertion by claimants that the separation was due to lack of work, or that claimants were even employed by them at all. Since the only verification of the lack-of-work claim is contingent upon an employer's response to the letter, this is all the more reason to require additional departmental review of code 45/00 claims before final approval of UI benefits, when the lack-of-work verification letter is returned as undeliverable.

Furthermore, because the department's manual review process of all code 45/00 claims was not completely effective, the department paid UI claims automatically without a proper review process in place. The combination of these weaknesses created a risk that claimants applying online due to lack of work could be approved although they were not eligible for UI benefits. The Commissioner and top management did not identify the risks addressed above in the department's annual Financial Integrity Act Risk Assessment.

Recommendation

The Commissioner should ensure controls over the department's online automated approval processes are sufficient to provide for proper verification of claimants' requests for UI benefits when separation occurs as a result of lack of work.

The Claims Center Director, working in conjunction with the Information Technology Administrator, should correct the programming issue by requiring claimants to call the Claims Center and file a claim. The Commissioner should consider the additional workload for the Claims Center as a result of implementing this recommendation and adequate staffing noted in 12-LWD-03.

After the change identified above is implemented, the Commissioner should reassess the necessity of department staff reviewing all 45/00 claims.

The Claims Center Director, working in conjunction with the Information Technology Administrator, should develop a method to provide an audit trail for lack-of-work claims that change from 45/00 to 01/00 claims after approval.

When the lack-of-work verification letters to employers are returned as undeliverable, the Claims Center Director should ensure the staff continue placing stop codes on the 45/00 claims, thereby preventing automatic approval of benefits.

Finally, the Commissioner should incorporate the risks identified in this finding in the department's annual risk assessment.

Management's Comment

We concur. Controls over the online automated approval process will be reviewed by executive management for adequacy. This will include the verification of audit trails and any information technology issues.

Finding Number	12-LWD-08
CFDA Number	17.225
Program Name	Unemployment Insurance
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	ES-22091-11-55-A-47, UI-22341-12-55-A-47, UI-21127-11-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Significant Deficiency
Compliance Requirement	Eligibility
Questioned Costs	N/A

The Department of Labor and Workforce Development's Employment Security Division did not obtain certifications from certain claimants, which increased the risk that ineligible individuals received unemployment benefits

Finding

The Department of Labor and Workforce Development's (LWD) Employment Security Division (division) did not require all unemployment benefit claimants to make weekly certifications regarding their eligibility status. The division's failure to require these certifications increased the risk that ineligible individuals received benefits.

Although we provided management with detailed information regarding our concerns, the wording of this finding does not identify the specific vulnerabilities that could allow someone to exploit them.

Under the state's unemployment insurance program, claimants can apply for benefits when they become unemployed, are temporarily laid off, or have had their work hours significantly reduced and are earning less than the weekly benefit amount ($275 maximum). The division is responsible for obtaining certifications from either employees or employers to determine whether claimants' eligibility status has changed.

Claimants may apply for regular benefits or partial benefits depending on their circumstances. Regular unemployment claims are filed by claimants when they become unemployed or are earning less than the weekly benefit amount. The division requires these claimants to make weekly certifications via telephone or internet regarding their eligibility status. Partial unemployment claims are filed by employers (rather than claimants) each week on behalf of employees that employers must either lay off temporarily or significantly cut employees' work hours (less than four full days), and the employee's earnings are less than the weekly benefit amount. Employers can submit partial claims in hard copy through the mail or electronically through the internet. Approximately one-fourth (70,000) of all claims processed by the division are partial claims, and the majority of the partial claims are filed online.

We obtained and reviewed the different formats provided by the division and used by employers to file partial claims each week. Some of these formats included a “worker’s statement” section, which is completed and signed by employees to attest to their eligibility status, but the division does not require this attestation for all partial claims.

The division cannot be assured that claimants who qualify for partial benefits are eligible each benefit period without additional requirements, such as an initial statement from each worker and weekly certifications. The Commissioner and top division management did not identify this risk in LWD’s annual Financial Integrity Act risk assessment.

Recommendation

Employment Security Division management should consider requirements for employers filing partial claims so that all formats of claims include weekly certifications from the employees. Division management should add these requirements to LWD’s policies and procedures and include the requirements in instructions for employers. Employers should maintain weekly worker’s statements for verification by division staff. Finally, the Commissioner and top division management should include the risk identified above in LWD’s annual risk assessment.

Management’s Comment

We concur. Over the next 90 days, the department will review the partial claims process for improvement. Additionally, all risks included in this finding will be included in the department’s annual risk assessment.

Finding Number	12-LWD-09
CFDA Number	17.259
Program Name	Workforce Investment Act Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	AA-22963-12-55-A-47, AA-21423-11-55-A-47, AA-20221-10-55-A-47, AA-18669-09-55-A-47, and AA-17149-08-55-A-47
Federal Award Year	2009 through 2015
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$172,859.04

Override of controls by one subrecipient's board resulted in the overexpenditure of $172,859.04 in Workforce Investment Act funds

Finding

In our testwork on the Department of Labor and Workforce Development's (LWD) subrecipient monitoring for the Workforce Investment Act (WIA) and our follow-up on the findings noted in the monitoring reports, we found that one subrecipient's board authorized the expenditure of funds in excess of the approved contract amount, resulting in federal questioned costs of $172,859.04.

Office of Management and Budget (OMB) Circular A-133 and the *Code of Federal Regulations* require LWD to monitor the activities of its subrecipients to ensure that subrecipients comply with applicable program requirements. LWD's Office of Program Accountability and Review (PAR) has the responsibility to conduct annual monitoring visits at each of the department's 13 Local Workforce Investment Areas (LWIAs) to satisfy the subrecipient monitoring requirement. In addition, LWD is required by the Department of Finance and Administration's Policy 22, *Subrecipient Contract Monitoring*, to monitor subrecipients and to issue reports summarizing any deficiencies noted during monitoring visits within 30 business days after completion of fieldwork. Upon completion of the monitoring visit, PAR provides the monitoring report to the subrecipient.

In our subrecipient monitoring testwork, we reviewed the monitoring reports for the fiscal year ended June 30, 2012, for the department's 13 subrecipients. In the PAR monitoring report for the Southwest Human Resource Agency - Local Workforce Investment Area 11 (LWIA 11), dated May 17, 2012, the monitors noted in finding 1 that the expenditures for contract LW11P101YOUTH11 were over-reported by $172,859.04. The finding also noted:

> The amount over reported represents program expenses that were incurred prior to the beginning of the contract period. These expenses could not be charged to the

> prior year's contract because the contract was fully expended. It is recognized, however, that prior contract period expenses were legitimate program expenses.
>
> According to management of Southwest Human Resource Agency (SWHRA) and corroborated by the Department, the Department agreed to provide additional funding to cover these expenses. As of the monitoring date, no additional funds had been provided.
>
> The contracts between the Department of Labor and Workforce Development and SWHRA states the grant contract shall be effective according to the beginning date and ending date. The contract further states, "The Grantee hereby acknowledges and affirms that the State shall have no obligation for Grantee services or expenditures that were not completed within this specified contract period."
>
> While a deficiency of $172,859.04 is recognized, it is also recognized that the deficiency arises due to the failure of the Department to timely provide the additional funding to which it committed.

In response to finding 1 in the monitoring report, the Executive Director of the Southwest Human Resource Agency stated:

> The $172,859.04 was legitimate program expenses incurred in the Youth Program. When it was brought to the attention of the LWIA 11 Board that funds were not available to pay existing subcontractors by the administrative entity, the recommendation to stop subcontractor payments was over ruled by the board. In a discussion with the DOL [LWD] it was recommended that the subcontractors continue to be paid and the state would provide additional funds.

Based on our review of supporting documentation and our inquiry of LWIA 11 management, we determined that a deliberate override of controls by the LWIA 11 Executive Committee and board contributed to the overexpenditure. According to the January 11, 2010, Youth Council meeting minutes, staff of LWIA 11 decided that the council would recommend to the Executive Committee to cancel current contracts with vendors, effective January 31, 2010, in order to not overexpend the youth program maximum contract amount. According to the January 12, 2010, Executive Committee meeting minutes, the motion was tabled and would be dealt with at a specially called meeting of the Executive Committee and Youth Council. According to the minutes of the January 22, 2010, specially called meeting, a motion was made and carried to continue the contracts through June 30, 2010. A memorandum from the Executive Committee to the board members dated January 25, 2010, recommended continuing the current contracts and acknowledged that in order to continue youth services through June 30, 2010, additional funds would be needed from the next fiscal year funding. According to the January 28, 2010, board meeting minutes, the board approved the continuation of the current contracts. We believe that the board was fiscally irresponsible in doing so, since the contract between LWIA 11 and the department specified a maximum contract liability for the state.

We discussed this issue with LWD's Deputy Commissioner on October 8, 2012. She stated that LWD management was aware of the overexpenditure. Although the grant agreement between LWD and the LWIA 11 stated that the maximum liability of the state is the amount specified in the contract, the Deputy Commissioner stated that LWD intended to cover the overexpenditure with state funds. As of our meeting date, no state funds had yet been used to offset those costs; therefore, the overexpenditure on the program year 2010 Youth Program that was improperly allocated to the WIA program is not an allowable cost.

Management identified the risk of improper control over the expending of federal funds at the subrecipient level and established control procedures within the subrecipient monitoring guidelines; however, when the overexpenditure was noted by the monitors, the department apparently communicated to the subrecipient that the department would take care of it.

Recommendation

Department management should better communicate to the WIA subrecipients the consequences of not following the WIA program requirements as well as the contract agreements. The Commissioner should take the necessary steps to adequately resolve the questioned costs.

Management's Comment

We concur. Management will communicate with WIA subrecipients the consequences of not following WIA program requirements, and the Commissioner will take the necessary steps to adequately resolve the questioned cost.

Finding Number	12-LWD-10
CFDA Number	17.258, 17.259, and 17.278
Program Name	Workforce Investment Act Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	AA-17149-08-55-A-47, AA-18669-09-55-A-47, AA-20221-10-55-A-47, AA-21423-11-55-A-47, and AA-22963-12-55-A-47
Federal Award Year	2008 through 2015
Finding Type	Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A

Management at the Department of Labor and Workforce Development and management at its Local Workforce Investment Areas did not comply with the Workforce Investment Act program reporting requirement

Finding

Management at the Department of Labor and Workforce Development (department) and management at its Local Workforce Investment Areas (LWIAs) did not comply with the U.S. Department of Labor's Employment and Training Administration (ETA) reporting requirement ETA-9091, *WIA Annual Report* (*OMB Number 1205-0420*) and *Standardized Record Data* (WIASRD). The WIASRD data records contain relevant data on individual participants' characteristics, activities, and outcomes.

Programs under the Workforce Investment Act of 1998 (WIA) help prepare workers for good jobs through formula grants to states. Using a variety of methods, states provide employment and training services through a network of One-Stop Career Centers. The WIA Adult and Dislocated Worker programs provide training services and help jobseekers achieve gainful employment. The adult component focuses more on low-skilled, low-income workers, whereas the dislocated worker component supports the reemployment of laid-off workers. An additional youth program provides employment and educational services to eligible low-income youth, ages 14 to 21, who face barriers to employment. The program serves in-school as well as out-of-school youth, youth with disabilities and low literacy rates, and youth who may require additional assistance to complete an educational program, acquire an industry-recognized credential, or enter employment. When a WIA participant completes an activity (e.g., training), management is required to update its records to document that the participant completed the activity and is no longer receiving services funded by the WIA program.

Improper Exit Activity Reporting of WIA Program Participants

For the period July 1, 2011, through June 30, 2012, we selected a sample of 195 WIA participants reported as active from a population of 38,624 participants and reviewed the related documentation to evaluate the participants' eligibility, activities, and outcomes. Our inspection of the participants' documentation revealed that for 56 of the 195 participants (29%) whose files we examined, LWIA management did not exit the participants from the WIA program in accordance with the U.S. Department of Labor's Training and Employment Guidance Letter (TEGL) 17-05, which states in Part 6 (B) (3),

> Once a participant has not received any services funded by the program or a partner program for 90 consecutive calendar days, has no gap in service, and is not scheduled for future services, the date of exit is applied retroactively to the last day on which the individual received a service funded by the program or a partner program.

Also, the Workforce Investment Act of 1998, Section 185, entitled Reports; Recordkeeping; Investigations, states in (a) (1),

> Recipients of funds under this title shall keep records that are sufficient to permit the preparation of reports required by this title and to permit the tracing of funds to a level of expenditure adequate to ensure that the funds have not been spent unlawfully.

Below is a summary of the results of our review of participants' exits from the program.

WIA Funding Grant	Population	Sample Size	Number of Participants Not Exited	Percentage of Participants Not Exited
Adult Program	21,169	65	21	32%
Dislocated Workers Program	9,751	65	19	29%
Youth Program	7,704	65	16	25%
Total	38,624	195	56	29%

<u>Discussions With Management as to the Improper Exit Activity Reporting</u>

In our review of the enhanced Consolidated Management Activity and Tracking System (eCMATS) database information, we found that participants who should have been exited from the WIA program more than five years ago were reported as active during the current audit period. When we asked LWIA management about the length of time participants were allowed to stay in the WIA program, management disclosed that the LWIAs did not exit participants from the program in order to avoid a negative impact on their performance measures. Based on our inquiries, LWIAs kept participants who did not successfully complete the program in the eCMATS database for years to show that these participants were still active in the program and thereby to avoid reporting those participants as unsuccessful exits from the program. LWIA management also told us that some participants did not respond to phone calls or mail, and other participants dropped out of the training and were not issued certificates. The program director at one LWIA told us that this has been the practice of the LWIAs due to strict and unachievable performance measures. The program director at another LWIA also told us that the agency would not close cases that would have a negative impact on the agency's performance measures.

We brought this issue to department management, and they agreed that the participants who did not receive services should have been exited from the WIA program as required by the TEGL 17-05. Department management communicated this issue to the LWIAs and sent a list of participants who had been in the WIA program for three or more years for the LWIAs to evaluate and report back to the department. The following is the e-mail correspondence from department management to LWIA management.

> Attached is an excel spreadsheet which list active participant files currently in the system with enrollment dates of 2008 and earlier. Please review each participant record to ensure the participant is indeed still active. In accordance to TEGL 17-05:
>
> 1. What is the definition of program exit?
>   The term program exit means a participant has not received a service funded by the program or funded by a partner program for 90 consecutive calendar days, and is not scheduled for future services. The exit date is the last date of service.

No Evidence of WIA Program Participants' Completion of Training

We also reviewed participant files for evidence of completion of the training requirements to determine if the department reported accurate data to the U.S. Department of Labor relative to WIA program participants' training. Our review of the 195 participant files disclosed that 138 participants had received some training, but 41 of the 138 files (30%) did not contain the certificates of completion of training. Below is a summary of the results of our review.

WIA Funding Grant	**Sample Size**	**Number of Participants Exited with No Evidence of Completion of Training**	**Percentage of Exited Participants with No Evidence of Completion of Training**
Adult Program	44	18	41%
Dislocated Workers Program	46	8	17%
Youth Program	48	15	31%
Total	138	41	30%

In our follow-up work on these 41 participants, we found that there were 13 participants who dropped out of the training program, 11 participants whose files did not contain training progress notes or completion documentation, and 17 participants whose files contained training progress notes but did not contain a certificate of completion. As mentioned above, since the LWIAs decided not to report data that would have a negative impact on their performance measures, this data was not included on the ETA-9091, *WIA Annual Report* (*OMB Number 1205-0420*) and *Standardized Record Data* (WIASRD), as required by the U.S. Department of Labor.

The reliance on improper data and inaccurate information due to the inaccurate reporting of WIA program participants' activities, progress, and outcomes of training increases the risk of improper funding and reporting on the WIA program participants' performance at the state and federal levels.

Recommendation

The Commissioner or her designee should ensure that management at the Local Workforce Investment Areas report accurate and up-to-date information in federally required reports. LWIA management should ensure that the eCMATS database is updated regularly with accurate information about each WIA program participant's activity, progress, and outcome. Also, department management should ensure that LWIA personnel obtain and keep on file the certificates of completion for the WIA participants who complete training funded by the program.

Management's Comment

We concur. Appropriate action will be taken by the Commissioner to ensure that the local managers of the WIA report accurate and up-to-date information.

Finding Number	12-LWD-11
CFDA Number	17.258, 17.259, and 17.278
Program Name	Workforce Investment Act Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	AA-17149-08-55-A-47, AA-18669-09-55-A-47, AA-20221-10-55-A-47, and AA-21423-11-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Noncompliance
Compliance Requirement	Program Income
Questioned Costs	$36,101.32

The Department of Labor and Workforce Development was unaware that one of its subrecipients failed to report revenue generated from Workforce Investment Act funds, resulting in $36,101.32 of federal questioned costs

Finding

The Department of Labor and Workforce Development (LWD) was unaware that one of its subrecipients, the Knoxville-Knox County Community Action Committee - Local Workforce Investment Area 3 (LWIA 3), failed to report to LWD program income that it generated using Workforce Investment Act (WIA) funds. As a result, we questioned costs of $36,101.32.

LWD defines program income as gross income earned from any WIA program-supported activities (e.g., receipts from goods or services provided as a result of activities funded by the program). WIA recipients and subrecipients are required by federal regulations to report program income. These regulations allow the recipients and subrecipients to use the generated program income to pay other costs incurred under the grant. Based on LWD's *Supplementary Financial Guide*, the receipts and disbursements of program income are to be submitted quarterly to the department on the WIA program income status report and reported on the appropriate quarterly status report.

While reviewing accounting records at Workforce Solutions (LWIA 6), we learned that it made allowable payments to LWIA 3 for training services; however, LWIA 3 did not report to LWD the revenues earned (gross or net program income) or expenses incurred for this training, as required. Through a series of discussions with management at LWIA 3, they confirmed that the LWIA 3 Assistant Director (whose salary and benefits were charged to the WIA grant) provided training to other LWIAs. As a result, the revenue that LWIA 3 earned from the training services the Assistant Director provided is considered program income. Since management at LWIA 3 failed to report the gross program income, associated costs, and net program income, LWD management was unaware of the program income and unable to report it to the U.S. Department of Labor as required.

In addition to the failure to report program income, LWIA 3 management did not use the program income in accordance with LWD's guidelines and Section 3.10 of the Workforce

Investment Act of 1998. LWD's *Supplementary Financial Guide* states that subrecipients are allowed to use the program income generated ". . . to carry out any authorized WIA activities. Any program income not used during the funding period must be returned to the Tennessee Department of Labor and Workforce Development." Also, the *Supplementary Financial Guide* states that the "WIA program income status report should be submitted to the Tennessee Department of Labor and Workforce Development with the associated quarterly report by the quarter due date."

Based on our discussion with the LWIA 3 Fiscal Services Manager, the program income earned from the training services was used to offset costs of LWIA 3's expenditures, but not specifically the WIA program expenditures. He also stated that a reconciliation was to be performed at the end of the fiscal year to determine if there was program income that needed to be transferred to the WIA program; however, based on our review of the accounting records, we determined that LWIA 3 management did not transfer any program income to the WIA program. Therefore, the total net program income of $36,101.32 is questioned costs.

According to the LWIA 3 accounting records, the amounts recorded as revenue and expenses for training services for the fiscal year ended June 30, 2012, were as follows:

Gross program income	$48,320.28
Total expenses	12,218.96
Net program income	$36,101.32

In LWD's annual risk assessment, management identified the risk of subrecipients not reporting program income and established procedures for reporting program income, but those procedures were not effective. Without effective procedures and proper follow-up, the risk of misuse of revenue generated with federal funds increases.

Recommendation

The Commissioner should ensure that management at the LWIAs report revenue generated using the WIA funds as program income as required by state and federal regulations. The Commissioner or her designee should ensure that personnel at the LWIAs are aware of the program income reporting requirements. The Commissioner or her designee should ensure that effective procedures are established to effectively mitigate the risk of subrecipients not reporting program income.

Management's Comment

We concur. Appropriate action will be taken by the Commissioner to ensure that the local managers of the WIA properly report program income.

Finding Number	12-LWD-12
CFDA Number	17.258, 17.259, and 17.278
Program Name	Workforce Investment Act Cluster
Federal Agency	Department of Labor
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	AA-17149-08-55-A-47, AA-18669-09-55-A-47, AA-20221-10-55-A-47, and AA-21423-11-55-A-47
Federal Award Year	2008 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Procurement and Suspension and Debarment
Questioned Costs	$17,926.50

Subrecipients of the Department of Labor and Workforce Development did not follow proper procurement procedures when awarding service contracts funded by the Workforce Investment Act program and paid for unallowable costs, which resulted in $17,926.50 of federal questioned costs

Finding

Department of Labor and Workforce Development (LWD) subrecipients did not follow proper procurement procedures when awarding service contracts for training and technical assistance. In addition, as noted in the prior audit, the department's subrecipients paid a service provider for unallowable costs.

Our inquiries of LWD management and the subrecipients, as well as our follow-up on the prior audit finding, disclosed that 2 of 13 subrecipients contracted with the Center for Workforce Learning, Inc. (the center) during the fiscal year ended June 30, 2012. The two subrecipients were the Southwest Human Resource Agency - Local Workforce Investment Area 11 (LWIA 11) and the Workforce Investment Network - Local Workforce Investment Area 13 (LWIA 13). We obtained and reviewed the contracts, invoices, and other documentation relative to the center's services and found the problems discussed below.

LWIA 11 Did Not Award Service Contract on a Competitive Basis

LWIA 11 contracted with the center to provide training and technical assistance. We determined that the contract was not awarded on a competitive basis as required by the Workforce Investment Act of 1998. Subtitle B—Statewide and Local Workforce Investment Systems - Section 118, Local Plan, Part (b) states, "The local plan shall include . . . (9) a description of the competitive process to be used to award the grants and contracts in the local area for activities carried out under this subtitle . . ."

The contract with the center also was not in accordance with the contract between LWD and LWIA 11, Section D, Standard Terms and Conditions, D.17, Procurement, which states:

> If other terms of this Grant Contract allow reimbursement for the cost of goods, materials, supplies, equipment, and/or contracted services, such procurement(s) shall be made on a competitive basis, including the use of competitive bidding procedures where practical. The Grantee shall maintain documentation for the basis of each procurement for which reimbursement is paid pursuant to this Grant Contract. In each instance where it is determined that the use of a competitive procurement method is not practical, supporting documentation shall include a written justification for such decision and non-competitive procurement. Further, and notwithstanding the foregoing, if such reimbursement is to be made with funds derived wholly or partially from federal sources, the determination of cost shall be governed by and reimbursement shall be subject to the Grantee's compliance with applicable federal procurement requirements.

In addition, this contract was not in accordance with LWIA 11 purchasing procedures, Chapter 2 (B)(11), which states, "general policy statement – It is the policy that every contract representing the procurement of services shall be made on a competitive basis where practicable and appropriate, considering factors such as the type of service, cost, competence, reputation, and technical proposals made by vendors."

Chapter 2 (C)(2)(a) states, "A request for proposal (see Appendix 1 for example) shall be prepared by the SWHRA." Chapter 2 (C)(2)(c) states, "Advertising. The SWHRA shall formally advertise and/or send a request for proposal to all potential contractors known to the SWHRA, except that it is not necessary to send requests to more than 15 different vendors. The SWHRA office is designated as the place to which proposals are to be delivered." Chapter 2 (C)(2)(d) states, "Opening of Proposals – public record – proposals for each contract shall be opened at the time specified in the request for proposal. After a contract is made and finally approved, all proposals received pertaining to that contract shall be held open to public inspection by the SWHRA during reasonable hours on working days."

Based on our discussion with the WIA Director at LWIA 11 regarding the requests for proposals from vendors for this contract, advertisement of the proposal period, and whether LWIA 11 prepared the request for proposal, the WIA Director stated that no other vendors bid on the contract. Also, he could not provide us with support for the advertisement of the contract proposal period, and he did not provide us with supporting documentation to show that LWIA 11 staff had prepared the request for contract proposals.

LWIA 11 Management Exhibited Lack of a Basic Understanding of or Disregard for Prescribed Contract Procedures

During our follow-up on the prior year audit finding, we noted that LWD awarded LWIA 11 a contract using the Incentive Grants - WIA Section 503 (CFDA 17.267) so that it could contract with the center. This contract was for the center to provide guidance, consultation, technical assistance, and training to assist the department and LWIA 11 in reengineering LWD and LWIA 11's workforce policies, procedures, and organizational structure. Under the provisions of the contract, the center was to be compensated based on the payment rates in the contract for units of service authorized by the state in a total amount not to exceed $86,400. The compensation rate for the service was $249.00 per hour, and the center was not to be compensated or reimbursed for travel, meals, lodging, or incidental expenses such as calls, postage, or materials.

We inquired about the procedures LWIA 11 used in awarding this contract to the center. Based on our inquiry and inspection of the contract document, request for proposals, and advertising for this contract, we found that LWIA 11 placed an ad in the local newspaper on April 4, 2012, that stated, "All proposals are due by 4:30 PM on April 17, 2012." Based on our review of the contract approvals, the contract between LWIA 11 and the center was approved on April 13, 2012, four days prior to the closing date stated in the ad. Also, based on our review of the center's invoice, the center invoiced and was reimbursed by LWIA 11 for services the center provided on April 14, 2012.

The WIA Director told us that "there must be an error in the date," but the WIA Director did not provide additional information about the "error." LWD management stated that the center agreed to provide services free of charge until the contract was awarded. They also said that the center's bid was the only bid received, and the contract was retroactively dated to April 13, 2012, so the center would be reimbursed for the services provided prior to the end of the last day of proposal submission (April 17, 2012). We asked the WIA Director if LWIA 11 intended to award the contract to the center regardless of competitive bids, since the evidence suggested that the contract was awarded without regard to LWIA 11 procurement procedures. The WIA Director told us that LWD awarded LWIA 11 a contract for $96,000 for the purpose of entering into a contract with the center. Based on our review of the contract between LWD and LWIA 11, the contract's section A, Scope of Service – part A.3 states, "The Grantee shall establish programs for technical assistance and consultation services that will provide guidance, consultation, technical assistance and training through a contract with the Center for Workforce Learning, Inc." The LWD Commissioner signed the contract on May 8, 2012, and the LWIA 11 Executive Director signed the contract on May 3, 2012. However, the beginning date for this contract was retroactive to April 13, 2012.

Based on our review of the center's invoices for this contract, there were two invoices submitted to LWIA 11 that totaled $86,400, as follows:

- June 5, 2012 (for 4/14 - 6/5/2012) $40,836
- June 30, 2012 (for 6/7 - 6/30/2012) $45,564

In addition, based on our review of the contract between the department and LWIA 11, Section D, Standard Terms and Conditions, parts D.1 and D.5:

> Part D.1 – required approval – The State is not bound by this Grant Contract until it is signed by the contract parties and approved by the appropriate officials in accordance with applicable Tennessee laws and regulations.
>
> Part D.5 – Subcontracting (a) – The Grantee shall not assign this grant or enter into a subcontracting for any of the services performed under this Grant without obtaining the prior approval of the State. If such subcontracts are approved by the

> State, they shall contain at a minimum, sections of this Grant Contract below pertaining to "Lobbying," "Nondiscrimination," "public Accountability," "public Notice," and "Records" (as identified by the section headings). Notwithstanding any use of approved subcontractors, the Grantee shall be the prime contractor and shall be responsible for all work performed.

Our review of the subcontract between LWIA 11 and the center disclosed that the required Part D.5 (a) was not included in the contract. Also, as mentioned above, LWIA 11 approved the center's contract at least three weeks prior to the LWD Commissioner's approval of the state contract between the department and LWIA 11 for the training. Given the noted discrepancies in the contract, we believe LWIA 11 management lacked a basic understanding of contracting procedures or disregarded the prescribed contract process.

Additionally, LWD awarded a contract to LWIA 11 so that LWIA 11 could contract with the center for the period July 1, 2012, through June 30, 2013. The new contract is identical to the previous contract; however, the maximum liability for the 2012-2013 contract is $110,000. Based on our review of the latest contract between LWD and LWIA 11, the contract's section A. Scope of Service – part A.3 is a continuation of the prior year's contract. The section states, "The Grantee shall establish programs for technical assistance and consultation services that will provide guidance, consultation, technical assistance and training through a contract with the Center for Workforce Learning, Inc. . . ." Therefore, this contract continuation also resulted in LWD and LWIA 11's continued noncompliance of *Office of Management and Budget (OMB)* Circular A-133 procurement procedures that require the recipient of federal funds to award contracts on a competitive basis.

LWIA 11 Paid for Unallowable Costs in Violation of WIA Program Requirements

Based on our review and testwork and according to the original contract, LWIA 11 agreed to pay the center $1,500 for eight hours ($187.50 per hour) of on- and off-site work, and the center would charge four hours travel to and four hours travel from LWIA 11 for on-site sessions. The initial agreement covered 120 hours, or a total of $22,500, for the period July 1, 2011, to June 30, 2012. However, on January 15, 2012, the contract was amended to add $15,000, making the total contract maximum liability $37,500. On April 2, 2012, the contract was amended again to extend the contract to December 31, 2012. The amendment also increased the hourly rate from $187.50 to $249.00 for actual hours worked on- and off-site and increased the total contract maximum liability to $50,000 without LWIA 11 management documenting justification for the increases. The third amendment also provided that the center would not be compensated for travel or for travel time to and from on-site visits.

We determined that LWIA 11 paid $41,989 to the center from WIA program funds for the adult, dislocated workers, and youth programs. Of this amount, $8,250 was unallowable because the costs were not in accordance with OMB Circular A-87 requirements, and $676.50 was unallowable due to an unjustified hourly increase, resulting in total federal questioned costs of $8,926.50.

Unallowable Travel Time in Violation of OMB Circular A-87

LWIA 11 paid the center $8,250 (44 hours x $187.50) for travel time, which was classified as "time in route." Therefore, the time in route was not for actual travel expense; rather, it was for time lost during travel to and from LWIA 11. OMB Circular A-87 requires that reimbursement be made based on goods or services that were received. Compensation for loss of an economic opportunity is not an actual service. Because OMB Circular A-87 requires that expenditures of federal awards be necessary and reasonable, we questioned the $8,250.

Unjustified Hourly Increase in Violation of LWIA Policies and Procedures

LWIA 11 paid the center $676.50 (11 hours x $61.50) for the increase in the hourly rate from $187.50 to $249.00 without written justification for the increase. LWIA 11 Purchasing Procedures, Chapter I (F) (9) states, ". . . as the terms of the contract allow, all request for price increases must be in writing to the SWHRA and must contain data established or supporting the general or industry wide nature of the change." Therefore, we questioned the $676.50.

LWIA 13 Did Not Award Service Contract on a Competitive Basis

The Workforce Investment Network (WIN) - Local Workforce Investment Area 13 (LWIA 13) also awarded a contract to the center to provide "professional services related to enhancing the operational and administrative functions associated with the local development system." According to the contract, LWIA 13 agreed to pay the center the all-inclusive daily rate of $1,500 for travel expenses and materials not to exceed $35,000, which represented 23 days of work. The contract provided for the work to be on- or off-site as appropriate to complete the project, and the contract period was July 1 to December 31, 2011.

On September 20, 2011, the contract was amended to increase the contract maximum liability amount by $10,000. On December 28, 2011, the contract was amended to revise the contract item 5 to state ". . . WIN shall pay the daily rate of $1500 for onsite visit, inclusive of materials, etc. plus a charge of 4 hours travel to and from each onsite visit. Off-site work will be pro-rated based on $1500 divided by 8 hours . . ." The rate established was $187.50 per hour.

The Contracting Manager at LWIA 13 informed us that the procurement procedures for LWIA do not require competitive bids for procuring professional services, but as we cited above, the WIA law requires that procurement of goods or services be on a competitive basis. Therefore, LWIA 13 did not comply with the procurement requirements of the WIA law.

LWIA 13 Paid for Unallowable Costs

Our inspection of the invoices and payment documents disclosed that LWIA 13 paid $9,000 (48 hours x $187.50) for travel time to the center from WIA program funds for the adult, dislocated workers, and youth programs. As discussed above, the cost for travel time in route to and from location did not provide an actual benefit, resulting in $9,000 of federal questioned costs.

Without LWD management ensuring that the subrecipients of federal awards follow the proper procurement procedures and that costs charged to the WIA program are allowable, management's risk of fraud, waste, abuse, and noncompliance with federal requirements increases.

Recommendation

The Commissioner should ensure that subrecipients of federal funds adhere to the procurement procedures required by the WIA law, departmental procedures, and subrecipient procedures. LWD management should ensure that WIA program funds are only used for expenditures made in accordance with the WIA program regulations and the requirements of OMB Circulars A-133 and A-87.

The Commissioner and appropriate WIA program staff should recover any costs paid to the subrecipients and the center which were unallowable under the WIA regulations.

Management's Comment

We concur. Appropriate action will be taken by the Commissioner to ensure that WIA funds are only expended for allowable costs under federal guidelines and program regulations.

Finding Number	12-DOT-05
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Federal Highway Administration
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	Various
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	$73,605.33

The department's right-of-way offices in regions 1, 3, and 4 did not follow established internal control procedures; in addition, the region 3 right-of-way office did not monitor consultants, which created an atmosphere for fraud to occur and resulted in federal questioned costs of $73,605.33 and state questioned costs of $18,401.34

Finding

The department's Right-of-Way (ROW) Division is responsible for acquisition and clearance of real property that is needed to complete highway construction projects. The central office is responsible for establishing policies and procedures, monitoring field office operations, and utility contracting. Personnel in the four regional offices are responsible for the acquisition of right-of-way property, relocation assistance for people and businesses, utility adjustments, property management, and monitoring and reporting on excess lands. According to the *Code of Federal Regulations*, Title 23, Part 710, Section 201(h), the department "may enter into written agreements with other State, county, municipal, or local public land acquisition organizations or with private consultants" for right-of-way acquisitions. However, the department must "monitor any such real property acquisition activities to assure compliance with State and Federal law and requirements." Based on an investigation performed by the department's Internal Audit Office and our own compliance testwork, the department's ROW offices in regions 1, 3, and 4, which used third parties for right-of-way acquisitions, failed to adequately monitor these private consultants.

According to the department's *Right-of-Way Procedures Manual*, Part IV, Section II B,

> The contract for title work and closings will require the closing agents to complete all closings within 45 days if possible. If an extension is necessary, closing agents will be required to make a written request for extension.

While the manual does not provide further detail on this time span, the Transportation Director for the ROW Division in the central office stated that the 45-day period starts when a consultant receives payment for a planned right-of-way acquisition and ends on the closing date, when the property deed is transferred to the state by the property owner.

Based on our audit work, we found that staff in the department's regional ROW offices did not adequately monitor or supervise right-of-way consultants to ensure that the department received property deeds in exchange for the payments it made to consultants. In order to facilitate closings on properties with lienholders, payments were often issued solely to the department's consultants instead of being issued to the property owners or jointly to consultants and property owners. While the region 1 and region 4 ROW offices maintained some contact with consultants who did not close on properties within 45 days, these offices did not obtain the written extension requests required by the *Right-of-Way Procedures Manual*. In the region 3 ROW office, we found that staff did not perform any substantive monitoring of consultants after issuing payments to them. Based on discussion with the acting Transportation Manager for the region 3 ROW office, the office had several vacancies, which contributed to the lack of monitoring effort. Specifically, the position for the ROW Agent 4, responsible for monitoring consultants, has been vacant since 2007. Additionally, the region 3 office did not have a reliable information system for identifying the payments issued to consultants where property deeds had not been received. According to the acting Transportation Manager, the office also lacked any established procedures for following up with consultants on right-of-way acquisitions that were not completed. Additionally, the acting Transportation Manager noted that region 3 consultants and staff were uncertain as to when the 45-day time frame for closing on a property began.

We tested a sample of 60 payments to private consultants charged to the Highway Planning and Construction program for the period July 1, 2011, through June 30, 2012, to determine whether the consultants completed the right-of-way purchases and closings in a timely manner after the department paid them. For 36 of 60 payments to consultants (60%), we found that staff in the department's regions 1, 3, and 4 ROW offices did not obtain property deeds from the consultants within the 45-day period specified in the *Right-of-Way Procedures Manual* and did not receive written extension requests from the consultants. As stated above, the region 3 office did not obtain any updates from its consultants on the status of property acquisitions that had not been completed; the region 1 and 4 offices kept in contact with their consultants but did not ensure that consultants who could not meet the 45-day requirement filed the appropriate extensions. The consultants submitted the property deeds for these right-of-way acquisitions from 2 to 172 days late, with an average of 55 days late.

Additionally, as a result of not monitoring ROW acquisition payments issued to consultants, the region 3 ROW office did not obtain property deeds for 7 of the 60 planned acquisitions in our testwork (12%), representing right-of-way payments issued to two consultants. One of these consultants admitted to misappropriating the funds paid to him for right-of-way acquisitions. Following actions by the department's Internal Audit Office, the United States Department of Transportation Office of the Inspector General (OIG), and the United States Department of Justice, this consultant agreed to forfeit the assets derived from his fraudulent activities. The department requested that the other consultant repay all monies for incomplete right-of-way acquisitions, and as a result of his failure to do so, the department referred this matter to the OIG as well. Based on our sample, the department's ROW offices issued payments to consultants who failed to complete property closings, resulting in federal questioned costs of $73,605.33 and state questioned costs of $18,401.34. Based on our discussions with Internal Audit Office staff, neither of these consultants is presently doing business with the department.

As noted above, the department has already identified instances where right-of-way funds were misappropriated. The ongoing investigation of the payments made to right-of-way consultants may also identify further instances of fraud. The department's issuance of payments directly to private consultants and its failure to monitor planned right-of-way acquisitions increases the risk of these acts of fraud. Additionally, when the department does not ensure that closings occur in a timely manner, the likelihood of changes in property ownership during the intervening period and additional settlement costs increase. As a result of these deficiencies in the acquisition of right-of-way properties, the completion of roadway projects may also be delayed.

We also reviewed the department's risk assessment, and we found that management had not identified any of the risk events related to the use of private consultants for right-of-way acquisitions, nor did they describe internal controls mitigating the risks of the use of these consultants.

Recommendation

The Commissioner should ensure that a thorough review of the payments issued to right-of-way consultants is conducted to determine that all related property acquisitions have been closed timely and that property deeds are obtained for any planned acquisitions. In addition, the Commissioner should ensure that the department's regional offices are adequately staffed and trained. The Commissioner should also ensure that, when consultants are used by the department, they are adequately monitored for compliance with their contract specifications and the *Right-of-Way Procedures Manual*. The department's ROW Division and regional offices should develop adequate tracking systems and procedures to monitor consultants' right-of-way acquisitions to ensure that property deeds are obtained for any real property acquisitions for which the department has made payment.

The Transportation Director for the ROW Division should ensure that regional staff and right-of-way consultants are fully aware of the applicable requirements and deadlines. Additionally, the Transportation Director should consider revising the right-of-way policies, so that payments are not made solely payable to consultants.

The Commissioner should ensure that plans of corrective action are developed immediately to implement the recommendations in this report. To determine whether satisfactory progress is made, the Commissioner and the department's Internal Audit Office should frequently monitor the activities of the individuals responsible for correcting the problems. The Commissioner should take appropriate action if the problems are not corrected in accordance with the plans of corrective action.

Management should include the risks noted in this finding in management's documented risk assessment. The risk assessment and the mitigating controls should be adequately documented and approved by the Commissioner.

Management's Comment

We concur. A review of right-of-way payments issued to consultants to perform closings has been completed by each applicable region and the issue of misappropriation of funds seems to be isolated to region 3. At present, the department is undergoing a reorganization which will affect the regional offices. Certain positions within the right-of-way office and other functional areas as well will be moved to a "Studio." As the "Studio" concept is implemented, adequate staff will be obtained and trained. Our IT Division is working with the Right-of-Way Division and a consultant to develop a new comprehensive work flow data base. This new system, Integrated Right-of-Way Information System (IRIS), will enhance the region's ability to monitor consultant closings by IRIS' precise recordkeeping, robust reporting capabilities, and automated notification system. It is estimated that the data base will be fully operational by late 2014. In the interim, a program has been written to monitor the closing of tracts utilizing the information in our current data base. Each regional office has implemented this program. The process for monitoring closing was discussed with the regional right-of-way managers at the statewide meeting held the first of October 2012, with a supporting memo explaining the process sent in late November 2012. The elimination of escrow accounts was implemented the first of October 2012, and a memo was sent to each regional Right-of-Way Manager instructing them to proceed accordingly. It is the goal of the department for each regional right-of-way office to perform closings with in-house staff. One or more regional right-of-way offices may still utilize title work/closing consultants until vacant positions are filled. Depending upon workload, the department may utilize acquisition/relocation consultants. Under these types of contracts, the consultant will perform the closing function. Current consultants have been notified of the elimination of escrow accounts and the proper procedures to follow.

Finding Number	12-DOT-01
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X025, TN-18-X030
Federal Award Year	2007 and 2011
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Program Income
Questioned Costs	N/A

The Division of Multimodal Transportation Resources did not have adequate controls in place to ensure that subrecipients properly calculated and deducted fare revenue on the reimbursement requests they submitted to the department

Finding

Under the Formula Grants for Other Than Urbanized Areas (Formula Grants) program, the department's Division of Multimodal Transportation Resources (DMTR) is required to ensure that subrecipients properly report their collected fare revenue since the fare revenue should be deducted from the subrecipients' operating expenses on the reimbursement requests they submit to DMTR. Based on our testwork, the Program Manager for the Formula Grants program failed to ensure that subrecipients properly deducted fare revenues from their operating expenses. The Formula Grants program circular 9040.1F, "Nonurbanized Area Formula Program Guidance and Grant Application Instructions," states, "[n]et operating expenses are eligible for assistance. Net operating expenses are those expenses that remain after the provider subtracts operating revenues from eligible operating expenses. States may further define what constitute operating revenues, but at a minimum, operating revenues must include farebox revenues."

DMTR's Formula Grants Program Manager received both monthly ridership reports and reimbursement requests from the 12 subrecipients that participated in the program. The Program Manager stated that the fare revenues on the monthly ridership reports should match the amounts deducted from the operating expenses on the subrecipients' reimbursement requests. However, she also stated that she did not compare the ridership reports with the subrecipients' reimbursement requests to verify that the amounts were the same and that the revenue was properly deducted from the operating expenses.

Based on our review of monthly ridership reports, reimbursement requests, and in the case of the City of Gatlinburg, other documentation provided by the City Treasurer, we found that for 7 of 10 subrecipients tested (70%), the subrecipient did not properly report and deduct fare revenues from the operating expenses before invoicing DMTR under the grant program.

As shown in the table below, the fare revenues related to five reimbursement requests were underreported (fare revenues actually collected exceeded the amount deducted from operating expenses on the reimbursement requests). Therefore, the operating expenses were overstated and subrecipients overbilled DMTR. We found that DMTR did not ensure that the City of Gatlinburg included fare revenue information on the monthly ridership reports which they submitted to DMTR; therefore, we had to obtain information from the City Treasurer in order to perform the comparison.

Reimbursement Period	Subrecipient	Fare Revenues Per Ridership Report or Other Documentation	Fare Revenues Reported on Reimbursement Request	Fare Revenues Underreported Resulting in Overbilling DMTR
July 2011 - March 2012	City of Gatlinburg	$283,166.00	$123,218.00	$159,948.00
August 2011	East Tennessee Human Resource Agency	$28,606.00	$21,695.50	6,910.50
July 2011	Southeast Tennessee Human Resource Agency	$8,871.00	$8,296.00	575.00
July 2011	Southwest Tennessee Human Resource Agency	$8,511.50	$ -	8,511.50
September 2011	Upper Cumberland Human Resource Agency	$15,055.50	$13,475.49	1,580.01
		Total fare revenues underreported		**$177,525.01**

As shown in the table below, the fare revenues related to three reimbursement requests were overrreported (fare revenues deducted from operating expenses exceeded the amount actually collected). Therefore, the operating expenses were understated and the maximum allowable amount (50% of operating expenses) for federal assistance was understated. As a result, subrecipients were eligible for more federal assistance than they requested.

Reimbursement Period	Subrecipient	Fare Revenues Per Ridership Report	Fare Revenues Reported on Reimbursement Request	Fare Revenues Overreported Resulting in Underbilling DMTR
August 2011	Delta Human Resource Agency	$1,637.00	$3,535.50	$1,898.50
September 2011	Mid-Cumberland Human Resource Agency	$18,709.00	$19,817.00	1,108.00
October 2011	Southeast Tennessee Human Resource Agency	$419.00	$489.00	70.00
		Total fare revenues overreported		**$3,076.50**

Although the two tables reflect a total of eight items, one of the seven subrecipients, Southeast Tennessee Human Resource Agency, had an overbilling for the month of July 2011 and an underbilling for the month of October 2011.

DMTR submits the Rural Public Transit Service Summary (RU-30) annually (by October 31 for the period ended June 30) to the National Transit Database with revisions allowed until

March of the following year. The RU-30 is a summary of transportation data reported by the subrecipients and includes a line item for fare revenues under “Sources of Operating Revenue Expended.” Based on the most recent finalized RU-30 report available for the state fiscal year ended June 30, 2011, total fare revenues were $2,317,941.

DMTR had no controls in place to ensure that fare revenue (program income) was properly deducted from operating expenses as required. As a result of management’s failure to establish adequate controls, subrecipients were allowed to submit reimbursement requests to the state which had not been properly adjusted by the subrecipients’ fare revenue. Since DMTR did not verify the fare revenues, the exact amounts that may have been overcharged or undercharged to the Federal Transit Administration or the state could not be determined.

Recommendation

The Director of the Division of Multimodal Transportation Resources should ensure that adequate policies and procedures are developed for the proper handling of program income. These procedures should include a comparison of the fare revenue reported by subrecipients on the ridership reports with the fare revenue deducted from operating expenses on the reimbursement requests. The Formula Grants Program Manager should ensure that each subrecipient reports the fare revenue as a part of the monthly ridership reports so that the amounts deducted from operating expenses on the reimbursement requests can be verified. The Program Manager should also ensure that any fare revenues not previously deducted from operating expenses are applied to future invoices.

Management’s Comment

We concur. The Division of Multimodal Transportation Resources (DMTR) will correct prior overpayments/underpayments by reviewing prior invoices with subrecipients. DMTR will address the finding with the following corrective actions. (1) DMTR will define the information that subrecipients must report with each invoice to enable staff to evaluate the proper treatment of fare box revenue. (2) An Invoice Approval Checklist will be developed that program managers will use as a guide to check for compliance issues. Revenues required to be deducted from operating expenses will be included in the items to check. Also, verification of fare revenue to monthly ridership reports will also be done, along with a check of any unused revenues to be deducted on future reports. The checklist will be emailed to subrecipients and a conference call will be scheduled to discuss the requirements and answer questions. The anticipated completion date for the above items is February 28, 2013. (3) DMTR will create a task-level Procedures Manual for staff that includes the invoice payment process. This will be accomplished in multiple steps. The current invoice process will be documented at a work task-level description after discussions with staff and then compared to FTA Program Circulars, the State Management Plan and subrecipient contract documentation. From this review, the final administrative process document will be drafted. The anticipated completion date is June 30, 2013. With the assistance of TDOT Internal Audit, DMTR will monitor the efficiency of internal control measures by reviewing a sample of transactions to ensure the corrective action is adequately designed and functioning as intended.

Finding Number	12-DOT-02
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X029, TN-18-X030
Federal Award Year	2010 and 2011
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$2,130.03

As noted in the prior two audits, staff in the Division of Multimodal Transportation Resources failed to adequately review subrecipients' reimbursement requests and paid subrecipients for unallowable costs with funds from the Formula Grants for Other Than Urbanized Areas program, resulting in federal questioned costs of $2,130.03 and state questioned costs of $996.81

Finding

As noted in the prior two audits, staff in the Division of Multimodal Transportation Resources (DMTR) did not adequately review subrecipients' reimbursement requests. For the third year, we found unallowable charges to the Formula Grants for Other Than Urbanized Areas (Formula Grants) program that were not found during the Program Manager's review. The Formula Grants program provides federal financial assistance for capital, operating, and administrative expenses to initiate, improve, or continue public transportation service in nonurbanized areas. DMTR administers the Formula Grants program through subrecipients that act as transit providers in rural areas. In our testwork, we found that the department charged $2,130.03 to the Formula Grants program for expenditures on subrecipient reimbursement requests that were not allowable under federal guidelines.

In response to the 2010 finding, management concurred and stated that the division would provide all staff and subrecipients with the state's "Comprehensive Travel Regulations." Management also stated that the division developed and distributed guidelines regarding the supporting documentation required to process invoices [reimbursement requests] and also provided training to address allowable and unallowable costs. In response to the 2011 finding, management concurred in part and stated, "To underscore the importance of allowable costs, in December 2011, subrecipients were sent information regarding the types of costs for which reimbursement may be submitted, in particular the use of federal funds for holiday gifts, and/or promotional items."

We tested 60 randomly selected expenditure transactions charged to the Formula Grants program for the period July 1, 2011, through May 31, 2012, which included 9 transactions from American Recovery and Reinvestment Act of 2009 (ARRA) funds and 51 transactions from non-ARRA funds. For 9 of 60 transactions tested (15%; all non-ARRA), we found 11 unallowable charges, as summarized in the table below and discussed in detail after the table.

UNALLOWABLE COSTS

Item	Subrecipient	Type of Expenditure	Federal Questioned Costs	State Questioned Costs
1	Northwest Tennessee Human Resource Agency	Duplicate payment	$33.67	$4.21
2*	South Central Tennessee Development District	Entertainment	88.00	44.00
3**	Southeast Tennessee Human Resource Agency	Entertainment	33.20	16.60
		Entertainment subtotal	121.20	60.60
4	Southeast Tennessee Human Resource Agency	Flowers	97.52	12.19
5*	South Central Tennessee Development District	Flowers	43.46	21.73
6**	Southeast Tennessee Human Resource Agency	Flowers	23.30	11.65
7	Southwest Tennessee Human Resource Agency	Flowers	22.50	11.25
8	Southwest Tennessee Human Resource Agency	Flowers	12.50	6.25
		Flowers subtotal	199.28	63.07
9	Northwest Tennessee Human Resource Agency	Promotional items	1,413.15	706.57
10	Northwest Tennessee Human Resource Agency	Promotional items	225.98	112.99
		Promotional items subtotal	1,639.13	819.56
11	City of Gatlinburg	Travel	136.75	49.37
		Total questioned costs	**$2,130.03**	**$996.81**

* Items 2 and 5 are from the same reimbursement request for South Central Tennessee Development District.

** Items 3 and 6 are from the same reimbursement request for Southeast Tennessee Human Resource Agency.

Duplicate Payment

As a part of its reimbursement request, Northwest Tennessee Human Resource Agency (agency) billed DMTR twice for an invoice for supplies that the agency had paid twice in error. The subrecipient's duplicate payment should not have been charged to the Formula Grants program or to the state.

Entertainment

As a part of its reimbursement request, the South Central Tennessee Development District included food and supplies purchased from Kroger for a Christmas party. Office of Management and Budget Circular A-87, Attachment B, Section 14, states, "Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable." A Christmas party is a social activity and is not an allowable cost.

As part of its reimbursement request, Southeast Tennessee Human Resource Agency included a retirement lunch for one of the county office managers. Similar to the Christmas party noted above, a retirement lunch is a social activity and is not an allowable cost.

Flowers

The Office of Management and Budget (OMB) Circular A-87 states that to be allowable under federal awards, costs must "be necessary and reasonable for proper and efficient performance and administration of Federal awards." The purchase of flowers as an expression of sympathy, while well-intended, is not necessary and reasonable for proper and efficient performance and administration of federal awards. Further, the circular states, "Costs of goods or services for personal use of the governmental unit's employees are unallowable regardless of whether the cost is reported as taxable income to the employee." Flowers sent to employees and their families, regardless of the reason, are for personal use and are not allowable costs.

Promotional Items

As a part of its reimbursement request, Northwest Tennessee Human Resource Agency included 150 extendable flashlights printed with its logo, which the agency ordered from a promotional products distributor. According to the agency's Assistant Transportation Director, the flashlights have an emergency flashing feature and were purchased to keep on grant-funded buses; however, the flashlights were purchased from a promotional products distributor and were printed with the agency's logo.

In addition, as a part of another reimbursement request, Northwest Tennessee Human Resource Agency included a charge for 1,000 ink pens printed with its logo, which the agency ordered from the same promotional products distributor noted above. The Assistant Transportation Director stated the pens were "purchased as both advertising and for NWTHRA staff to use" and were given to clients and left at local doctors' offices, dialysis clinics, hospitals, and other businesses frequently visited.

According to Attachment B, Section 1.D., of OMB Circular A-87, "costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of Federal awards" are allowable public relations costs since "these costs are considered necessary as part of the outreach effort for the Federal award." However, OMB Circular A-87, Attachment B, Section 1.F., states, "Unallowable advertising and public relations costs include . . . 3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs." The purchase of promotional flashlights and pens is not an allowable cost.

Travel

The City of Gatlinburg's reimbursement request included two travel claims that were not in accordance with state policy. Tennessee Department of Finance and Administration's Policy

8 – "Comprehensive Travel Regulations" (F&A Policy 8) provides guidance for travel claims for reimbursement of travel expenses.

One travel claim was paid to the Transportation Manager, who traveled with another city employee to a conference. According to the City Treasurer, the two employees shared a room. The Transportation Manager submitted one travel claim, on which he claimed the meals and incidentals rate for both himself and the other employee. This was not in accordance with F&A Policy 8, which states that in the event employees share rooms, each employee would note that fact on each individual travel claim as well as the name of the other occupant. Additionally, the Transportation Manager included an expense for valet parking at the hotel when self-parking was available. F&A Policy 8 states, "When traveling, state employees should be as conservative as circumstances permit. The lower cost should be selected whenever practical." The self-parking rate was $8 per day, while the valet parking rate was $12 per day.

The second travel claim was for Gatlinburg's secretary who reports to the Transportation Manager. The secretary did not stay overnight; however, she claimed meals and incidentals for the day. According to F&A Policy 8, "Reimbursement [for meals & incidentals] is made only when overnight travel is required"; therefore, the reimbursement of meals and incidentals was not in accordance with state policy.

The Program Manager responsible for reviewing Formula Grants reimbursement requests would not have been able to identify any of the items discussed above as unallowable costs because the division did not request supporting documentation. According to the department's invoice documentation requirements, the human resource agencies that are subrecipients in the Formula Grants program are not required to provide supporting documentation for operating or administrative costs because of the Department of Finance and Administration's Policy 3. Policy 3, "Uniform Reporting Requirements and Cost Allocation Plans for Subrecipients of Federal and State Grant Monies," is intended to standardize the information required of subrecipients receiving grant funds from multiple state agencies and to streamline reporting requirements. Although the Policy 3 instructions for completing the Invoice for Reimbursement form do not specifically require supporting documentation to be submitted, Policy 3 does not prohibit the division from requiring supporting documentation from subrecipients.

The total of all federal questioned costs noted in this finding is $2,130.03 from a sample of $2,272,438.97 expenditures tested. The total of the population sampled was $12,243,651.22. Office of Management and Budget Circular A-133 requires us to report all known questioned costs when known or likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs exceed $10,000 for the condition noted in this finding.

Recommendation

The Director of Multimodal Transportation Resources (DMTR) should take further steps to ensure that subrecipients are aware of the types of costs that can be submitted for reimbursement and that these costs are grant-related and are adequately documented. Also, the

Director of DMTR should ensure that subrecipients are aware of the state's travel policy and travel regulations and that they have proper controls in place to prevent improper travel reimbursements.

The Director of DMTR must also take additional steps and implement policies and procedures to ensure that subrecipients' reimbursement requests have sufficient documentation to ensure only allowable expenditures are approved for payment/reimbursement. As necessary, the Director of Finance and the Director of DMTR should require subrecipients to provide supporting documentation for expenditures on reimbursement requests. Additionally, the Director of Finance and the Director of DMTR should ensure that the Federal Transit Administration and the state are reimbursed for questioned costs.

Although the risks associated with noncompliance with federal regulations were identified and assessed in the Finance Office's risk assessment, management should continue to assess risks of noncompliance with federal regulations and ensure controls are in place to mitigate those risks.

Management's Comment

We concur. The DMTR will address the finding with the following corrective actions. (1) Subrecipients and staff will be directed to review the FTA requirements for eligible grant expenditures. Staff will engage in discussions with subrecipients about eligible expenses and provide examples. (2) The DMTR will clarify the information that subrecipients must report with each invoice and will require that agencies itemize expenses included in the "Other Costs" category. Grantees will be provided with clear instructions on the required documentation. (3) The Invoice Approval Checklist will include a step for review of "Other Costs" to verify sufficient detail is supplied to make a determination as to eligibility of costs. Full documentation will be requested for any suspect charges. The anticipated completion date for items (1) – (3) is February 28, 2013. (4) The task-level Procedures Manual, described above, will also be of assistance to staff when reviewing invoices for allowable cost. (5) DMTR will develop a Handbook for Grantees. The Grantee Handbook will be an allowable expense guide for subrecipients use when preparing requests for reimbursement of program expenses and will include specific expectations of compliance. The anticipated completion date for items (4) and (5) is June 30, 2013. With the assistance of TDOT Internal Audit, DMTR will monitor the efficiency of internal control measures by reviewing a sample of transactions to ensure the corrective action is adequately designed and functioning as intended.

Finding Number	12-DOT-03
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	Various
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Equipment and Real Property Management
Questioned Costs	N/A

As noted in the prior two audits, controls over the vehicle inventory for the Formula Grants for Other Than Urbanized Areas program were inadequate, increasing the risk of misuse of grant program assets; in addition, an equipment inventory list was not maintained

Finding

As noted in the prior two audits, the department's controls over the Formula Grants for Other Than Urbanized Areas (Formula Grants) vehicle inventory were not adequate to ensure that the vehicle inventory was properly safeguarded or inspected. The Formula Grants program provides funding, including capital assistance for vehicle purchases, to public transportation services in rural areas. The department's Division of Multimodal Transportation Resources (DMTR), which administers the Formula Grants program, is responsible for keeping an inventory of the vehicles purchased under this program and periodically inspecting them to verify their existence and to ensure that they are maintained.

In response to the 2010 finding, management concurred and stated that the division would retain ownership titles for all vehicles purchased with federal and state funds; collaborate with the Tennessee Public Transportation Association Maintenance Alliance's "Peer to Peer Inspections Program" to ensure all vehicles are inspected; require the public transit agencies to provide information from vehicle inspections required by TennCare and performed by authorized representatives of the Managed Care Organizations Program; require the public transit agencies to provide information from vehicle safety inspections performed by the Tennessee Department of Safety; and incorporate a review of vehicle inspection records as part of the Policy 22 Subrecipient Programmatic Review Process. Management also stated that the State Management Plan would be updated to reflect these changes.

In response to the 2011 finding, management concurred and stated, "The Division of Multimodal Transportation Resources (DMTR) amended the Capital Asset Inventory Form to address all required items. In addition, responsibilities for vehicle management and inventory were reassigned from the Transportation Specialist to a Planner 3." The division also stated that it would provide training on the new procedures outlined in the State Management Plan to subrecipients of Federal Transit Administration funding.

We reviewed DMTR's inventory and the inspection records for the Formula Grants vehicles and performed testwork on all disposals for the fiscal year ended June 30, 2012. Our testwork revealed problems with vehicle inventory, equipment inventory, inspections, and disposal records as discussed below.

Vehicle Inventory

As also noted in the prior two audits, DMTR maintains a vehicle inventory list based on information supplied by the program subrecipients instead of information in DMTR's purchasing and accounting records. The Transportation Planner 3, who is responsible for maintaining the vehicle inventory, was unable to describe the process for recording new vehicle purchases in inventory. Based on discussion with the Coordinator of Transit Programs, a vehicle is added to the inventory after the subrecipient purchases the vehicle and submits a Capital Asset Inventory Form, along with supporting documentation and the vehicle title. Based on this description, DMTR's inventory is based entirely on information provided by the subrecipient. As stated in the prior two audit findings, purchasing and accounting records were not used as a basis for DMTR's inventory, nor were they used in any reconciliation of the inventory data reported by the subrecipients, even though DMTR's invoice and purchasing files would be the most accurate and reliable source for the inventory file since DMTR is involved in the procurement of all new grant vehicles. Information from subrecipients should be used primarily for reconciliation purposes to ensure DMTR's vehicle inventory list is accurate.

We reviewed the inventory list provided by the Transportation Planner 3 and found that the inventory list did not contain complete information. The inventory list did not include the purchase date and funding source/grant program number for each vehicle. Without properly recording this vehicle and grant information on the inventory list, division management does not have an accurate record for determining which grant vehicles have met their useful life and may be sold or otherwise disposed of and for ensuring that proper disposal requirements were followed. The grant program number (e.g., 5311 for Formula Grants for Other Than Urbanized Areas) should be recorded on the inventory list since the disposal requirements differ for each grant program. Once this was brought to the attention of the Transportation Planner 3, she provided an inventory list with the funding source listed. The second inventory list was created in response to the audit request because the inventory list had not been properly maintained. Based on our discussion with the Coordinator of Transit Programs and the Transportation Planner 3, there are no written procedures for inventory record maintenance.

Equipment Inventory

We also requested an equipment inventory list. Based on discussion with the Transportation Planner 3 and her direct supervisor, the Coordinator of Transit Programs, DMTR did not maintain an equipment inventory list for equipment purchased with Formula Grant funds. The *Federal Transit Administration (FTA) Programs State Management Plan* requires subrecipients to report capital items valued at $5,000 or more to DMTR. Without an equipment inventory list, DMTR cannot be certain that Formula Grant-funded equipment is properly used and disposed.

Inspections

As we also noted in the prior two audits, DMTR did not inspect all grant vehicles. The *FTA Programs State Management Plan* states that "each project vehicle is inspected annually at the sub-recipients agency by a staff member or a contractor of Division of Multimodal Transportation Resources . . . to determine if the vehicle has been properly maintained and is in safe operating condition." The Coordinator of Transit Programs stated that the vehicles must be inspected each calendar year.

To determine if the inspection procedures were adequate, we requested a list of vehicle inspections. A list was created by the Transportation Planner 3 at our request. The Transportation Planner 3 stated that she did not maintain a list of inventory with both the funding source and the inspection information. Based on our review of the inspection list, 229 of 560 vehicles (41%) had not been inspected as of November 6, 2012. The Transportation Planner 3 stated that she would contact agencies that had not submitted inspection information by December 14, 2012. Although the Transportation Planner 3 explained her plan of action, we were unable to verify that all Formula Grant-funded vehicles were inspected for calendar year 2012 during our fieldwork procedures.

Additionally, the Transportation Planner 3 did not keep track of vehicle inspections for the Formula Grant-funded service vehicles which are used by the subrecipients to assist buses and vans that have mechanical troubles or other issues. Every day that they are used, the vehicles are inspected by the subrecipients' maintenance staff, who document the inspection results on a checklist; however, an inspection is not completed by an independent party. As stated in the *FTA Programs State Management Plan*, each grant-funded vehicle should be inspected annually by "a staff member or designee of the Division of Multimodal Transportation Resources."

Disposal Records

As also noted in the prior two audits, we found that DMTR did not have an accurate system to track the sale or disposal of vehicles from inventory. According to the Transportation Planner 3, the subrecipients submitted Disposal of Capital Asset Forms that reported the vehicle sales proceeds or insurance settlements for vehicles that were disposed. For our vehicle disposal testwork in the current audit, the Transportation Planner 3 originally provided us a list of 251 vehicles sold or otherwise disposed of; however, the list did not contain the funding source, date of disposal, sale price, or insurance proceeds for each vehicle. Once we brought this to the attention of the Transportation Planner 3 and Coordinator of Transit Programs, the Transportation Planner 3 provided us a new list of 30 vehicles sold or otherwise disposed of during the fiscal year ended June 30, 2012 (from 6 of the 12 subrecipients in the program). We contacted the other six subrecipients and found that two of them had disposed of five vehicles during the fiscal year. Yet this information was not included on the new list provided to us. In addition, based on our review of the Disposal of Capital Asset Forms and the vehicle titles, we found that the Transportation Planner 3 recorded the vehicle identification number incorrectly for 3 of 35 vehicles (9%). Without an adequate tracking system, the Transportation Planner 3 cannot ensure that she has properly accounted for all vehicle disposals, as required by federal regulations.

Additionally, DMTR did not require subrecipients to submit copies of buyers' checks with the Disposal of Capital Asset Forms to support the sale. DMTR only required that the subrecipients send in a copy of the receipt given to the buyer. For 5 of 35 disposals (14%), the subrecipient submitted a copy of the receipt instead of the buyers' checks. Without proof of payment, DMTR cannot be sure that vehicle disposals occurred properly and in accordance with the policies and procedures outlined in the FTA Programs State Management Plan.

When program management does not establish adequate controls for managing and disposing of equipment, or does not follow established controls over grant vehicles and other program assets, there is an increased risk that assets, including vehicles, may be improperly maintained or misappropriated. In addition, without adequate equipment management procedures, there is an increased risk that problems, including fraud, waste, abuse, and noncompliance by subrecipients and/or employees, will occur and not be detected timely by the department.

Given the problems identified in our testwork, we also reviewed the department's risk assessment, and we found that management's risk assessment did not fully address the issues noted in this finding. Although DMTR's risk assessment includes the risk of the misuse, mismanagement, and inappropriate disposal of grant equipment and property, management did not list any internal controls for managing or mitigating this risk.

Recommendation

The Director of the Division of Multimodal Transportation Resources (DMTR) should ensure that written policies and procedures for maintaining inventory, disposal, and inspection records are developed and that the new policies and procedures are communicated to the Transportation Planner 3. The Director of DMTR should also ensure that equipment purchased with Formula Grants money is properly maintained by the Transportation Planner 3, in accordance with the policies in the *Federal Transit Administration Programs State Management Plan*. In addition, the Transportation Planner 3 should ensure that vehicle inspections are performed for all grant vehicles, including service vehicles. The Transportation Planner 3 responsible for vehicle inventory should take the necessary steps to ensure that the vehicle inventory and disposal records are accurate. Specific steps should include

- keeping the vehicle inventory, inspection, and disposal records up-to-date;
- maintaining a complete vehicle inventory list with appropriate detail;
- updating the vehicle inventory list based on the purchase information submitted to the division;

- reconciling the vehicle inventory list based on the purchasing records to the information submitted by subrecipients biannually;

- reconciling the vehicle inventory list to the disposal list to ensure that disposal information is accurate and that disposed vehicles have been removed from inventory; and

- requiring subrecipients to submit copies of buyers' checks for vehicle disposals.

Finally, in the division's risk assessment, the Director of DMTR should document the mitigating controls for addressing the risks noted in this finding.

Management's Comment

We concur. The DMTR will address the finding with the following corrective actions. (1) DMTR will verify existing assets for which oversight is provided. DMTR will use FTA TEAM application forms, TDOT financial information and subrecipient records to compile the list of vehicles and other assets for which "satisfactory continuing control" is required. The anticipated completion date is June 30, 2013. (2) The previously mentioned Invoice Approval Checklist and definition of reporting requirements for subrecipients will also address vehicle inventory issues. Staff will note when capital assets are acquired and verify that required documentation accompanies the invoice. (3) DMTR will create an Administrative Manual for maintaining inventory, disposal, and inspection records. Included in this Manual will be policies and procedures to ensure that purchased equipment is properly maintained, that maintenance and inspections are documented, and that disposals are properly handled. The anticipated completion date is March 31, 2013. With the assistance of TDOT Internal Audit, DMTR will monitor the efficiency of internal control measures by reviewing a sample of transactions to ensure the corrective action is adequately designed and functioning as intended.

Finding Number	12-DOT-04
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X025, TN-18-X029, TN-18-X030, TN-86-X001
Federal Award Year	2006, 2009 through 2011
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A

As noted in the prior two audits, the Division of Multimodal Transportation Resources did not always comply with the Department of Finance and Administration's subrecipient monitoring requirements, thereby increasing the risk of not detecting fraud, waste, abuse, and noncompliance by subrecipients

Finding

As noted in the prior two audits, the Department of Transportation did not always comply with the state's subrecipient monitoring guidelines as described in the Department of Finance and Administration's Policy 22, "Subrecipient Contract Monitoring," and the *Tennessee Subrecipient Contract Monitoring Manual*.

Management concurred with both the 2010 and 2011 findings. In response to the 2010 finding, management stated, "The various program areas of the Department will take steps to ensure that an annual risk assessment is completed for all subrecipients and that risk factors are properly documented." In response to the 2011 finding, management stated that the Local Programs Development Office had developed a Risk Assessment Form for all projects, would provide a list of contracts documenting assigned risk levels to the External Audit Director, and would complete monitoring reports in accordance with the requirements. Management also stated that the Division of Multimodal Transportation Resources (DMTR) had contracted with a consultant to develop a Compliance Monitoring Program for subrecipients, which would include developing a Subrecipient Monitoring Manual, training subrecipients, conducting onsite monitoring reviews, preparing monitoring reports, and conducting follow-up reviews.

Based on our testwork, the department has resolved the parts of the prior audit finding related to the completion of fiscal monitoring reviews by the Local Programs Development Office. However, we found that DMTR, which administers the Formula Grants for Other Than Urbanized Areas (Formula Grants) program, again failed to adequately document its risk assessments or complete program monitoring reviews.

Policy 22, which establishes uniform monitoring of subrecipients by state agencies, states that all monitoring activities should address "[t]he applicable core monitoring areas, as defined by the OMB [Office of Management and Budget] Circular A-133 Compliance

Supplement." The *Tennessee Subrecipient Contract Monitoring Manual, which provides Policy 22 implementation guidance, describes the following steps as part of subrecipient monitoring:*

- *Risk assessment and assignment* - When selecting and prioritizing contracts for monitoring each year, one of the factors that agencies should consider is the risk the subrecipient poses to the state. A risk assessment should be completed for each subrecipient on an annual basis in order to make this determination.

- *Reporting* - Following each monitoring review subrecipients should be notified of the outcome of the review. If findings and observations were identified, state agencies must issue a report that, at a minimum, summarizes the findings and observations noted. Because development of an appropriate corrective action plan during the term of the contract is critical to ensuring compliance, the issuance of reports in a timely manner is essential. For this reason, reports shall be issued within 30 business days after the completion of all fieldwork . . . If no findings or observations were noted, subrecipients should be notified in writing of this fact.

Based on our discussions with the External Audit Director, who is in charge of the department's subrecipient monitoring efforts, the individual program areas are responsible for preparing the risk assessment forms for each of their subrecipients and for preparing a list of all subrecipient contracts that includes the assigned risk level resulting from completion of the risk assessment form. In September of each year, the program areas are supposed to send their subrecipient lists to the External Audit Director so that he can select the monitoring sample for the upcoming monitoring cycle, which runs from October to the following September. The program areas are responsible for maintaining the individual risk assessment forms to support the assigned risk for the subrecipients. The department's subrecipient monitoring efforts for grants chosen for monitoring are divided between the Finance Office's External Audit Section and the program areas. The program areas' reviews address the following compliance requirements: activities allowed or unallowed, the Davis-Bacon Act, eligibility, reporting, special tests and provisions (if programmatic in nature), and Title VI (which is an additional state-specific requirement); the remaining core monitoring areas are under the External Audit Director's responsibility.

We tested the department's during-the-award monitoring of 40 contracts, 13 involving American Recovery and Reinvestment Act of 2009 (ARRA) funds and 27 non-ARRA contracts. We selected 13 contracts for the Formula Grants program and 27 contracts for the Highway Planning and Construction program, the two major federal programs being audited. We did not find any significant problems in our testwork on the Highway Planning and Construction Program.

Based on our testwork for the Formula Grants program, we found that DMTR's Transportation Manager 2 and the Transportation Planner 3, who were responsible for preparing the subrecipient list for External Audit, did not prepare annual risk assessment forms for any of the 13 Formula Grants subrecipient contracts tested (3 ARRA and 10 non-ARRA). Instead, all of the subrecipient grant contracts were identified as low risk, unless a previous issue had been noted (which would elevate it to medium risk) or the grant was for ARRA funds or for the 5311(f) Intercity Bus Service program (which would elevate it to high risk). These factors appear to be relevant in the determination of the risk level, but the individual factors considered for each subrecipient were not documented on a risk assessment form as required by the *Tennessee Subrecipient Contract Monitoring Manual* in order to select and prioritize contracts for monitoring each year.

We also found that program monitoring reviews were not completed for 12 of the 13 Formula Grants subrecipient contracts tested (92%, 2 ARRA and 10 non-ARRA). Based on our discussion with DMTR's Coordinator of Transit Programs, the division had focused its efforts on conducting thorough reviews, and as a result, only one monitoring review was done during the FY 2012 monitoring cycle. The draft report for this review states that the field guide for conducting reviews was not developed until March 2012. In our review of this report, we noted that the consultant conducted the onsite monitoring review on August 28 and 29, 2012, but did not issue the draft monitoring report until October 19, 2012. Therefore, the monitoring team did not meet the deadline for issuing reports 30 business days after the completion of all fieldwork specified by the *Tennessee Subrecipient Contract Monitoring Manual*. Additionally, while the draft report states that the subrecipient had three construction projects, it does not address whether the subrecipient complied with the Davis-Bacon Act, one of the required programmatic monitoring areas which relates to federally funded construction projects.

When the department fails to fully complete subrecipient monitoring activities that address all applicable compliance requirements, there is an increased risk of inappropriate expenditures, noncompliance, and unmet program objectives. There is also an increased risk that fraud, waste, and abuse will occur and that they will not be detected and handled appropriately and timely by the department.

Given the problems identified in our testwork, we also reviewed the division's risk assessment. We found that the risk assessment did not fully address the issues noted in this finding. The risk assessment does include the risk of program staff not effectively monitoring subrecipients each year. However, all of the internal controls and risk responses listed by the division reference either the fiscal monitoring reviews conducted by the Finance Office's External Audit Section or the activities conducted by DMTR as a part of grant administration and do not address the fact that DMTR has engaged a consultant to handle the subrecipient monitoring function. Additionally, none of the risk events in the assessment indicate that the division has contracted with a consultant for program monitoring reviews or describe the related risks and internal controls.

Recommendation

The Commissioner should ensure that DMTR complies with the policies and procedures for program monitoring activities in order to meet state and federal monitoring requirements. DMTR's Director should ensure that annual risk assessments and programmatic reviews are properly completed and that reports are issued timely. If necessary, DMTR program staff should be required to submit these forms and reports to the department's External Audit Section.

Although the risks associated with noncompliance were identified in the division's risk assessment, management should reassess its risks and establish appropriate controls to mitigate the risks.

Management's Comment

We concur. The DMTR will address the finding with the following corrective actions. (1) A substantive risk assessment will be developed and used. DMTR will compile information for each subrecipient from the following: TDOT audits and monitoring reviews, Comptroller audits, and substantive customer complaints. Based upon this assessment, each agency will be rated as high, medium or low risk. The level of risk will impact the level of documentation required from each subrecipient and the frequency of monitoring. (2) All subrecipients will be identified to ensure they are included in the annual Subrecipient Monitoring Plan and TDOT's specific expectations for compliance will be communicated through receipt of the Subrecipient Handbook. (3) The current method of using a consultant to monitor subrecipients will be continued. The monitoring responsibilities and roles of staff will be clearly delineated and communicated with the possibility of DMTR staff resuming monitoring in the future.

Finding Number	12-DHS-10
CFDA Number	81.042
Program Name	Weatherization Assistance for Low-Income Persons
Federal Agency	Department of Energy
State Agency	Department of Human Services
Grant/Contract No.	DE-FG26-07NT43135 DE-EE000014
Federal Award Years	2007 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$1,839

As noted in the two prior audits, the Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs for fiscal year 2012 totaling $1,839 and an increased risk of fraud, waste, abuse, and additional noncompliance

Finding

As noted in the prior two audits, which covered the period July 1, 2009, through June 30, 2011, the Department of Human Services (DHS) again did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons (WAP) program, resulting in federal questioned costs for fiscal year 2012 totaling $1,839 and an increased risk of fraud, waste, abuse, and continued noncompliance.

In the prior audit, we noted the following problems:

- weatherization measures were not completed,
- weatherization measures were not properly completed,
- weatherization measures were not verified,
- duplicate measures were paid,
- duplicate pre-energy audit expenses were paid,
- unallowable weatherization expenses were paid,
- payments were made for change orders that were not properly approved,
- contracts were not properly approved,
- post-energy audits were not properly performed,
- post-energy auditors did not certify post-energy audits,
- post-energy auditors were not properly trained,
- post-energy auditors improperly delegated audit responsibilities to others,
- post-energy auditors could not be identified, and
- contractor insurance and license documentation were not in the file.

Management concurred in part with the prior audit finding.

During the current audit of the weatherization program for the fiscal year ended June 30, 2012, we did not find evidence that the following problems were repeated:

- weatherization measures were not verified,
- duplicate measures were paid,
- duplicate pre-energy audit expenses were paid,
- unallowable weatherization expenses were paid,
- contracts were not properly approved,
- post-energy auditors did not certify post-energy audits,
- post-energy auditors were not properly trained,
- post-energy auditors improperly delegated audit responsibilities to others,
- post-energy auditors could not be identified, and
- contractor insurance and license documentation were not in the file.

However, the remaining uncorrected issues were repeated for the fiscal year ended June 30, 2012:

- weatherization measures were not completed,
- weatherization measures were not properly completed,
- payments were made for change orders that were not properly approved, and
- post-energy audits were not properly performed.

WAP Program Information

On April 1, 2009, the U.S. Department of Energy (DOE) awarded the state $99 million in American Recovery and Reinvestment Act of 2009 (ARRA) funds for the WAP program. The ARRA funds were available for a three-year period, which ended March 31, 2012. To administer the program, DHS contracted with 18 subrecipients (nonprofit organizations) across the state. During fiscal year ended June 30, 2012, DHS expended $3.7 million of ARRA funds and $7.2 million of non-ARRA funds.

Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," requires us to plan and perform our audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements that could have a direct and material effect on a major federal program.

Program Objectives

According to the OMB Circular A-133 Compliance Supplement:

> The objective of the Weatherization Assistance for Low-Income Persons (WAP) program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. WAP has a special interest in addressing these needs for low-income persons who are particularly vulnerable, such as the elderly, disabled

persons, and families with children, as well as those with high energy usage and high energy burdens.

As the pass-through entity, DHS was responsible to administer the program and to advise subrecipients and monitor the subrecipients' activities to ensure that federal awards are used for authorized purposes and in accordance with the grant award, grant requirements, and OMB Circular A-133.

Overview of the Weatherization Process

DHS contracted with the following 18 subrecipients to administer the weatherization program:

- Blount County Community Action Agency
- Bradley-Cleveland Community Services Agency
- Chattanooga Neighborhood Enterprise, Inc.
- Clarksville-Montgomery County Community Action Agency
- Delta Human Resource Agency
- East Tennessee Human Resource Agency
- Highland Rim Economic Corporation
- Knoxville-Knox County Community Action Committee
- Metropolitan Development and Housing Agency
- Mid-Cumberland Community Action Agency
- Mid-East Community Action Agency
- Northwest Tennessee Economic Development Council
- Shelby County Community Services Agency
- South Central Human Resource Agency
- Southeast Tennessee Human Resource Agency
- Southwest Human Resource Agency
- Upper Cumberland Human Resource Agency
- Upper East Tennessee Human Development Agency

Applicants seeking to obtain weatherization assistance under the program must apply at the subrecipient that serves their location. The applicants must meet the eligibility requirements of the weatherization program, and the subrecipients' weatherization coordinators are responsible for ensuring that all eligibility requirements are met and fully documented.

To meet eligibility requirements, the applicant's income must be at or below 200% of the poverty level. In addition, the dwelling may not have more than four units. If the dwelling is more than two units, half of the units must meet the eligibility requirements. Furthermore, the dwelling cannot have been weatherized since September 30, 1994.

In addition, to be eligible for weatherization assistance, the homeowners are required to certify that weatherization work is allowed on the home. Rented dwellings are eligible for the program. However, if the dwelling is rented, a homeowner authorization form is to be signed by the homeowner (landlord) approving the weatherization work. The subrecipients' weatherization coordinators are responsible for ensuring that there is proper documentation of home ownership and that homeowners granted permission for the weatherization work.

Once the subrecipient weatherization coordinators approve the applicants and the dwellings, the weatherization coordinators send a certified energy auditor to the dwelling to perform a pre-energy audit to determine the weatherization work needed. The energy auditor completes the pre-energy audit using the National Energy Audit Tool (NEAT) or Mobile Home Energy Audit Tool (MHEA) to determine which weatherization measures should be installed on the home, based on a savings-to-investment ratio. The approved weatherization measures are then placed onto a NEAT or a MHEA, which becomes the work order.

All work orders were displayed on the DHS website for 10 days. Approved weatherization contractors are allowed to submit sealed bids during this time period. After the 10 days, bids are opened by at least two individuals during a bid award ceremony. The subrecipient weatherization coordinator and either a board member or an individual who does not work in the weatherization program open the bids. Contractors are invited to attend the bid award ceremony but are not required to. The contracts are awarded to the lowest bidder.

The contractors are responsible for properly completing the weatherization work within the contracted time period. Once the contractors complete the work, the subrecipients' weatherization coordinators send a certified energy auditor to the home to perform a post-energy audit. The energy auditor inspects the contractors' work to ensure that the work was properly completed. Because it determines if the home was properly weatherized, the post-energy audit is a critical point in the process. The energy auditor can either pass or fail the contractors' work. These final inspections are a key control for DHS and the subrecipients because the results of the inspections initiate the payment to the contractors.

The contractors invoice the subrecipients for the work performed. The subrecipient weatherization coordinator is responsible for comparing the bids, contractors' invoices, and the post-energy audits to ensure the contractors' invoices are correct and that the work was properly completed. Then the subrecipient pays the contractors and invoices DHS for reimbursement.

Scope of the Review

To determine whether DHS and the subrecipients complied with WAP federal activities allowed or unallowed/allowable costs requirements, we reviewed the related client files, energy auditor files, and contractor files for 64 files from a population of 1,091 weatherized homes at the following subrecipient agencies:

- Chattanooga Neighborhood Enterprise, Inc. (Chattanooga)
- Metropolitan Development and Housing Agency (Metro)
- Mid-Cumberland Community Action Agency (Mid-Cumberland)
- Northwest Tennessee Economic Development Council (Northwest)
- Shelby County Community Services Agency (Shelby)
- Upper East Tennessee Human Development Agency (Upper East)

Our work also included site visits at 60 of the 64 weatherized homes.

RESULTS OF OUR FILE REVIEW AND SITE VISIT TESTWORK

Weatherization Measures Not Completed or Properly Completed

Weatherization Measures Not Completed Based on Site Visits

Based on our site visits, we determined that the weatherization coordinator at one subrecipient (Shelby) approved and paid weatherization contractors for weatherization measures that had not been completed. According to Title 10, *Code of Federal Regulations* (CFR), Part 440.16(g), "No dwelling unit may be reported to DOE as completed until all weatherization materials have been installed and the subgrantee, or its authorized representative, has performed a final inspection(s) including any mechanical work performed and certified that the work has been completed in a workmanlike manner and in accordance with the priority determined by the audit procedures required by §440.21."

Specifically, we found that contractors at Shelby had not completed weatherization measures for 4 of 60 homes (7%). For example, we found that the kitchen sink and pipe penetrations were not caulked. The weatherization coordinator approved and paid $883 for weatherization measures on the 4 homes even though the measures had not been completed, resulting in federal questioned costs of $883. Subsequent to our initial review, the weatherization coordinator provided documentation that the work was later corrected for two homes. However, for the 2 remaining homes, the weatherization coordinators approved and paid $394 for weatherization measures even though the measures had not been completed.

Weatherization Measures Not Completed Based on File Review

Based on our file review, we determined that the weatherization coordinator at Upper East approved and paid a weatherization contractor for a weatherization measure that was not completed. As noted above, 10 CFR, Part 440.16(g), requires all work to be completed in a workmanlike manner.

We found that for one of 64 files (2%) the weatherization coordinator paid contractors for measures not completed. Based on review of the work orders and contractor invoices, we found that the weatherization coordinator at Upper East paid for lead safety precautionary measures although no lead safety precautions were required. For this one home, the weatherization coordinator approved and paid $100 for the weatherization measure even though the measure was not completed, resulting in federal questioned costs of $100.

Weatherization Measures Not Properly Completed Based on Site Visits

Based upon our site visits, we determined that weatherization coordinators at three subrecipients (Mid-Cumberland, Shelby, and Upper East) approved and paid weatherization contractors for weatherization measures that were not properly completed. As noted above, 10 CFR, Part 440.16(g), requires all work to be completed in a workmanlike manner.

We discovered that contractors had not properly completed weatherization measures for 7 of 60 site visits (12%). For example, at Mid-Cumberland we observed a window was only half replaced. At Shelby, windows were not properly caulked. At Upper East, the siding was not replaced properly, which allowed water to flood the client's home.

For five of the seven homes, the cost will not be questioned because the measures not properly completed were minor details. For the remaining homes, the weatherization coordinators approved and paid for the weatherization measures even though the measures were not properly completed, resulting in federal questioned costs of $350.

Change Orders Not Properly Approved

Based on our file review, we determined that the weatherization coordinators at three subrecipients (Chattanooga, Shelby, and Upper East) did not follow the change order procedures when making changes to bids. As a result, contractors were paid for weatherization measures performed but not properly approved because the subrecipient did not follow established change order procedures.

According to the U.S. Department of Energy State Plan/Master File Worksheet, Section III.1.1, ". . . client files shall include the following documentation . . . Written justification for installation of measures not recommended by energy surveys and/or omission(s) of allowable measures recommended on energy surveys. . . ." Furthermore, WAP Memorandum 10-43 states, ". . . a site visit must be conducted by the agency weatherization program manager, coordinator, or auditor if the change order value is $100 or greater…" in order to determine if the change order is necessary to the home.

Specifically, we found that of the 64 files reviewed, 43 files contained change orders. For 5 of the 43 files (12%), changes to the initial bid were not properly approved. For example, at Chattanooga a change order did not contain a signature by the energy auditor, a signature by an approved agency official, or proof of a site visit. At Shelby, a change order was issued deleting a measure after the post-energy audit was completed. Based on our site visit to the homes, we determined that the measures were properly completed even though the change orders were not properly approved; therefore, we did not question any costs.

Energy Audits Not Properly Completed

Based on our file review and site review, we determined that the energy auditors at four subrecipients (Chattanooga, Mid-Cumberland, Shelby, and Upper East) did not properly complete the post-energy audits. The Grant Contract between the State of Tennessee Department of Human Services and Subrecipient A.18 states, "The Grantee shall only pay the weatherization installer following a satisfactory post-energy audit of the dwelling."

We found that the energy auditors did not verify that weatherization measures invoiced by the weatherization contractors were installed for 8 of 64 files reviewed (13%), and the weatherization coordinators did not ensure that the energy auditors verified that all of the measures on the invoices were properly installed. Therefore, the coordinators paid $506 to energy auditors for instances in which the energy auditors did not verify the measures were installed on the homes, resulting in federal questioned costs of $506.

Summary of Questioned Costs

Deficiency	**Amount Questioned**
Weatherization Measures Not Completed Based on Site Visits	$883
Weatherization Measures Not Completed Based on File Review	100
Weatherization Measures Not Properly Completed Based on Site Visits	350
Change Orders Not Properly Approved (But Measure Complete)	0
Post-Energy Audits Not Properly Performed	506
Total questioned costs	**$1,839**

Conclusion

Our testwork included a review of 64 client files, which represented $263,065 of home weatherization costs, and our home site visits to 60 of the 64 clients represented $246,678 of home weatherization costs from a total population of $8,223,173. Based on the results of our sample testwork, we questioned costs totaling $1,839 related to activities allowed or unallowed/allowable costs errors noted. The Office of Management and Budget Circular A-133 requires us to report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program. We believe that likely questioned costs could exceed $10,000.

Recommendation

During our audit period the Department of Human Services was responsible for administrating the Weatherization Program. Effective July 1, 2012, responsibility for the weatherization program was transferred to the Tennessee Housing Development Agency. Given the large number of homes weatherized through the weatherization program, the Commissioner and department management responsible for the program must rely on all parties involved in the weatherization process to perform their responsibilities in accordance with contract terms and federal regulations. It is critical that those individuals charged with the responsibility for reviewing invoices and approving payments to weatherization contractors and energy auditors realize that there are real consequences for failure to meet their obligations.

Because the Commissioner and department management must rely on subrecipients to carry out the program, and in light of the ongoing potential for risks of noncompliance, fraud, waste, and abuse in the program, it is imperative that management continues to carefully monitor the work performed by subrecipients. The department should use the knowledge gained from these monitoring efforts to identify and mitigate these and other risks promptly.

Specifically, management should ensure that

- weatherization coordinators ensure that the energy auditors verify that all measures are properly completed;
- weatherization coordinators ensure all changes to the initial bid are properly approved; and
- weatherization coordinators ensure that all post-energy audits are performed correctly.

Management's Comment

We concur. As noted in the two previous audits, the Department has put into place processes and procedures that resulted in substantially lower error rate with each subsequent year. Put into context, the questioned costs identified in this audit (0.07 percent of the jobs reviewed) have decreased by almost 95 percent, as compared to the last audit. While we have always strived towards zero questioned costs, it is clear that the processes in place are working and considerable improvements have been made. Additionally, it is important to note that the Department has already questioned all of the costs identified in this audit to the sub-recipients responsible for the errors.

The Department of Human Services no longer administers the Weatherization Assistance Program. The information contained in this audit, as well as the risk assessment, has been shared with the Tennessee Housing Development Agency, who administers the program effective July 1, 2012.

<u>Weatherization Measures Not Completed Based on Site Visits</u>

We concur. The Department has or will recoup some of the questioned costs, and the rest of the measures have been corrected. It is also important to note that the error rate for this particular area has reduced by 80 percent, and the questioned costs have reduced by 85 percent, as compared to the last audit.

<u>Weatherization Measures Not Completed Based on File Reviews</u>

We concur. The Department agrees that all measures should be completed and installed correctly. While we would prefer no questioned costs it is evident that the processes put into place have resulted in 75 percent reduction in questioned costs, as compared to the last audit. Additionally, we would like to note that the Department has already recouped the cost of the measure in question from the sub-recipient.

<u>Weatherization Measures Not Properly Completed Based on Site Visits</u>

We concur. It is important to note that the Department already has or will recoup all questioned costs regarding the jobs in question. While we would prefer to have no questioned costs, it is clear that the processes put into place have resulted in 30 percent reduction in error rate, as compared to the last audit.

Change Orders Not Properly Approved (But Measures Were Complete)

We concur. It is important to note that there are no questioned costs due to the fact that all the measures were properly completed.

Post Energy Audits Not Properly Performed

We concur. It is important to note that the error rate in this area has decreased by approximately 95 percent as compared to the last audit.

Finding Number	12-DHS-11
CFDA Number	81.042
Program Name	Weatherization Assistance for Low-Income Persons
Federal Agency	Department of Energy
State Agency	Department of Human Services
Grant/Contract No.	DE-FG26-07NT43135 DE-EE000014
Federal Award Year	2007 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$6,700

As noted in the two prior audits, the Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs for fiscal year 2012 totaling $6,700 and an increased risk of fraud, waste, and abuse

Finding

As noted in the two prior audits, which covered the period July 1, 2009, through June 30, 2011, the Department of Human Services (DHS) and its subrecipients again did not accurately determine eligibility for applicants in the state's Weatherization Assistance for Low-Income Persons (WAP) program and did not maintain adequate eligibility documentation, resulting in federal questioned costs for the year ended June 30, 2012, totaling $6,700 and an increased risk of fraud, waste, and abuse.

In the prior audit, we noted the following problems:

- eligibility recertifications were not performed,
- files lacked income eligibility documentation,
- files lacked documentation of homeowner's permission, and
- ineligible multi-unit dwellings were weatherized.

Management concurred in part to the prior audit finding.

During the fiscal year ended June 30, 2012, we found that for the files reviewed, management had documentation to support income eligibility and homeowner permission. We also did not find evidence of ineligible multi-unit dwellings weatherized. However, we did find that staff had not properly performed eligibility recertifications for the fiscal year ended June 30, 2012, as discussed in this finding.

WAP Program Information

On April 1, 2009, the U.S. Department of Energy (DOE) awarded the state $99 million in American Recovery and Reinvestment Act of 2009 (ARRA) funds for the WAP program. The

ARRA funds were available for a three-year period, which ended March 31, 2012. During fiscal year ended June 30, 2012, DHS expended $3.7 million of ARRA funds and $7.2 million of non-ARRA funds. See finding 12-DHS-10 for an overview of the weatherization process and specific roles and responsibilities.

DHS Subrecipients

DHS contracted with the following 18 subrecipients to administer the weatherization program:

- Blount County Community Action Agency
- Bradley-Cleveland Community Services Agency
- Chattanooga Neighborhood Enterprise, Inc.
- Clarksville-Montgomery County Community Action Agency
- Delta Human Resource Agency
- East Tennessee Human Resource Agency
- Highland Rim Economic Corporation
- Knoxville-Knox County Community Action Committee
- Metropolitan Development and Housing Agency
- Mid-Cumberland Community Action Agency
- Mid-East Community Action Agency
- Northwest Tennessee Economic Development Council
- Shelby County Community Services Agency
- South Central Human Resource Agency
- Southeast Tennessee Human Resource Agency
- Southwest Human Resource Agency
- Upper Cumberland Human Resource Agency
- Upper East Tennessee Human Development Agency

Scope of the Review

To determine whether DHS and the subrecipients complied with WAP federal eligibility requirements, we reviewed the related client files, energy auditor files, and contractor files for 64 files from a population of 1,091 weatherized homes at the following subrecipient agencies:

- Chattanooga Neighborhood Enterprise, Inc. (Chattanooga)
- Metropolitan Development and Housing Agency (Metro)
- Mid-Cumberland Community Action Agency (Mid-Cumberland)
- Northwest Tennessee Economic Development Council (Northwest)
- Shelby County Community Services Agency (Shelby)
- Upper East Tennessee Human Development Agency (Upper East)

RESULTS OF OUR FILE REVIEW

Based on our file review, we found that for one of the 64 files reviewed (2%), the weatherization coordinator did not ensure the eligibility recertification was properly performed.

According to the U.S. Department of Energy State Plan/Master File Worksheet, "**Procedures to determine that units weatherized have eligibility documentation:** client files shall include the following documentation: . . . 3. Date of re-certification (completed every 12 months). . . ." The U.S. Department of Energy State Plan/Master File Worksheet is prepared by DHS and includes DHS's internal policies and processes it will use to carry out the federal program. The State submits the State Plan/Master File Worksheet to DOE, which approves the plan prior to awarding weatherization funds.

Based on our file review at Mid-Cumberland, we determined that the weatherization coordinator did not properly perform an eligibility recertification. The client applied for weatherization assistance during fiscal year 2008 but was placed on a waiting list. According to the weatherization coordinator, instead of recertifying the client's eligibility, she was automatically approved for weatherization assistance based on her application for the Low-Income Home Energy Assistance Program (LIHEAP). However, DHS does not have a policy that allows clients who are eligible for the LIHEAP program to be automatically eligible for the weatherization program. In addition, based on our review of the LIHEAP application on file, the client's LIHEAP application was dated and approved after the home was weatherized and the contractors were paid. Since the weatherization coordinator did not recertify the client prior to weatherization work performed, we could not determine if the client was eligible at the time the weatherization work was completed on the home. The coordinator paid $6,700 to the weatherization contractor for work on this client's home, resulting in federal questioned costs of $6,700.

Conclusion

Our testwork included a review of 64 client files, which represented $263,065 of home weatherization costs, from a total population of $8,223,173. Based on the results of our sample testwork, we questioned costs totaling $6,700 related to eligibility determination and documentation issues. The Office of Management and Budget (OMB) Circular A-133 requires us to report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program. We believe likely questioned costs could exceed $10,000.

Management has not identified and assessed the risk associated with the eligibility errors noted above in its annual risk assessment.

Recommendation

The Department of Human Services was responsible for administrating the Weatherization Program during fiscal year ended June 30, 2012. Effective July 1, 2012, the program was transferred to the Tennessee Department of Housing Development Agency (THDA). Given the large number of homes weatherized through the weatherization program, the Commissioner and department management must rely on all parties involved in the weatherization process to perform their responsibilities in accordance with contract terms and federal regulations. It is critical that those individuals charged with the responsibility for reviewing and approving eligibility for the program realize that there are real consequences for failure to meet their obligations.

Because the Commissioner and department management must rely on subrecipients to carry out the program, and due to the ongoing potential for risks of noncompliance, fraud, waste, and abuse in the program, it is imperative that management continues to carefully monitor the work performed by subrecipients. The department should use the knowledge gained from these monitoring efforts to identify and mitigate these and other risks promptly.

Specifically, management should ensure that eligibility recertifications are properly performed as required. In addition, management should assess and include the risk associated with the error noted above in its annual risk assessment.

Management's Response

We concur. The State did not have a policy that would allow LIHEAP eligible clients to be automatically eligibility for the Weatherization program. We have already recouped questioned costs for this finding from the sub grantee. Subsequently, WAP funds were not used to pay for this job. Department of Human Services no longer administers the Weatherization program. This finding, and the risk associated with it, was shared with the Tennessee Housing Development Agency, who now administers the Weatherization program.

Finding Number	12-APSU-01
CFDA Number	84.007, 84.063, and 84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Austin Peay State University
Grant/Contract No.	P007A113852, P063P112217, and P268K122217
Federal Award Year	2011 and 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	$4,486.50

The Student Financial Aid Office did not always perform Title IV return-of-funds calculations, did not always properly verify documents, incorrectly awarded Title IV funds, and did not always comply with satisfactory academic progress policies, resulting in federal questioned costs of $4,486.50

Finding

The Student Financial Aid Office did not comply with certain special tests and provisions of the Student Financial Assistance Cluster as discussed below.

Return of Title IV Funds Not Properly Calculated

The Student Financial Aid Office did not properly calculate the amount of Title IV funds to be returned for a student who had withdrawn during the semester for which federal student aid was received.

According to the *Code of Federal Regulations*, Title 34, Part 668.22,

> When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date . . . [The] percentage of the payment period or period of enrollment completed [is determined] by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student's withdrawal date.

Also, the *Federal Student Aid Handbook*, Volume 5, Chapter 2, page 31, states, "Up through the 60% point in each payment period or period of enrollment, a prorata schedule is used to determine the amount of Title IV funds the student has earned at the time of withdrawal." In addition, page 53 states, "A school must return the amount of Title IV funds for which it is responsible as soon as possible, but no later than 45 days after it determines or should have determined that the student withdrew."

For one of 8 students who withdrew and required a return-of-funds calculation (12.5%), no return calculation was performed. According to the Director of Student Financial Aid and Veterans Affairs, the Office of the Registrar did not process the student's withdrawal until May 7, 2012, even though the student withdrew on March 9, 2012. On July 25, 2012, we notified the Student Financial Aid Office that a return calculation had not been performed for the student after the withdrawal occurred. Costs of $1,655 are questioned for this student. The institution subsequently returned the $1,655 on July 26, 2012, to the Department of Education.

Verification Not Completed and Overaward Made

The Financial Aid Office did not comply with the institution's verification policy for students selected for verification during the 2011-2012 award year. According to the verification policy, "Required documents must be submitted by our priority deadline of June 1 for Fall term and November 1 for Spring term for the most efficient processing. The financial deadline for submitting verification documents is 90 days after your last day of enrollment for the current year or September of that award year, whichever is earlier. After that time, you forfeit eligibility for federal student aid for the award year."

The *Federal Student Aid Handbook,* Application and Verification Guide, Chapter 4, pages AVG-89 and AVG-92, states,

> [Institutions] can make an interim disbursement of some Title IV funds before verification is complete if you [the institution] have no reason to believe the application information is inaccurate. Your school is liable for the interim disbursement if verification shows that the student received an overpayment or if he fails to complete verification . . . If a student fails to provide the required documentation by the deadline . . . [and] if the student already received Pell, FSEOG, or Perkins funds in a disbursement prior to being selected for verification, he must return that money. If he received it as an interim disbursement you [the institution] gave while waiting to complete verification, your school is responsible for returning the money to the programs.

Of the 22 students tested who were selected for verification, one student (4.5%) did not forfeit eligibility after failing to provide verification documents. As a result, the student received $7,558.50 in Title IV funds for award year 2011-2012. Although the school returned $943.50 due to the student's withdrawal from the 2011 Fall Term II, the school did not return the other funds as discussed in the following paragraph. Based on our discussions with financial aid staff, the failure to take the funds back was an oversight.

The Financial Aid Office only returned $943.50, for the student's withdrawal from the 2011 Fall Term II, to the Department of Education. The $2,831.50 Federal Pell and Federal Supplemental Education Opportunity Grant (FSEOG) portion of the student's award was not returned. As a result, the $2,831.50 of the Federal Pell and FSEOG portion of the student's award is questioned. The remaining Title IV funds for the award year were federal direct loans.

In addition, the Student Financial Aid Office did not comply with the *Code of Federal Regulations*, Title 34, part 690.63(g)(1), which states that "the amount of a student's award for an award year may not exceed his or her Scheduled Federal Pell Grant award for that award year."

The *Federal Student Aid Handbook*, Application and Verification Guide, Chapter 5, pages AVG-101 and AVG 104, states, "[Institutions] are required to review all subsequent transactions for a student for the entire processing year . . . If you paid a student based on information that is updated later, you must use the revised EFC to determine the correct award and adjust future disbursements or require a repayment by the student if necessary."

We also noted that the same student received an excess of $1,575 over the Scheduled Federal Pell Grant award amount for applicable Expected Family Contribution (EFC). The Federal Pell Grant Program Payment Schedule for award year 2011-2012 shows a full-time student with an EFC of $3,153 receiving a maximum award of $2,400. Therefore, the student should have been awarded $1,200 per semester; however, the Financial Aid Office awarded this student $2,775 for the Fall 2011 semester. According to the Director of Student Financial Aid and Veterans Affairs, this student had two Institutional Student Information Records (ISIRs) for the 2011-2012 award year. The first ISIR shows the student with an EFC of $0 while the second ISIR shows an EFC of $3,153. The Director of Student Financial Aid and Veterans Affairs stated that the award for the Fall 2011 term was paid based on the first ISIR. The $1,575 Federal Pell Grant overpayment is included in the $2,831.50 amount questioned above for lack of verification.

<u>Satisfactory Progress Not Always Calculated and Appeals Not Granted When Required</u>

The Student Financial Aid Office did not comply with the institutional and federal satisfactory academic progress policies.

According to the institution's Satisfactory Academic Progress (SAP) Policy,

> A review of academic progress will be conducted three times each year; at the end of the Fall semester . . . the Spring semester . . . and at the end of summer. [Also,] The maximum time frame must be no longer than 150% of the published length of the educational program. Most undergraduate programs require 120 hours; therefore, 180 hours attempted is the maximum time frame allowed. If at any point it is clear the student will not be able to meet time frame or exceeds the maximum time frame, the student becomes ineligible for aid.

In addition, the *Federal Student Aid Handbook*, volume 1, chapter 1, page 11, states, "Financial aid warning [is] a status a school assigns to a student who is failing to make satisfactory academic progress. The school reinstates eligibility for aid for one payment period and may do so without a student appeal. This status may only be used . . . for students who were making SAP in the prior payment period."

For the year ended June 30, 2012, we reviewed the satisfactory academic progress for 59 students who received federal student aid during the fiscal year. We noted the following discrepancies.

For 3 of 59 students examined to determine if a satisfactory academic progress calculation was made (5.1%), the Student Financial Aid Office did not calculate the students' satisfactory academic progress. The students took classes in the Spring I term at the Fort Campbell campus. According to the Associate Director of Student Financial Aid and Veterans Affairs, the Banner system does not pull a partial term such as Spring I. The students only attended the Spring 1 term at the Fort Campbell Campus and not Spring 2; therefore, the Banner system did not pull the students. This resulted in the satisfactory academic progress calculation not being performed for the students. Based on our testwork, the students were making satisfactory academic progress. However, this flaw in the Banner system could lead to ineligible students receiving aid.

Furthermore, for one of 59 students examined (1.7%), the Student Financial Aid Office did not complete an appeal for the student exceeding the maximum time frame stated in the satisfactory academic progress policies. Per review of Banner, this student exceeded the 180 hours maximum time frame after completing the 2010 Fall I term. The *Federal Student Aid Handbook*, volume 1, chapter 1, page 12, states, "Warning status lasts for one payment period, during which the student may continue to receive FSA [Federal student aid] funds. Students who are still failing to make satisfactory progress after the warning period lose their aid eligibility unless they successfully appeal and are placed on probation." The student was correctly placed on a warning status for the 2011 Spring term. However, satisfactory progress for the 2011 Spring term was not calculated. Since the student had exceeded the maximum time frame after the 2010 Fall and 2011 Spring terms, an appeal should have been required for the student to receive aid for the 2011 Fall term. An appeal was not completed for the 2011 Fall term. The Director of Student Financial Aid and Veterans Affairs believed this student did not need an appeal because the student was placed on warning and then graduated. The Director of Student Financial Aid and Veterans Affairs also stated that when the new satisfactory academic progress regulations were implemented, the institution had to delete the probation status. As a result, the Director of Student Financial Aid and Veterans Affairs stated that the institution had to decide whether to change all warning students to failed students or to reset all of the warning students back to warning. The Director stated that the institution decided to reset all warning students to warning status. As a result, this student was reset to warning status rather than failed status, which would have caused an appeal to be required. Although the Student Financial Aid Office did not have the student go through an appeals process after a warning was received the prior semester, we did not question costs for this student's financial aid since an appeal could have been granted to let the student finish the semester and graduate.

The questioned costs noted above were $4,486.50, and the sample of student financial aid payments was $540,691. The population of student financial aid payments was $37,505,995.

Recommendation

The President should direct staff to ensure the return-of-funds calculations are performed after students have withdrawn from the institution and to ensure there is proper communication between the Student Financial Aid Office and the Registrar for notification of students' withdrawal from the institution. The Director of Student Financial Aid and Veterans Affairs should ensure that verification documents have been provided by students in the allotted time when students are selected for verification. The Director should also ensure that students' eligibility for federal student aid is cancelled for the award year for which verification documents are not received as required by federal regulations. In addition, the Director should ensure that the most current verification documents received during the award year are used in calculating students' awards. The Director of Student Financial Aid and Veterans Affairs should ensure that the satisfactory academic progress of students is calculated timely to confirm students' eligibility to receive aid and that appeals are completed when necessary. Any templates used in the satisfactory academic progress calculations should be properly reviewed for accuracy by the Director of Student Financial Aid and Veterans Affairs or the Assistant Director of Student Financial Aid.

The President should ensure that risks such as those noted in this finding are adequately identified and assessed in management's risk assessment activities. The President should identify specific staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

Austin Peay State University
March 11, 2013

<u>Return of Title IV Funds Not Properly Calculated</u>

- We concur in part. We concur this was an error; however, we do not concur with method used to classify as a finding for the one error from the sample.

- **<u>Correction Measure</u>**. We receive electronic notification from the Registrar on a daily basis. We have met with the Registrar to identify why there was a delay in processing this withdrawal. A procedure has been established to pick up withdrawals not included in the electronic notification that is already in place. We will do whatever is possible to ensure errors will not occur in the future.

- We cite the following reference from both <u>The Blue Book</u> (2013), Volume 4 – Financial Operations and Program Integrity, p. 4-6, and from the <u>Federal Student Aid Handbook</u>, <u>Volume 2 – School Eligibility and Operations, p. 2-68</u>. The error based on the sample population is within the allowable margin of error as determined by the Department of Education.

http://ifap.ed.gov/bbook/attachments/2013BlueBookVol4.pdf and

http://ifap.ed.gov/fsahandbook/attachments/Vol5Ch1FSAHdbk1213.pdf

Compliance Thresholds for Timely Return of Funds

The Department provides for a small margin of error in determining that a school has paid all required refunds and returns on time. The Department considers a school to have paid returns in a timely manner if—

*♦♦there is less than a 5% error rate in a sample of returns (composed of students for whom the school was required to return unearned funds) examined **in a compliance audit**, an audit conducted by the Office of the Inspector General (OIG), or a program review conducted by the Department or guaranty agency, **or***

♦♦there are no more than two late returns in the sample (regardless of the number or percentage of late returns in the sample).

- A late return is defined as …When an institution corrects a Return of Title IV Funds calculation and, as a result, returns funds after the 45-day deadline, it is a late return. This is according to the Federal Student Aid Handbook, Volume 5, p. 5-40.

http://ifap.ed.gov/fsahandbook/attachments/Vol5Ch1FSAHdbk1213.pdf

Verification Not Completed and Overaward Made

- We concur.

- **Correction Measure**. Our process to monitor subsequent ISIR's has been expanded through the development of a flow chart and quality control reports. We will do whatever is possible to ensure errors will not occur in the future.

Satisfactory Academic Progress (SAP) Not Always Calculated and Appeals Not Granted When Required

We concur.

Correction Measure. We took immediate action to correct this issue, as well as review all Spring I calculations. All students were making satisfactory academic progress (SAP). Spring I, as well as other part of term calculations will be included by manually calculating.

As an ongoing process of risk assessment by the university, a detailed risk assessment will consider risks that are applicable to the Office of Student Financial Aid and mitigating controls. This assessment will assign all controls to specific managers that will be required to monitor those controls. The Director of Financial Aid will review the controls to ensure that proper monitoring has occurred. In instances of improper monitoring, progressive discipline will apply.

Auditor's Comment

As we discuss in the finding, financial aid staff did not perform a return calculation and return the funds until we brought the matter to management's attention on July 25, 2012. The student withdrew on March 9, 2012. We consider this to be a return not made, rather than a late return, since we informed management of the error. If financial aid staff had discovered the error themselves and returned the funds, we would agree with management that it was a late return and would not have reported a late return in the finding in accordance with the guidance cited.

Finding Number	12-ETSU-01
CFDA Number	84.038
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	East Tennessee State University
Grant/Contract No.	N/A
Federal Award Year	2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A

Notifications required by federal regulations were not performed for Perkins Loans in default status

Finding

East Tennessee State University did not ensure that all notification procedures were performed for Perkins Loans in default status. A similar finding was reported in the previous audit.

According to the *Federal Student Aid Handbook*, volume 6, pages 99-100:

> If a payment is overdue and you have not received a request for forbearance, deferment, or cancellation, you must send the borrower:
>
> - the first overdue notice 15 days after the payment due date;
> - the second overdue notice 30 days after the first overdue notice;
> - the final demand letter 15 days after the second overdue notice.
>
> If [a] borrower does not respond to the final demand letter within 30 days, [the school] must try to contact him or her by telephone before beginning collection procedures. As telephone contact is often very effective in getting the borrower to begin repayment, one call may avoid the more costly procedures of collection.
>
> You should make at least two attempts to reach the borrower on different days and at different times. If the borrower has an unlisted telephone number, you must make reasonable attempts to obtain it by contacting sources such as the borrower's employer or parents. If you are still unsuccessful, you should document the contact attempts in your files.
>
> [The school] may accelerate a loan if the borrower misses a payment or does not file for a deferment, forbearance, or cancellation on time. Acceleration means immediately making payable the entire outstanding balance, including interest and any applicable late charges or collection fees.

> Because [loan acceleration] marks a serious stage of default, the borrower should have one last chance to bring his or her account current. For that reason, if the school plans to accelerate the loan, it must send the borrower a written acceleration notice at least 30 days in advance.

For the year ended June 30, 2012, we reviewed the files of 25 students whose Perkins Loans went into default during the fiscal year. We noted the following discrepancies:

- For 11 of 25 students tested (44%), neither the Bursar's Office nor the university's contracted loan servicing agency mailed the final demand letters.

- For 3 of 25 students tested (12%), neither the Bursar's Office nor the university's contracted loan servicing agency made documented additional attempts to contact borrowers with no phone number or an unlisted or invalid phone number. If the student has no additional contact sources (e.g., parents or employers) or additional attempts to contact the student are unsuccessful, this should be documented.

- For 12 of 25 students tested (48%), neither the Bursar's Office nor the university's contracted loan servicing agency mailed the "intent to accelerate" letters at least 30 days prior to the effective date of acceleration. These intent to accelerate letters were mailed, but between 27 and 29 days prior to the acceleration date, rather than the required 30 days.

Based on our discussions with the Bursar, the phone calls and letters described above were the responsibility of the loan servicing agency.

Even though the university uses an outside vendor to perform billing procedures, the responsibility for compliance with federal regulations lies with the university. The *Federal Student Aid Handbook*, volume 6, page 108, states:

> Your school may use a contractor for billing or collection, but it is still responsible for complying with due diligence regulations regarding those activities.

Not ensuring the borrowers were adequately notified before being transferred to a collection agency or before loan acceleration could lead to unnecessary collection costs and/or financial hardship for borrowers in default.

Recommendation

The Bursar should ensure that the university follows due diligence procedures regarding Federal Perkins Loans in default status. Specifically, the Bursar should ensure that the university or its designee mail final demand letters to students in default. The Bursar should ensure that the university or its designee makes the required phone calls to students before referring loans to collections. If the required phone call cannot be made or additional attempts to contact the student are unsuccessful, this should be documented. Finally, the Bursar should ensure that the university or its designee mails the intent to accelerate letters at least 30 days prior to the effective date of the loan acceleration.

The Bursar should ensure that risks such as those noted in this finding are adequately identified and assessed in the university's risk assessment activities. The Bursar should identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. The Bursar should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

We concur with the finding and recommendation.

In the instances of the borrowers who were not mailed a final demand letter, the loan processing contractor had an error in its electronic loan system that removed 60-day letters from the automatic process for a small subset of schools. This was identified and corrected in September of 2011. This was a one-time issue that has been corrected and has not recurred.

The university determined the missing phone numbers for borrowers were the result of incomplete migration of data from the university to the loan processing contractor at the inception of the contract. The university will obtain a listing from the loan processing contractor of all borrowers in its system with no phone number and will review institutional records to identify a phone number. This review will be documented. Phone numbers that are identified will be forwarded to the loan processing contractor to update the borrower's record in the contractor's system. All phone calls to borrowers and the response received are logged on a report maintained by the loan processing contractor.

The loan processing contractor requested the Department of Education review the contractor's interpretation of the letter of intent to accelerate. The Department of Education provided the contactor with the department's intent of this regulation. Based on that review, the loan processing contractor changed the system logic that triggered the letters. This logic was changed in March of 2012 and the pre-acceleration letters are now sent out at least 30 days prior to the acceleration date.

The university will ensure risks of compliance with loan servicing are included in the university's risk assessment. A staff member in the Bursar's Office has been assigned the responsibility to review compliance and monitor loan servicing by the contractor. The Bursar will review the results of the monitoring on a periodic basis.

Finding Number	12-UT-01
CFDA Number	84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	P268K122842
Federal Award Year	2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A

As reported in the previous audit, the Registrar's Office at the Health Science Center did not properly report enrollment data, increasing the risk of not initiating the student loan repayment process

Finding

The Registrar's Office at the University of Tennessee Health Science Center in Memphis did not properly report enrollment data for the Direct Loan borrowers who withdrew from classes or graduated. A similar finding was reported in the previous audit. *Office of Management and Budget Circular A-133 Compliance Supplement*, Part 5, states,

> Schools must complete and return within 30 days the Enrollment Reporting Roster File [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED [Department of Education] via NSLDS [National Student Loan Data System] (OMB No. 1845-0035) . . . Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site.
>
> Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (Direct Loan, 34CFR section 685.309).

According to the *Federal Student Aid Handbook*, volume 2, page 47:

> Student enrollment information is *extremely important*, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds [emphasis added].

We selected a sample from all Direct Loan borrowers who withdrew from classes or graduated during the year ended June 30, 2012. The Registrar's Office did not properly report the enrollment data to the Department of Education for 3 of the 25 borrowers tested.

- One student withdrew on September 21, 2011; however, the Registrar's Office did not report the student as having withdrawn until January 25, 2012, 96 days late.

- One student graduated on May 25, 2012; however the Registrar's Office did not report the student as having graduated until July 26, 2012, 32 days late.

- One student graduated on May 25, 2012; however the Registrar's Office did not report the student as having graduated until August 1, 2012, 38 days late.

The Registrar stated that in the first instance, the College of Medicine did not forward a withdrawal slip to the Registrar's Office in a timely manner. The Registrar could not provide a valid reason for the second instance. In the third case, she stated that the student was not reported as graduated because she enrolled as a non-degree-seeking student in the summer 2012 term. The Banner student information system still considered the student an active student and could not report the student as graduated.

Not accurately reporting enrollment status changes could result in the inappropriate granting of an in-school deferment or the failure to properly initiate the loan repayment process.

Recommendation

The Registrar should ensure that all enrollment status changes for Direct Loan borrowers are reported timely in compliance with federal regulations. She should develop a process to perform ongoing reviews and implement written procedures to ensure proper reporting. College of Medicine staff should implement procedures to ensure that they submit withdrawal slips to the Registrar's Office in a timely manner.

The Registrar should ensure that risks such as those noted in this finding are adequately identified and assessed in management's risk assessment activities. The Registrar should also identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. She should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

We concur with the finding regarding the three UT Health Science Center late reporting instances. We have studied each case to determine necessary changes and additional processes to the corrective action plan that we adopted after the fiscal year 2011 State Audit findings.

For the first student listed, who withdrew September 21, 2011, we found that the fiscal year 2011 corrective action plan was developed in January 2012 and so wasn't in place in time for this reporting error. Additional corrective actions will be necessary to prevent this type of error in the future as follows:

1. The Vice Chancellor for Academic, Faculty, and Student Affairs has already begun the education process with the College Deans and Academic Officers to increase awareness and understanding of timely reporting for both official and unofficial student withdrawals.

2. In the Registrar's Office, student change forms will be entered immediately on the shared drive for the department and will be subject to pre-set reviews, real-time entry to NSLDS, and post-entry checking procedures.

For the second student error involving the reporting of the May 25, 2012, graduation 32 days late, we found that the graduation was correctly entered into Banner, but was missed on the NSLDS entry due to a clerical oversight. To remedy this type of problem, we will:

1. Assign a Registrar's Office team to cross reference the College graduation list, to the Banner graduation file, to the NSLDS "real-time" entries so that clerical oversight or an entry that failed for any reason will be obvious and immediately corrected.

2. Our contract with the National Student Clearinghouse service became fully operational in November 2012 and will provide a back-up reporting mechanism to NSLDS on the fifth of each month.

For the third student error involving the reporting of the student's graduation 38 days late, the above-referenced two procedures are expected to catch this type of error. In this case, the student registered for non-degree classes the summer after her graduation, which caused her Banner graduation status to be cancelled out. Now that Registrar's Office personnel are aware of this Banner program flaw, they will report the graduation status to NSLDS before allowing non-degree program registration.

Finding Number	12-UT-02
CFDA Number	84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	University of Tennessee
Grant/Contract No.	P268K122250
Federal Award Year	2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A

The Registrar's Office in Knoxville did not properly report enrollment data, increasing the risk of not initiating the student loan repayment process

Finding

The Registrar's Office at the University of Tennessee in Knoxville did not properly report enrollment data for the Direct Loan borrowers who graduated. *Office of Management and Budget Circular A-133 Compliance Supplement*, Part 5, states,

> Schools must complete and return within 30 days the Enrollment Reporting Roster File [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED [Department of Education] via NSLDS [National Student Loan Data System] (OMB No. 1845-0035) . . . Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site.

> Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (Direct Loan, 34CFR section 685.309).

> According to the *Federal Student Aid Handbook*, volume 2, page 47:

> Student enrollment information is *extremely important*, because it is used to determine if the student is still considered in school, must be moved into repayment, or is eligible for an in-school deferment. For students moving into repayment, the out of school status effective date determines when the grace period begins and how soon a student must begin repaying loan funds [emphasis added].

We selected a sample from all Direct Loan borrowers who withdrew from classes or graduated during the year ended June 30, 2012. The Registrar's Office did not properly report the enrollment data to the Department of Education for 5 of the 25 borrowers tested.

- Four students graduated on May 11, 2012; however, the Registrar's Office did not report the students as having graduated until July 16, 2012, 36 days late.

- One student graduated on December 9, 2011; however, the Registrar's Office did not report the student as having graduated until February 13, 2012, 36 days late.

The Assistant Registrar stated that the first four enrollment status changes were not reported timely because institution personnel in the College of Law had inadvertently placed spring 2012 students that graduated into degree "pending status" on the university's Banner student information system. As to the fifth student, she stated that the student completed a degree requirement late and was added late to the fall 2011 graduate list.

Not accurately reporting enrollment status changes could result in the inappropriate granting of an in-school deferment or the failure to properly initiate the loan repayment process.

Recommendation

The Registrar should ensure that all enrollment status changes for Direct Loan borrowers are reported timely in compliance with federal regulations. She should develop a process to perform ongoing reviews and implement written procedures to ensure proper reporting. College of Law staff should implement procedures to ensure that all graduating students are properly classified on the Banner student information system.

The Registrar should ensure that risks such as those noted in this finding are adequately identified and assessed in management's risk assessment activities. The Registrar should also identify specific staff to be responsible for the design and implementation of internal controls to prevent and detect exceptions timely. She should also identify staff to be responsible for ongoing monitoring for compliance with all requirements and take prompt action should exceptions occur.

Management's Comment

We concur. While adding College of Law graduates into Banner, an error was made resulting in the removal of all previously awarded degrees last June 2012. University staff were manually reentering all previously awarded degrees at the time the first report to the National Student Clearinghouse verifying spring 2012 degrees was submitted. Accordingly, the initial report did not include all spring 2012 student degree information because of the data entry in progress. A second degree verification report submission was made in July, and all those previously unreported graduates were reported. Retraining has taken place, and management does not expect this error to reoccur.

Due to the late completion of a degree requirement, a student was not added to the December 2011 graduate list in a timely manner. The student was added in January 2012 after the Clearinghouse report was submitted.

The Clearinghouse recently added a new process that allows the Registrar's Office to update individual student records, mitigating the risk for future timing errors.

Finding Number	12-DOE-01
CFDA Number	84.010, 84.389, 84.027, 84.173, 84.391, 84.392, 84.394, 84.397, 84.367, 84.395, and 84.410
Program Name	Title I, Part A Cluster Special Education Cluster (IDEA) State Fiscal Stabilization Fund Cluster Improving Teacher Quality State Grants State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act Education Jobs Fund
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S010A090042, S010A100042, S010A110042, S389A090042, H027A070052, H027A090052, H027A100052, H027A110052, H173A090095, H173A100095, H173A110095, H391A090052A, H392A090095A, S394A090043, S397A090043, S367A090040, S367A100040, S367A110040, S395A100032, S410A100043
Federal Award Year	2007 through 2014
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A

As noted in the prior audit, the department and local educational agencies did not always maintain proper information systems security controls, increasing the risk of fraudulent activity

Finding

Based on our testwork, Department of Education's and Local Educational Agencies' staff did not always maintain proper information systems security, resulting in increased risk of fraudulent activity. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the department's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department management with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Commissioner should ensure that these conditions are remedied through procedures that encompass all aspects of effective access controls. The Commissioner should ensure that risks associated with this finding are adequately identified and assessed in the department's documented risk assessment. The Commissioner should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur. The Department of Education will work to improve information systems security controls over the systems and applications cited in the finding. This will involve developing and strengthening procedures where needed, maintaining documentation, improving communication between the Department and LEAs and state agencies regarding the status of users, and improving monitoring over controls. The risks identified in the finding have been added to the Department's risk assessment.

Finding Number	12-DOE-03
CFDA Number	84.367
Program Name	Improving Teacher Quality State Grants
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S367A090040, S367A100040, S367A110040
Federal Award Year	2009 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Questioned Costs	$50,828

The former Fiscal Director did not comply with earmarking requirements applicable to the Improving Teacher Quality program, resulting in federal questioned costs of $50,828

Finding

The Tennessee Department of Education (TDOE) receives federal funding under the Improving Teacher Quality program to increase the academic achievement of all students by helping schools and school districts to improve teacher and principal quality and ensure that all teachers are highly qualified. According to Title 20, *United States Code* (USC), 6613(d), "A State educational agency or State agency for higher education receiving a grant under this part may use not more than 1 percent of the grant funds for planning and administration . . ." Once the state has reserved up to one percent of the Improving Teacher Quality funds for planning and administration, the state must reserve the remainder of the grant award in accordance with Title 20, USC, 6613(a), which requires a state to ". . . (1) reserve 95 percent of the funds made available through the grant to make subgrants to local educational agencies . . . (2) reserve 2.5 percent . . . of the funds to make subgrants to local partnerships . . . and (3) use the remainder of the funds for State activities described in subsection (c) of this section."

Based on our review, we determined that TDOE reserved one percent of the state's Improving Teacher Quality (ITQ) award for the fiscal year ended June 30, 2010, for state administration and 2.5 percent of the remainder of the award for state activities. The period of availability for the state's ITQ award for the fiscal year ended 2010 began July 1, 2009, and ended September 30, 2011. Because the United States Department of Education allows the state to carryover any unobligated funds, ITQ funds reserved in one year can be spent in subsequent grant years within a specific period of availability. Under federal regulations, any unobligated funds made available under awards revert to the U.S. Treasury at the end of the period of availability for each award. According to the former Fiscal Director, near the end of the period of availability for the 2010 award, TDOE had not obligated all of the funds made available under the award that were reserved for state activities and state administration. To avoid losing this portion of the 2010 award, the former Fiscal Director transferred $50,828 in expenditures that were originally charged to TDOE's 2011 and 2012 ITQ awards to the 2010 grant. These expenditures were classified as subgrants to the LEAs in the 2011 and 2012 awards, but the former Fiscal Director reclassified the expenditures as state activities or state administration expenditures in the 2010 award. Even though the 2011 and 2012 expenditures met the period of availability requirement, we determined that these expenditures were for subgrants to LEAs and did not qualify as expenditures for allowable state activities or state administration. As noted above, Title 20, USC, 6613(a)(1) limits the portion of a state's ITQ award that can be subgranted to LEAs to 95 percent of the state's ITQ award. Because TDOE had already subgranted 95 percent of its 2010 ITQ award to LEAs, subgranting the additional $50,828 of TDOE's 2010 grant award to the LEAs violated the 95 percent earmarking requirement for ITQ. As a result, we questioned federal costs of $50,828.

According to the former Fiscal Director, this earmarking violation occurred because she had been told by program personnel that all ITQ grant funds—whether reserved for state activities or reserved for state administration—could be subgranted to LEAs for the purposes of Title 20, USC, 6613(a)(1), and program personnel had instructed the former Fiscal Director to not allow these funds to revert to the United States Treasury. We attempted to identify the program staff who provided this information to the former Fiscal Director; however, the formal Fiscal Director stated that she could not recall who had provided this information to her because this communication took place several years ago.

When we asked the former Fiscal Director if she consulted with program personnel within TDOE before transferring the $50,828 to determine whether these adjustments were allowable or to notify program personnel of these adjustments, the former Fiscal Director indicated that she did not. The Executive Director of the Office of Federal Programs and the Assistant Commissioner of Teachers and Leaders are responsible for determining the manner in which TDOE uses the funds reserved from its ITQ award for state administration and state activities, respectively. Discussions with the Assistant Commissioner of Teachers and Leaders and the Executive Director of the Office of Federal Programs revealed that neither was aware of these adjustments.

A lack of awareness of and compliance with earmarking requirements of federal awards increases the risk that the objectives of these awards will not be met.

Recommendation

The Commissioner should ensure that fiscal personnel, along with the program personnel that administer the ITQ grant awards, monitor expenditures of ITQ awards to ensure that TDOE obligates all funds provided under each ITQ award within each award's period of availability and in accordance with program requirements. In addition, the Commissioner should require fiscal personnel to obtain and maintain prior, written approval from program personnel before making accounting adjustments to federal awards.

Management's Comment

We concur. The Department of Education has changed its processes and now requires written program leadership approval prior to making any adjustments to funding source for payments. Accounting and program staff are monitoring the financial status of federal awards/projects.

Finding Number	12-DFA-01
CFDA Number	84.394
Program Name	State Fiscal Stabilization Fund Cluster
Federal Agency	Department of Education
State Agency	Department of Finance and Administration
Grant/Contract No.	S394A090043
Federal Award Year:	2009 through 2011
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Davis-Bacon Act
Questioned Costs	N/A

The Tennessee Board of Regents and some of its institutions did not obtain and review certified payrolls, as required by the Davis-Bacon Act for federally funded construction contractors' compliance, increasing the risk of workers not being paid the prevailing wage rates

Finding

The Department of Finance and Administration provided funding to state higher education institutions for capital construction projects through the American Recovery and Reinvestment Act of 2009 (ARRA) State Fiscal Stabilization Fund program. Under the Davis-Bacon Act, recipients of federal funds must ensure that workers involved in federally funded constructions projects are paid no less than the prevailing wage rates established by the United States Secretary of Labor. We reviewed a detailed list of expenditures for fiscal year 2012 obtained from each institution and determined that five institutions had construction projects that included ARRA funding. For all but one of these projects, the Tennessee Board of Regents (TBR) acted as a contracting agent for the institutions.

Based on our testwork, we found that four of the five institutions did not properly monitor their contractors to ensure the contractors paid workers the prevailing wage rates as required by the Davis-Bacon Act. Our testwork at the five institutions included a review of a total of 12 construction contracts. We found that for construction projects under 8 of the 12 contracts (67%), institutions' staff had not obtained the certified payrolls from the contractors and thus did not review the certified payrolls to determine that the federal prevailing wage rates were paid. We also found for two of the four remaining contracts tested (50%) that the responsible institution did obtain the certified payrolls; however, some of the certified payrolls were missing at the time of our testwork. Therefore, we were unable to confirm that institution staff properly reviewed/monitored wage rates.

According to the *Code of Federal Regulations*, Title 29, Part 5, Section 5.5 (a)(3)(ii)(A), "The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency)." Once an institution receives the contractor's certified payrolls, institution staff must review the certified payrolls to ensure the contractor has paid the prevailing wage rates.

Also, the contracts between the TBR institutions and the contractors contained the requirement that the contractor submit these certified payrolls to the institutions' business offices. However, neither the institutions nor TBR obtained certified payrolls from the contractors who were parties to these contracts. Additionally, as the contracting agency, TBR did not effectively monitor the institutions' collection and review of the certified payrolls.

The TBR Director of Project Management stated that representatives from each institution, the contractor, and the Tennessee Department of Labor and Workforce Development met to review each contract and ensure an understanding of all the contract requirements, but based on our discussions with personnel at the institutions and with the contractors, there was a lack of clarity as to where the contractor was to send the certified payrolls. Our communication with one of the contractors revealed that the contractor sent the certified payrolls to the Tennessee Department of Labor and Workforce Development but did not send them to the business office of the higher education institution. In addition, TBR did not effectively communicate to its institutions the need to obtain certified payrolls from the contractors in order to monitor compliance. In the absence of proper monitoring, there is a risk that workers who are paid with federal funds may not be compensated at the prevailing wage rate as required by the Davis-Bacon Act.

Recommendation

The TBR Director of Project Management and the business office staff at the individual institutions should establish procedures to obtain certified payrolls from construction contractors and to review the payrolls to ensure that wages paid are in compliance with the Davis-Bacon Act.

Management's Comments

Tennessee Board of Regents

We concur with the finding and recommendation. The Tennessee Board of Regents Office of Facilities will improve its current procedures to ensure compliance with Davis-Bacon Act requirements specific to collecting, reviewing, and maintaining contractors' certified payrolls. The Office of Facilities will formally communicate these procedures to appropriate internal staff members and institutional representatives. Written design/construction procedures will be updated to include actions that ensure compliance with the Davis-Bacon Act. Additionally, ongoing training will be provided for internal staff members and institutional representatives. This training effort began with a presentation by a U.S. Department of Labor Wage and Hour Investigator on November 7, 2012. An informative session is also scheduled for the April 2013 Facilities Coordinators meeting.

Department of Finance and Administration

We concur with the finding and recommendation. There is language in the Designer Manual that requires the project management team and the contractor to consider prevailing wage rate requirements at the pre-construction conference and the contractor to submit a copy of the payroll transmittal letter(s) to the Department of Labor and Workforce Development with each pay request. The State Architect's Office will review the Designer Manual and consider changes that will support and improve compliance with the Davis-Bacon Act.

Finding Number	12-DHS-02
CFDA Number	93.558, 93.563, 93.575, 93.596, and 96.001
Program Name	Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Disability Insurance/SSI Cluster
Federal Agency	Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	G10002TNTANF, G11002TNTANF, G12002TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1204TN4005, G1001TNCCDF, G1101TNCCDF, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF, G0901TNCCDF, 04-09-04TND100, 04-10-04TND100, 04-11-04TND100, 04-12-04TND100
Federal Award Year	2007 through 2015
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A

As noted in the prior audit, the Department of Human Services did not follow departmental and state information system security policies, resulting in the increased risk of fraudulent activity or loss of data

Finding

Based on our testwork, the Department of Human Services again did not follow departmental and state information system security policies, resulting in increased risk of fraudulent activity or loss of data. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the department's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the department management with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Commissioner should ensure that these conditions are remedied through procedures that encompass all aspects of effective access controls. Management should reassess their controls to include the risks noted in this finding in management'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 staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur.

Management's Comment

We concur. We have delivered a confidential response to the detailed finding, but note that steps to address the issues identified are already underway.

Finding Number	12-DHS-05
CFDA Number	93.558
Program Name	Temporary Assistance for Needy Families Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1002TNTANF, G1102TNTANF, G1202TNTANF
Federal Award Year	2010 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	N/A

For the second year, the department failed to document certifications attesting to Temporary Assistance for Needy Families recipients' disclosure of state or federal criminal convictions when caseworkers renewed recipients' eligibility, increasing the risk that funds will be disbursed to ineligible recipients

Finding

As noted in the prior audit, the department failed to document certifications attesting to the disclosure of state or federal criminal convictions when caseworkers renew eligibility for Temporary Assistance for Needy Families (TANF) recipients. In the prior audit, we noted that management failed to ensure that caseworkers document these certifications in ACCENT. Management concurred with the prior finding.

The Department of Human Services (DHS) administers the Temporary Assistance for Needy Families (TANF) program, which is a federal program under the oversight of the Administration for Children and Families under the United States Department of Health and Human Services (HHS). Created to help needy families achieve self-sufficiency, the TANF program gives states a block grant to design and operate its own program. According to HHS' website,

> The four purposes of the TANF program are to:
>
> - Provide assistance to needy families so that children can be cared for in their own homes
> - Reduce the dependency of needy parents by promoting job preparation, work and marriage
> - Prevent and reduce unplanned pregnancies among single young adults
> - Encourage the formation and maintenance of two-parent families

To receive TANF benefits, applicants must meet certain eligibility criteria, such as maximum income and resource limits. Applicants must also certify that they have not been convicted of misrepresentation to receive entitlement benefits from two or more states, are not fugitive felons, do not have probation or parole violations, and are not guilty of a drug-related felony that was committed after August 22, 1996. Applicants must make these certifications as part of their initial eligibility determination and during their annual eligibility renewal. DHS caseworkers document eligibility of new applicants and continuing clients in the department's Automated Client Certification and Eligibility Network for Tennessee (ACCENT) system.

We tested a sample of 60 TANF case files during the fiscal year ended June 30, 2012, and found that the DHS caseworkers still were not appropriately documenting these certifications. To determine DHS' compliance with the federal eligibility requirements, we reviewed case information in ACCENT. Based on our review, we found that for 45 of 60 case files (76%) specifically related to eligibility renewals, the Director of Families First failed to ensure that caseworkers documented in ACCENT whether recipients renewing eligibility certified that they had not been convicted in federal or state court in a 10 year period of misrepresenting their place of residence in order to simultaneously receive assistance or benefits from multiple states under TANF and other federal entitlement programs. According to Title 42, *United States Code* (USC) 608(a)(8):

> A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide cash assistance to an individual during the 10-year period that begins on the date the individual is convicted in Federal or State court of having made a fraudulent statement or representation with respect to the place of residence of the individual in order to receive assistance simultaneously from 2 or more States under programs that are funded under this subchapter [and other programs within this chapter].

During our testwork, we also found that for 14 of 60 case files tested (23%), the Director of Families First failed to ensure that when recipients renewed their eligibility, caseworkers documented in ACCENT that recipients were not fugitive felons, probation or parole violators, or guilty of a drug-related felony. According to 42 USC 608(a)(9)(A),

> A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance to any individual who is— (i) fleeing to avoid prosecution, or custody or confinement after conviction, under the laws of the place from which the individual flees, for a crime, or an attempt to commit a crime, which is a felony under the laws of the place from which the individual flees, … or (ii) violating a condition of probation or parole imposed under Federal or State law.

In addition, 21 USC 862(a) states,

> An individual convicted (under Federal or State law) of any offense which is classified as a felony by the law of the jurisdiction involved and which has as an element the possession, use, or distribution of a controlled substance (as defined

> in section 802(6) of this title) shall not be eligible for (1) assistance under any State program funded under part A of title IV of the Social Security Act [which includes TANF].

Because the caseworkers did not enter this information in ACCENT, we could not determine whether caseworkers actually requested this information from these recipients; however, we found that the 60 recipients we tested met every other eligibility requirement for which we tested. As a result, we are not questioning the costs relating to these renewal certification errors. As also stated in the prior audit finding, according to the Director of Families First, the applicants made these certifications on the TANF applications prior to October 2010; however, DHS changed its renewal applications in October 2010 to reduce the cost of the mailings. The renewal application form provides for changes in recipients' circumstances but does not address these required certifications. According to the Director of Families First, beginning in April 2012, management updated the template for the ACCENT CLRC (Running Records) guide, which involves a screen within ACCENT where caseworkers document their notes relating to a client. The update to the ACCENT CLRC guide reminded staff to inquire of clients and document this inquiry in the CLRC screen regarding the four certifications. However, because management took these steps in April 2012, it is too soon to determine whether these new controls are effective.

When the required client certifications are not documented, the risk of awarding money to ineligible recipients is increased, and the state may be liable for funds disbursed to the ineligible recipients. DHS identified the risk of obtaining inadequate documentation from a federal program recipient to verify eligibility in their risk assessment. Management indicated in the risk assessment that federal grant funds are monitored to ensure recipients meet eligibility requirements. However, management's mitigating controls did not detect the problems noted.

Recommendation

The Director of Families First should obtain all required certifications. The Director should also monitor the effectiveness of the controls implemented to ensure that the required certifications are obtained and documented during the renewal process and clearly documented in ACCENT. In addition, management should also reassess the controls associated with TANF eligibility to ensure appropriate mitigating controls address the risks.

Management's Comment

We concur. Beginning in April 2012, management updated the template for ACCENT's CLRC (case management running records) guide to ensure that the required certifications relating to these findings are documented. The Department is currently in the process of reviewing CLRC documentation needs again and we will be sure to include this issue. In addition, following last year's audit, we added the certification questions to our supervisor's case reading document to ensure that they take note of whether or not the questions were addressed. We will also take another look at that document ensure that the necessary language is clearly stated. In addition, we will determine what would be necessary to include required yes/no questions regarding these certifications in ACCENT.

The Department is in the process of preparing a memorandum to relevant DHS staff regarding the attestation regarding recipients' state and federal convictions at the renewal of their eligibility. The memorandum will reiterate the importance of the attestations.

Finding Number	12-DHS-07
CFDA Number	93.558
Program Name	Temporary Assistance for Needy Families
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1002TNTANF, G1102TNTANF, G1202TNTANF
Federal Award Year	2010 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A

The department failed to properly verify Families First clients' work activity in accordance with the approved Work Verification Plan

Finding

The Department of Human Services (DHS) administers the Temporary Assistance for Needy Families (TANF) program, which is a federal program under the oversight of the Administration for Children and Families within the United States Department of Health and Human Services. DHS calls the TANF program "Families First." The TANF program is designed to help needy families achieve self-sufficiency which includes providing eligible families' cash benefits. To receive cash benefits, the recipient must participate in a work activity. Examples of work activity participation include

- unsubsidized employment;
- subsidized private sector employment;
- subsidized public sector employment;
- placement to obtain work experience;
- on-the-job training; and
- job search and job readiness assistance.

DHS is responsible for ensuring accurate data obtained from contractors are used to calculate the work participation rates reported to the federal government. In 2008, DHS developed a Work Verification Plan and submitted it to the United States Department of Health and Human Services, which approved it effective October 1, 2008. The plan requires the DHS to

- identify work eligible individuals;
- determine whether work activities may count for work participation rate purposes;
- determine how to count and verify reported hours of work; and
- control internal data transmission and accuracy.

According to the State of Tennessee Work Verification Plan, Section IV, *Internal Controls*, under "Families First Contract Monitoring," page 23,

> The State will monitor the accuracy of attendance hours in the eligibility and case management system [i.e., ACCENT], through the use of random sampling, over the course of a federal fiscal year…. The methodology for selecting the sample will entail a quarterly random sample of at least ninety five active clients. One day, unique to each client will be randomly selected. The appropriate work activity contractor will then be contacted and instructed to provide all documentation necessary to support the data found in the eligibility and case management system for that client for that day.

DHS uses five contractors to manage the work activity function: Structured Employment Economic Development Corporation; Workforce Essentials; Maximus; Policy Studies, Inc.; and East Tennessee State University. The contractors enter work activity information into the Automated Client Certification and Eligibility Network of Tennessee (ACCENT) system, the eligibility and case management system at DHS.

To determine if DHS complied with the Work Verification Plan, we tested a sample of 60 TANF cases for which DHS staff verified clients' work activity hours during their quarterly work verification reviews. Based on testwork performed, we found that the Families First Contracts Program Coordinator failed to properly verify Families First clients' work activity hours in accordance with the approved Work Verification Plan for 11 of 60 cases tested (18%). The details are as follows:

- For 5 of the 11 cases (45%), the Families First Contracts Program Coordinator did not request the paper documentation of work activity hours maintained by the work activity contractors so that staff could verify the hours the contractors recorded in ACCENT. According to the Program Coordinator she did not request this documentation when she discovered other deficiencies such as out of date Individualized Career Plans and reported work hours below 30 hours. According to the Families First Contracts Program Coordinator, the former Director of Community Services Programs instructed the case reviewers to not request the work activity documentation from the contactors if they noted a different problem during the case review because "it was a waste of time." While we understand management's concerns regarding the reliability of the data, management still has the responsibility to comply with federal requirements to verify the work activity. We saw no evidence that DHS staff verified the work hours as required.

- For 6 of the 11 cases (55%), the Families First Contracts Program Coordinator did not request paper documentation of work activity hours because the former Director of Community Services instructed case reviewers to not request paper documentation from work activity contractors if the department had not provided the contractors with the results of its prior-year case reviews. The Program Coordinator agreed that the case reviewers should wait to request paper documentation until the department provided the work activity contactors with the prior year's feedback, but she also stated the department needs to revise its work verification plan review procedures. The lack of feedback to the work activity contractors does not remove the department's responsibility to perform case reviews in accordance with the Work Verification Plan.

By failing to verify recipients' work activity, DHS staff cannot ensure they are accurately calculating work activity rates, which places them at risk for federal penalties. Failure to meet the federal requirement subjects the department to penalties imposed by the federal government. According the Title 45, *Code of Federal Regulations*, Part 261, Part 65(c), DHS may be subject to a penalty if they "[fail] to maintain adequate internal controls to ensure a consistent measurement of work participation rates." In addition, management has not identified the risks of noncompliance with the Work Verification Plan information or developed mitigating controls for this risk in its annual risk assessment.

Recommendation

The Commissioner should ensure that case reviewers follow the established procedures associated with Work Verification Plan reviews to ensure compliance with the Plan. The Commissioner should also ensure case reviewers compare work activity recorded in ACCENT with supporting documentation provided by the work activity contractors and take appropriate action to investigate differences. If the Commissioner feels the Work Verification Plan requires revision, she should revise it and submit it to the United States Department of Health and Human Services for approval. Finally, the Commissioner should ensure that these risks and mitigating controls are included in the department's annual risk assessment.

Management's Comment

We concur. Of the 60 cases that were audited, 11 were found to have errors because the Families First Contracts Program Coordinator did not request the paper documentation of work activity hours maintained by the work activity contractor so that staff could verify the hours recorded in ACCENT.

Since the audit, case reviewers have reviewed the error cases and have secured the paper documentation on 5 of them – these are now correct cases. In addition, they started requesting all work activity hours verification effective within the 3rd quarter of 2012 and understand that they are to do this even if there are other case errors found or if the contractors have not been provided with the prior quarter's feedback.

Finding Number	12-DHS-04
CFDA Number	93.568
Program Name	Low-Income Home Energy Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G09B1TNLIEA, G10B1TNLIEA, G11B1TNLIEA, G12B1TNLIEA
Federal Award Year	2009 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility- Significant Deficiency and Noncompliance Procurement and Suspension and Debarment-Significant Deficiency and Noncompliance
Questioned Costs	$150

As noted in the prior audit, the Department of Human Services did not ensure the subrecipients followed the federal laws and regulations and the department's State Plan for the Low-Income Home Energy Assistance Program, resulting in federal questioned costs totaling $150 and increased risk of fraud, waste, abuse, and additional noncompliance

Finding

As noted in the prior audit, as the pass-through agency, the Department of Human Services (DHS) did not ensure the subrecipients followed the State Plan for the Low-Income Home Energy Assistance Program (LIHEAP) as required by federal regulations, resulting in federal questioned costs totaling $150.

In the prior audit for fiscal year ended June 30, 2011, we had noted that subrecipients

- did not document supervisory review of potential client applications;
- did not calculate client priority points correctly;
- did not maintain support for clients' and household members' social security numbers, which was required by Fiscal Year (FY) 2011 LIHEAP Program Overview;
- did not ensure client files contained adequate documentation of Crisis Assistance payments;
- did not provide Crisis Assistance within 48 hours in accordance with the federal law;
- paid energy providers incorrect amounts; and
- did not have internal controls to ensure energy providers were not suspended or debarred.

During the current audit of fiscal year ended June 30, 2012, we found that subrecipients maintained support for social security numbers, ensured adequate documentation of payments, provided Crisis Assistance within 48 hours, and paid energy providers correctly; However, we found evidence during the current audit that subrecipients

- did not document supervisory review of potential client applications;

- did not calculate client priority points correctly; and
- did not have internal controls to ensure energy providers were not suspended or debarred.

These uncorrected issues are repeated in this finding for the fiscal year ended June 30, 2012.

In response to the prior audit finding, management stated in its six-month follow-up notice that

- LIHEAP Memo # 12-01 on 2/27/2012 was issued to sub-grantees (Rounding Percentages in Determining the Energy Burden) as a reminder as to how to calculate Priority Points. Additionally, the priority points chart is now included in the Standard Operation Procedures portion of the Operational Plan for FY13.
- LIHEAP Memo 12-03 was issued on June 1, 2012 to remind the sub-grantees of required timeliness in issuing crisis assistance. Additionally, this information has been included in the revised LIHEAP Operational Plan for FY12 and continued in the FY13 Operational Plan.
- LIHEAP Memorandum 12-04 was issued on June 6, 2012 instructing the sub-grantees to include the Debarment and Suspension language in all their lower-tier contracts. Additionally, the LIHEAP Vendor Agreement was updated to include this information.
- Sub-grantees are required to provide to the State with proof that their system has been updated whenever poverty/income guidelines change.

LIHEAP is a federal block grant awarded to states to help low-income people meet the costs of home energy (defined as heating and cooling of residences), increase their energy self-sufficiency, and reduce their vulnerability resulting from energy needs. The target population for this program is low-income households, especially those with the lowest incomes and the highest home energy costs or needs in relation to income, taking into account family size. Additional targets are low-income households with members who are especially vulnerable, including the elderly, persons with disabilities, and young children. For fiscal year ended June 30, 2012, DHS submitted the Federal Application for Funding (State Plan) to the United States Department of Health and Human Services, which authorized funding for DHS.

As the pass-through entity for LIHEAP, DHS is responsible for advising subrecipients and monitoring the subrecipients' activities to ensure that federal awards are used for authorized purposes and in accordance with the State Plan.

DHS contracted with the following 19 subrecipients to administer LIHEAP:

- Blount County Community Action Agency (Blount)
- Bradley-Cleveland Community Services Agency (Bradley)
- Chattanooga Human Services Department (Chattanooga)
- Clarksville-Montgomery County Community Action Agency (Clarksville)
- Delta Human Resource Agency (Delta)

- Douglas-Cherokee Economic Authority (Douglas)
- East Tennessee Human Resource Agency (East Tennessee)
- Highland Rim Economic Corporation (Highland Rim)
- Knoxville-Knox County Community Action Committee (Knoxville)
- Metropolitan Action Commission (Metro)
- Mid-Cumberland Community Action Agency (Mid-Cumberland)
- Mid-East Community Action Agency (Mid-East)
- Northwest Tennessee Economic Development Council (Northwest)
- Shelby County Community Services Agency (Shelby)
- South Central Human Resource Agency (South Central)
- Southeast Tennessee Human Resource Agency (Southeast)
- Southwest Human Resource Agency (Southwest)
- Upper Cumberland Human Resource Agency (Upper Cumberland)
- Upper East Tennessee Human Development Agency (Upper East)

Applicants seeking to obtain LIHEAP assistance under the program must apply at the subrecipient that serves their location. Applicants must complete an application and declare their income; household size, including the age and disability of all members; and energy burden. Based on the information provided on the application, the subrecipient assigns point values, called priority points, which are used to determine the dollar value of the assistance the applicant receives. Points are assigned based on the following areas: income based on family size; energy burden; and vulnerability of household members. Once an applicant is determined eligible for the program, he/she is referred to as a client. Depending on the total number of priority points, clients can qualify for one of three benefit levels. According to the State Plan, a client can qualify for

- $300 (or $150 for clients who live in public housing and only pay utility "overages," the difference between the applicant's actual energy costs and public housing allowance),
- $450 (or $225 for clients who live in public housing and only pay utility overages), or
- $600 (or $300 for clients who live in public housing and only pay utility overages).

A client cannot receive more than $600 in assistance in one year. In addition, a client can apply for Crisis Assistance but must present a notice of loss of utilities and documentation of an uncontrollable circumstance to qualify. According to the DHS State Plan, p. 24, an energy crisis is defined as a "[s]udden, unexpected, uncontrollable loss of financial resources; life threatening conditions or any circumstances that threaten the stability of the household if energy assistance is not provided." Benefit amounts paid under Crisis Assistance are the same as regular assistance described above. The subrecipient pays the client's energy providers directly.

To determine DHS's and the subrecipients' compliance with the LIHEAP requirements, we reviewed a sample of 60 client files from six subrecipients and discussed the eligibility and payment processes with the LIHEAP Coordinator at each subrecipient. Based on our review, we found that the subrecipients

- did not document supervisory review of potential client applications;
- did not calculate client energy burden consistently;
- did not calculate client priority points correctly; and
- did not have internal controls in place to ensure energy providers were not suspended or debarred in accordance with the State Plan and federal regulations.

<u>Supervisory Review of Applications Not Documented</u>

Based on our review of client files, we found that the LIHEAP Coordinator at one subrecipient (Chattanooga) did not ensure that the supervisory review of client applications was documented for 10 of 60 client files (17%) reviewed. Supervisors review client applications to ensure staff properly determined client eligibility and benefit level. Although the supervisors' review was not documented, we determined that the clients were eligible for the program.

We also reviewed management's risk assessment and found that DHS management did not specifically identify and assess the risk of the errors noted above in its risk assessment.

<u>Client Energy Burden Not Calculated Consistently</u>

Based on discussions with the DHS Director of Community Services Programs and review of client files, we noted that the Director did not ensure LIHEAP Coordinators were consistent when calculating the energy burden to determine the clients' benefit level. Based on discussion with subrecipient staff, we determined that each subrecipient used different methods for calculating the clients' energy burden, which determines how many priority points the client should receive. The LIHEAP director at Mid-Cumberland included the clients' past-due energy amount to annualize the energy burden. The Metro Action Commission and Shelby County LIHEAP Directors used only the clients' current usage amount to determine the energy burden. The Northwest and Chattanooga Directors used the current-month amount on the clients' energy bill for regular assistance and included the past-due amount for Crisis Assistance. The Upper East LIHEAP Director used the clients' highest monthly bill, when a billing history is presented. Each of the methods required the LIHEAP Director to multiply the amounts by 12 to annualize the energy burden. Based on discussion with the Director of Community Services Programs, we determined that the she did not provide guidance on determining client energy burden to ensure subrecipients determine client eligibility and benefit levels consistently across the state. The lack of guidance could cause DHS and subrecipients to award benefits inconsistently and perhaps unfairly.

<u>Client Priority Points Not Calculated Correctly</u>

Based on our testwork, we noted that the LIHEAP Coordinators at three subrecipients (Chattanooga, Mid-Cumberland, and Northwest) did not calculate 6 of 60 clients' priority points (10%) correctly. We recalculated the priority points for each client to determine whether subrecipients were awarding clients' LIHEAP benefits in accordance with the federal guidelines. Based on our recalculations at one subrecipient (Chattanooga), we found that the recalculated priority points for a client indicated that the client should have received a lower benefit. Because the subrecipient incorrectly calculated benefits and ultimately overpaid the energy provider, we are reporting federal questioned costs of $150. At the two remaining subrecipients (Mid-Cumberland and Northwest), we found that the subrecipients calculated and paid appropriate benefits for the remaining clients.

Not calculating priority points correctly increases the risk that clients may receive more benefits than they are entitled to receive while other eligible individuals are turned away because funds are not available. Management did not identify and assess the risk of the errors noted above in its risk assessment.

<u>DHS and the Subrecipients Did Not Have Suspension and Debarment Controls in Place</u>

Based on our review of 26 energy providers' contracts with the subrecipients and discussion with the DHS Director of Community Services Programs, we found that the Director failed to ensure federal suspension and debarment controls were in place at three subrecipients (Metro, Northwest, and Shelby). There were nine energy providers paid at the three subrecipients representing 30 of 60 files (50%) reviewed. According to Title 2, *Code of Federal Regulations*, Section 180.300, when the subrecipients enter into a contract with an energy provider, they must ensure the provider is not suspended or debarred by "(a) Checking the EPLS [Excluded Party List System]; or (b) Collecting a certification from that person; or (c) Adding a clause or condition to that covered transaction with that person."

In addition, according to a memorandum entitled "Certification Regarding Debarment, Suspension and Other Responsibility Matters," in the LIHEAP State Plan, DHS management agreed, by submitting the State Plan, that they would include a clause in the contract titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion-Lower Tier Covered Transaction," when dealing with subrecipients' energy providers. The clause should have included language that the energy providers certified that they were not debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in transactions by any federal department or agency. If the energy provider did not certify to these statements, the energy provider should have provided an explanation.

The Director of Community Services Programs provided the subrecipients with the required suspension and debarment clause in a memorandum dated June 1, 2012. The Director of Community Services Programs provided the subrecipients with revised vendor agreements containing the required suspension and debarment clause in a memorandum dated June 6, 2012. Specifically, we noted that the subrecipient LIHEAP Directors failed to check the EPLS and did not include the required suspension and debarment clause in the provider contracts. We reviewed the EPLS and determined that the nine energy provider contracts with the subrecipients we reviewed were not suspended or debarred by the federal government and were eligible to receive federal LIHEAP funds.

Not having suspension and debarment controls in place increases the risk that subrecipients improperly pay suspended or debarred energy providers on behalf of LIHEAP clients. The department addressed in its risk assessment the risk of payments to energy providers (vendors) who are suspended or debarred. However, neither DHS nor the subrecipients had controls in place to mitigate the risk.

Our testwork included a review of 60 client files representing $24,000 of LIHEAP benefits from a total population of $62,579,383. Based on the results of our original sample testwork, we questioned costs totaling $150. The Office of Management and Budget (OMB) Circular A-133 requires us to report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program. We believe likely questioned costs could exceed $10,000.

Recommendation

As the pass-through entity, the Department of Human Services is responsible for administering LIHEAP. To perform its duties in accordance with federal regulations, the department must communicate all program requirements to all parties involved.

Because the Commissioner and department management must rely on subrecipients to carry out this program, and because there is potential for noncompliance, fraud, waste, and abuse in the program, it is imperative that management continue to identify and mitigate these risks by carefully monitoring the work performed by subrecipients. The Director of Community Services Programs should ensure that subrecipients

- document their supervisory review of client applications;
- calculate the client energy burden consistently;
- calculate priority points correctly;
- document their verification of energy provider suspension or debarment status and that the energy provider contracts contain the required suspension or debarment clause; and
- document the risk and mitigating controls in the annual risk assessment.

Management's Comment

Supervisory Review of Applications Not Documented

We concur. LIHEAP application for benefits was updated with the beginning of FY13. Reviewer signature line was removed as this created an illusion that it is mandatory for all the applications to be reviewed by a supervisor. Agency staff, who determines eligibility for the programs, is trained in processes. Supervisor review is intended to provide periodic internal monitoring and the sub grantees will continue to review a sample of applications. We concur that any supervisory review of client applications should be documented. We will remind the contract agencies about the need to properly document all review of LIHEAP client applications. Additionally, this topic will be added to the FY 2014 LIHEAP Operational Plan – Standard Operation Procedures. It is important to note that none of the clients were ineligible for benefits.

Client Energy Burden Not Calculated Consistently

We concur. Currently, draft memorandum to address the treatment of past due amounts is open for agency comment period. Once the comment period closes, all the details are finalizes, and the memorandum is issued. The State will have consistent policy on treatment of past due amounts and all sub-grantees will be using the same method. LIHEAP FY2014 Operational Plan will contain this information as well.

Client Priority Points Not Calculated Correctly

We concur. The rounding of energy burden percentages has been discussed in details with the sub-grantees, and the DHS Community Services Unit has since issued LIHEAP Memo 12-01 on February 27, 2012, to address this inconsistency. Currently, all LIHEAP sub-grantees are using the same method, which is rounding the energy burden percentage to the nearest whole number.

Additionally, the DHS Community Service Unit has issues two numbered Memorandums. LIHEAP Memo 13-02, dated September 27, 2012, specifically addresses the definition of income, calculation of unemployment income, acceptable forms of income verification, and zero income. Additionally, LIHEAP Memo 13-03, dated December 14, 2012, provides further details, specifically on definition of current income, and acceptable forms of income verification. While we have worked hard to address all of the risks associated with the calculation of priority points, including calculation of income and energy burden, we fully realize that this process is ongoing. The income section within the LIHEAP Operational Plan will be expanded for FY2014 and the DHS Community Service Unit will continue to have discussions on this topic with the sub-grantees. Likewise, other risks associated with calculation of energy burden will be assessed.

DHS and the Subrecipients Did Not Have Suspension and Debarment Controls in Place

We concur. We would like to add that this deficiency has been addressed for the FY 2013. On June 6, 2012, CS Memorandum 12-01 was issued, instructing the sub-grantees to include the Debarment and Suspension language in all of their lower tier contracts. Additionally, the LIHEAP Vendor Agreement for FY2013 was updated to include this language. The requirement to continue having the suspension and debarment controls in place will also be made part of the LIHEAP Operational Plan for FY 2014 and onward. It is important to note that none of the vendors were suspended and debarred by the federal government, and all were eligible to receive LIHEAP funds.

Finding Number	12-DHS-03
CFDA Number	93.575 and 93.596
Program Name	Child Care Development Fund Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1001TNCCDF, G1101TNCCDF, G1201TNCCDF
Federal Award Year	2009 through 2012
Finding Type	Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A

The Department of Human Services could not provide documentation to support Child Care and Development Fund ACF-696 financial reports

Finding

The United States Department of Health and Human Services (DHHS) created the Child Care and Development Fund (CCDF) to provide federal funds to states to increase the availability, affordability, and quality of childcare services. As a recipient of CCDF federal funds, the Department of Human Services (DHS) is required to submit financial reports to the federal grantor regarding the status of the program. DHHS Administration for Children and Families (ACF) requires states to use the ACF-696, *Child Care and Development Fund Financial Report*, to report actual federal and state expenditures for the CCDF program. DHS uses Edison, the state's accounting system, to prepare the report, which is due 30 days after the end of each quarter.

We examined the ACF-696 reports for the quarters ended September 30, 2011, and December 31, 2011, that were submitted during state fiscal year 2012 and found that the DHS Fiscal Director responsible for preparing the reports was unable to provide documentation to support expenditure amounts on one of two reports (50%).

According to Title 2, Code of Federal Regulations, Part 215, Section 21(b), "Recipients' financial management systems shall provide for the following. (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Sec. 215.52." We requested the documentation to support the amounts that DHS staff reported to determine if the amounts reported were accurate. The Fiscal Director provided worksheets he prepared using Edison queries as documentation. We found that 15 of 18 expenditure amounts (83%) reported in the September 30, 2011, report did not agree with Edison and the supporting worksheets. Based on discussion with the Fiscal Director, he believed that the electronic worksheets supporting the amounts reported were inadvertently overwritten.

DHS also uses the ACF-696 report to prepare the next quarter's SF-425, Federal Financial Report. Since the DHS Fiscal Director could not provide support for the ACF-696 report for the quarter ended September 30, 2011, we were not able to determine the accuracy of the SF-425 report for the quarter ended December 31, 2011.

DHS is required to ensure that all federal reporting requirements, including maintaining supporting documentation, are met for each of its federal programs. Failure to meet all of the requirements increases the likelihood that federal grantors will not have complete and accurate information to make financial and programmatic decisions.

Management identified the risk of inaccurate and unsupported financial reports in its annual risk assessment. However, the mitigating controls that management identified were ineffective.

Recommendation

The Commissioner of the Department of Human Services should ensure that staff accurately prepare the ACF-696 Financial Report based on the accounting records. Management should also reassess all risks associated with federal reporting and develop and implement appropriate mitigating controls to address the risks.

Management's Response

We concur. The ACF 696 report was revised to agree with supporting documentation. The Department's Fiscal Unit has revised the Federal Financial Report preparation process to include supporting documentation and central repository of the reports.

Finding Number	12-DHS-12
CFDA Number	93.575 and 93.596
Program Name	Child Care and Development Fund Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G1001TNCCDF, G1101TNCCDF, G1201TNCCDF, G0901TNCCDF, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF
Federal Award Year	2008 through 2012
Finding Type	Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	$124,378 (93.575)

The Department of Human Services paid unlicensed Child and Adult Care providers resulting in $124,378 of federal questioned costs

Finding

The Department of Human Services (DHS) provides assistance to child and adult care providers that provide Child Care Development Fund (CCDF) program services, which includes providing child and adult care subsidies to low-income families to afford quality child care while parents are at work or attend training or educational programs.

We found DHS did not comply with the Title 45, *Code of Federal Regulations*, §98.11(b), which states, "In retaining overall responsibility for the administration of the program, the Lead Agency shall… (4) Ensure that the program complies with the approved Plan and all Federal requirements." Specifically, we found that the Program Coordinator did not ensure the providers made timely and sufficient application for license renewal prior to payment. In addition, Program Evaluators failed to conduct evaluation visits two months prior to the expiration of the license.

Providers Failed to Make Timely and Sufficient Application for Renewal

According to the Section 4-5-320(b), *Tennessee Code Annotated*, "When a licensee has made timely and sufficient application for the renewal of a license or a new license with reference to any activity of a continuing nature, the existing license does not expire until the application has been finally determined by the agency, and, in case the application is denied or the terms of the new license limited, until the last day for seeking review of the agency order or a later date fixed by order of the reviewing court." In order to meet the requirements of the regulations above, providers must submit the application and, if necessary, the application fee prior to the expiration of the existing license.

The Licensing Program Coordinator did not ensure that 8 out of the 44 child and adult care providers tested (18%) submitted a timely and sufficient application for the renewal of a license prior to receiving child care assistance payments. We found that the licensed child and adult care providers submitted license renewals between 7 and 58 days late; however, DHS continued to make payments to providers despite the providers' lack of proper reapplication for licensure, essentially making payments to unlicensed providers, violating the *Tennessee Code Annotated* regulation noted above. These eight providers were improperly paid $124,378 after their license had expired and before a new license had been issued. The amount of these payments is considered questioned costs.

Evaluation Visits Not Conducted Timely

Chapter 3, Part F, Item 1(i) of the *Child and Adult Care Licensing Policy and Procedures Manual,* which states, "Evaluation visits must be conducted at least two (2) months prior to the expiration of the license." Based on the testwork performed, we found that for 36 of 42 child and adult care providers tested (86%) the DHS Program Evaluators did not perform evaluation visits at least two months prior to the expiration of the providers' licenses as required. We found the Program Evaluators performed these visits between 3 and 144 days late. According to the Program Coordinator, many Program Evaluators were not aware of the policy.

The purpose of the visits is to provide effective enforcement of licensing requirements and ensure proper procedures regarding health and safety requirements are followed by providers. Areas of the program monitored during evaluation visits include Ownership, Organization, & Administration; Supervision; Staff; Equipment; Program; Health and Safety; Food; Physical Facilities; Transportation; Extended Care; Care of Children With Special Needs; and Sick Child Care. By failing to comply with the requirements stated above, DHS did not properly ensure that the providers adequately met program health and safety requirements.

Recommendation

The Deputy Commissioner in coordination with the Licensing Program Coordinator should ensure the department does not pay unlicensed providers. To ensure providers meet all federal requirements, DHS Program Evaluators should implement procedures to ensure that the proper number of evaluation visits are conducted during the year and the evaluation visits are performed timely.

Management's Comment

We concur. The July 2012 <u>Child and Adult Care Licensing Policy and Procedures Manual</u> now requires the application and fee to be submitted at the beginning of the renewal process.

Finding Number	12-DCS-02
CFDA Number	93.658 and 93.659
Program Name	Foster Care – Title IV-E Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	1001TN1402, 1101TN1402, 1101TN1404, 1101TN1404, 1001TN1401, 1101TN1401, 1201TN1401, 1001TN1403, 1101TN1403, 1101TN1405, 1101TN1405, 1001TN1407, 1101TN1407, 1201TN1407
Federal Award Year	2010 through 2012
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A

Security over computer systems needs improvement

Finding

The agency did not always follow control procedures for its computer systems. We observed significant conditions where the department did not follow established information security policy during the audit of the Foster Care and Adoption Assistance programs. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the agency's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the agency with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

DCS management should follow the department's and the Department of Finance and Administration's information system security policies.

Management's Comment

We concur.

Pursuant to *Tennessee Code Annotated* Section 10-7-504(i), we have supplied a more detailed response to this finding. It is important to note we are not aware, and were not made aware, of any instances where the Agency's systems were exploited.

Finding Number	12-DCS-01
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	1001TN1407, 1101TN1407, 1201TN1407
Federal Award Year	2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$2,893

The department has not ensured adoption assistance maintenance payments beyond individuals' 18th birthday are qualified to receive federal Title IV-E funding, resulting in questioned federal costs of $2,893

Finding

The department has improperly provided Title IV-E funded adoption assistance maintenance payments on behalf of individuals beyond their 18th birthday. These payments resulted in federal questioned costs of $2,893.

We examined a nonstatistical sample of 60 adopted individuals for whom the department paid federally funded adoption assistance during the year ended June 30, 2012, and reviewed the related files. For 2 of 60 files sampled (3.3%), we found that Title IV-E funding continued for individuals who had reached their 18th birthday although the individuals did not have a mental or physical disability warranting continuation of the adoption assistance. The payments continued despite the files of both individuals containing documents indicating the individuals would no longer be Title IV-E eligible upon their 18th birthday.

Title 42, *United States Code*, 673(a)(4), states:

> **(A). . .** a payment may not be made pursuant to this section to parents or relative guardians with respect to a child—
> **(i)** who has attained—
> **(I)** 18 years of age . . . ; or
> **(II)** 21 years of age, if the State determines that the child has a mental or physical handicap which warrants the continuation of assistance; . . .

Caseworkers are responsible for knowing which individuals assigned to them are turning 18 and obtaining information from the adoptive parents to aid in the determination of continued Title IV-E funding. The information is entered on each individual's profile in the Tennessee Family and Child Tracking System (TFACTS), a statewide automated child welfare information system used by the department to collect and manage the information necessary to facilitate the delivery of child welfare support services, including adoption assistance case management.

TFACTS should then determine if adoption assistance can continue and, if so, how the assistance will be funded starting on the individual's 18th birthday.

We were able to determine that the information was correctly entered into TFACTS in both situations; however, TFACTS incorrectly continued to classify the individuals as Title IV-E eligible, resulting in payments being improperly charged to the federal program.

The federal share of Title IV-E Adoption Assistance paid on behalf of the individuals selected for the sample was $333,861. The federal questioned costs of the errors noted in this finding are $2,893. The total federal share of all adoption assistance maintenance payments was over $34 million. We believe likely questioned costs exceed $10,000 for the condition noted in this finding.

Recommendation

The Director of Applications in the OIS should take the necessary steps to ensure that TFACTS is set up to determine proper funding for individuals turning 18 based on the information recorded in TFACTS. When the process is completed, the department should use TFACTS to look at all individuals 18 or older receiving Title IV-E funding and ensure that other improperly funded payments are refunded to the United States Department of Health and Human Services.

Management's Comment

We concur.

In April 2012, the staff associated with Division of Foster Care and Adoption Services and the Child Welfare Benefits Division initiated the validation of funding source of for all 1407 cases that met our criteria of being over age 18 and continuing to receive a subsidy. We completed this review in early July, and we have now worked with our Office of Information (OIS) to correct all cases that were identified to have the incorrect funding source.

Additionally, we have, prior to this audit report, established a process to review all of subsidy cases with children that turn age 18, 19, or 20 to ensure that eligibility and funding source are correct in TFACTS. All identified errors are then reported to the OIS division for corrections.

We have already logged the TFACTS defect and are currently engaged in the process to correct the system issue. Until the TFACTS issue is resolve, we will continue with our current validation process. Finally, all question costs have been processed for refund.

Finding Number	12-DFA-03
CFDA Number	93.767
Program Name	Children's Health Insurance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-1105TN5021, 05-1205TN5021
Federal Award Year	2011 and 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles Eligibility
Questioned Costs	$535

CoverKids did not terminate an enrollee timely and paid another enrollee's dental benefits at the incorrect rate, resulting in total questioned costs of $700

Finding

In the prior audit, we reported that CoverKids did not terminate some enrollees' benefits timely. The same type of problem reported in the prior audit existed during the year ended June 30, 2012, as well. The prior audit also noted that CoverKids did not implement or perform post-eligibility audits as described in the state plan. During the current audit period, CoverKids implemented and began performing the required post-eligibility audits.

CoverKids provides free comprehensive health coverage to qualifying uninsured children age 18 and younger. CoverKids also includes coverage for unborn children under the HealthyTNBabies program. HealthyTNBabies also offers coverage for pregnancies and complications of pregnancies to qualified pregnant women. In our audit, we found that CoverKids did not terminate coverage when an enrollee became ineligible for benefits and paid the incorrect dental premium rate for another enrollee.

Enrollee's Benefits Not Terminated Properly

CoverKids contracted with Maximus for the delivery of a broad range of eligibility determinations, application processing, and beneficiary services. All of the enrollee information that Maximus receives from enrollees is maintained within the CoverKids' eligibility system, Children's Health Administrative System (CHAS). All enrollees approved for CoverKids must have their coverage redetermined after 12 months of coverage since individual circumstances change over time. When an enrollee's circumstances change and the enrollee is no longer eligible, Maximus will mail the enrollee a letter stating that he or she is no longer eligible for CoverKids and will then terminate the enrollee's benefits in CHAS.

We tested a sample of 60 enrollees who received CoverKids benefits between July 1, 2011, and June 30, 2012, to determine if the enrollees were eligible for benefits and to determine if their eligibility had been properly redetermined. We found that CoverKids did not properly terminate one enrollee's benefits (1.7%) when the child became eligible for Medicaid benefits.

According to the state plan, "children who appear to be eligible for Medicaid (even if not enrolled in Medicaid)" are not eligible to receive CoverKids benefits. In addition, Section 2.5 of the *CoverKids Eligibility Manual* states, "In the event the AC [Administrative Contractor] identifies a CoverKids member is enrolled in Medicaid or other insurance plan, CoverKids enrollment will terminate on the last day of the month in which the dual coverage is identified."

The enrollee whose CoverKids benefits were not terminated in a timely manner was added to the program on April 29, 2011. On September 1, 2011, the enrollee submitted an application to the Department of Human Services (DHS) for Medicaid coverage. The DHS eligibility counselor processed the Medicaid application, and TennCare approved the enrollee's enrollment on September 9, 2011. TennCare retroactively dated the enrollee's coverage to begin on September 1, 2011. CoverKids should have terminated the enrollee's coverage on September 30, 2011; however, CoverKids did not terminate the enrollee's CoverKids coverage until January 17, 2012.

CoverKids and Medicaid will usually have some overlap since DHS has 45 days to process a Medicaid application. Once DHS processes the Medicaid application using its eligibility system, Automated Client Certification and Eligibility Network for Tennessee (ACCENT), DHS retroactively dates the coverage to start on the date that the enrollee submitted the application. Maximus performs a weekly system verification of CoverKids enrollees listed in CHAS against Medicaid and TennCare Standard enrollees to ensure that no enrollee continues to receive overlapping coverage. However, if the enrollee's social security number, name, or birth date does not match exactly between systems, Maximus' system verification may not discover the overlapping coverage.

Based on our inspection of ACCENT and interChange (TennCare's Medicaid Management Information System), the enrollee's date of birth did not match the date of birth in CHAS. Based on the auditor's discussion with the Director of CoverKids, Maximus had the incorrect date of birth listed in CHAS until February 2012. The incorrect date of birth in CHAS prevented Maximus from discovering the overlapping coverage sooner.

The total questioned costs for the enrollee's benefits not properly terminating in the sample during the audit period for the fiscal year ended June 30, 2012, were $688. Federal questioned costs totaled $526, and the remaining $162 was state matching funds.

Dental Premium Payments Incorrect

CoverKids' dental benefits plan administrator (DBA) provides dental plan coverage to enrollees, excluding individuals enrolled in HealthyTNBabies. The DBA uses the Windward system to record all aspects of administering dental plans, maintaining enrollee information, and processing dental claims. Whether a child or CoverKids pays a monthly premium for dental services and the amount of the premium depend on the enrollee's circumstances. Enrollees are placed into one of three categories: Group One, Group Two, or the American Indian and Alaskan Native Child group. Premium amounts are based on the enrollee's group and other demographics.

In addition to the enrollee's benefits that were not properly terminated in the sample noted above, we discovered that CoverKids paid a higher monthly premium than required by the contract for another CoverKids enrollee (1.7%). The DBA contract defines enrollees in families with an income below 150% of the Federal Poverty Level (FPL) as Group Two children that are subject to reduced copayments. Based on the auditor's inspection of this enrollee's FPL listed in CHAS, the enrollee's FPL was 149.3%, placing the enrollee in Group Two with a monthly premium rate of $24. However, the DBA billed CoverKids for a monthly premium rate of $27 from February 2012 through June 2012, which was the rate for a Group One enrollee. The NGL contract defines a Group One child as a child in a family with income between 150% and 250% of the FPL.

Based on our discussions with the Director of CoverKids, the DBA received updated information from the enrollee in February 2012 switching the enrollee from Group One to Group Two. The DBA's finance department uses a separate reporting system from its Windward system, and the reporting system pulled the incorrect eligibility data, resulting in the DBA erroneously billing for the higher amount. The DBA has since implemented a monthly process to ensure that finance reports are generated accurately and according to the most recent enrollment data on file.

The total questioned costs for this enrollee's dental benefits being paid at the incorrect rate in the sample during the audit period for fiscal year ended June 30, 2012, were $12. Federal questioned costs totaled $9 with the remaining $3 being state matching funds.

Office of Management and Budget Circular A-133 requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs exceed $10,000 for these conditions.

In the Division of Health Care Finance and Administration's (HCFA) risk assessment for the fiscal year ended June 30, 2012, HCFA identified the risk that an enrollee's eligibility may not be discontinued when the period of eligibility has expired. HCFA stated the following internal controls were in place to prevent or mitigate this risk: "PSI [Maximus] conducts a daily and weekly TennCare data match. Supervisory staff have access to TennCare eligibility data to perform inquiry into eligibility." HCFA did not specifically address the risk that CoverKids may pay the incorrect amount due to incorrect billing by the dental benefits plan administrator. CoverKids currently performs post-eligibility audits which review the eligibility procedure to ensure the Eligibility Contractor followed the proper eligibility rules. These post-eligibility audits do not currently test for incorrect billings by enrollee.

Recommendation

A new eligibility system is being planned for HCFA to include CoverKids and TennCare. The Deputy Commissioner and the Director of CoverKids should ensure that there are controls in place when the new system is implemented to detect overlapping coverages. While still using the existing system, the Deputy Commissioner and the Director of CoverKids should ensure that a procedure is in place to detect overlapping coverages between CoverKids and Medicaid. In addition, the Director of CoverKids should ensure that dental premiums are paid based on the contracted amount. The Director of CoverKids should also ensure that the monthly process to ensure finance reports are generated accurately using the most current enrollment data is working properly. Furthermore, the Director of CoverKids should consider expanding the post-eligibility audits to include testing for incorrect billings by enrollee. In addition, the Deputy Commissioner should ensure that risks associated with this finding are adequately identified and assessed in HCFA's risk assessment.

Management's Comment

Enrollee's Benefits Not Terminated Properly

We concur with the finding that CoverKids did not have the correct date of birth on a member which would prohibit the Eligibility Contractor from conducting a match during the data match with the Bureau of TennCare. The Eligibility Contractor updated the member's date of birth on February 15, 2012, when the parent contacted the Eligibility Contractor.

Effective November 2012, CoverKids implemented a monthly Suspect Report with the Bureau of TennCare to identify children only by social security number that were not identified in the daily or weekly data match due to non matches by the name, date of birth and social security number. Also, effective January 1, 2014, CoverKids and the Bureau of TennCare will be utilizing one eligibility system that would address some of the issues inherent with operating two separate systems for the two programs and keeping them in sync.

The Eligibility Contractor also adjusted the TennCare Match process to better identify these exceptions and this was implemented effective October 29, 2012 (the very next 270/271 file). During the TennCare match import process, the Eligibility Contractor creates a list of potential members that did not fully match on name, date of birth and social security number. After the 271 is posted, the Eligibility Contractor will review the list to see if any of the partial matches were really an actual match. The Eligibility Contractor will still rely on TennCare's algorithms to perform matching.

To further ensure that the retrospective 90-day cancellation is processed through the Eligibility Contractor's Information Technology (IT) Division, CoverKids has had the following three processes put in place by the Eligibility Contractor:

1. On October 9, 2012, the Eligibility Contractor implemented a monthly query to proactively identify potential accounts that fall into the 90-day manual cancellation process. It identifies these accounts to ensure an 834 eligibility file is generated as a backup plan to the Customer Service Representatives submitting the account to the IT staff person.

2. On October 10, 2012, the Eligibility Contractor implemented a process to remind Customer Service Representatives to submit the request to the IT staff person.

3. On October 31, 2012, the Eligibility Contractor implemented a process to automate the eligibility system to handle a larger volume of these situations without Customer Service Representative intervention.

Effective January 1, 2014, there will be a master enrollee database to handle eligibility for TennCare Medicaid and CoverKids CHIP programs. There will be a joint seamless application for Medicaid and CHIP applicant/beneficiary's to complete to apply for medical coverage. This joint eligibility database/engine will eliminate the need for the additional back-end processes to address demographic discrepancies the programs occasionally experience between the two current systems.

Dental Premium Payments Incorrect

We concur with the finding that the CoverKids dental contractor DentaQuest incorrectly billed CoverKids the wrong premium rate on a member. At the request of CoverKids, the Dental Contractor implemented a Quality Assurance and reconciliation process effective November 19, 2012, to ensure that these types of errors do not occur moving forward. The DentaQuest Finance Department will ensure their system is in sync with their Eligibility Windward system.

CoverKids will expand the 2013 post-eligibility audit to ensure DentaQuest is billing the program the correct monthly premium amount, by enrollee.

CoverKids has updated the HCFA risk assessment for 2013 to adequately identify and assess the risks associated with this finding.

Finding Number	12-DFA-02
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-1205TN5MAP, 05-1105TN5MAP
Federal Award Year	2011 and 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$959

TennCare did not appropriately terminate two ineligible enrollees, which resulted in total questioned costs of $1,448

Finding

TennCare did not appropriately terminate two ineligible enrollees' benefits during the audit period, which resulted in questioned costs.

The Department of Human Services (DHS) is responsible for eligibility determinations for TennCare Medicaid and TennCare Standard. TennCare's Medicaid management information system, interChange, receives eligibility data files daily from the DHS eligibility system, ACCENT. All enrollees for Medicaid and TennCare Standard must update their information with DHS and have their TennCare coverage redetermined on an annual basis since individual circumstances change over time. When an enrollee's circumstances change and the enrollee is no longer eligible, the DHS eligibility counselor terminates the enrollee's benefits in ACCENT, or if the enrollee is eligible in another category, the eligibility counselor opens the new category and closes the previous category in ACCENT. DHS then notifies TennCare so that the appropriate changes can be made in TennCare's interChange system.

For each enrollee, TennCare pays a monthly fee (called a capitation payment) to a managed care organization to provide medical services. We tested a sample of 60 TennCare enrollees who had a capitation payment during the year ended June 30, 2012, to determine if the enrollees were eligible for TennCare coverage and to determine if the enrollees' eligibility had been redetermined during the audit period. Of the 60 enrollees tested for eligibility and redetermination, TennCare did not properly terminate eligibility benefits for one enrollee (1.7%).

When DHS terminates an enrollee's TennCare coverage, ACCENT automatically triggers interChange to mail the enrollee a Request for Information (RFI) packet in order to gather updated information to determine if the enrollee is still eligible to receive TennCare coverage or if the enrollee is eligible for a different category of TennCare coverage. If DHS determines that the enrollee is no longer eligible for benefits based upon the updated information or if the enrollee fails to respond to the RFI, TennCare mails the enrollee a 20-day advance Termination Notice. If the enrollee submits the requested information to DHS prior to the termination date specified (the 20^{th} day from the date of the Termination Notice) and DHS determines that the enrollee meets all eligibility requirements, the enrollee will continue to be eligible for the applicable Medicaid category. According to the *Rules of the Tennessee Department of Finance and Administration, Bureau of TennCare*, Chapter 1200-13-13-.02(6)(b)(6), if DHS makes a determination that the enrollee is eligible for a different category, the previous Medicaid category should be terminated and the enrollee opened in the appropriate category.

If the enrollee files an appeal to dispute the termination of his or her benefits within 40 days of the Termination Notice, the enrollee will continue to receive TennCare benefits while the appeal is being resolved. If DHS determines that the enrollee is no longer eligible for benefits based upon the updated information or if the enrollee fails to respond to the Termination Notice, TennCare is to close the enrollee's benefits.

DHS closed one enrollee's benefits on May 31, 2009, when he became no longer eligible; however, TennCare did not close the enrollee's benefits until January 30, 2012. The Director of Eligibility Services stated that the ACCENT closure did not process, which failed to trigger the closure in interChange. In October 2011, TennCare discovered that this particular eligibility category the individual was enrolled in was not being closed in the monthly reconciliation process between ACCENT and interChange. To correct this issue, TennCare drafted a Systems Change Request (SCR) and as of November 30, 2012, the systems change was in the testing phase. Pending a permanent fix, in November 2011, TennCare ran a temporary file fix triggering this enrollee's November 2011 RFI and closure on January 30, 2012.

The total questioned costs for the enrollee's benefits not properly terminating in the sample during the audit period for the fiscal year ended June 30, 2012, were $648. Federal questioned costs in the sample totaled $429. The remaining $219 was state matching funds. The total capitation amounts we tested in our sample were $158,401 from a population of $5,026,373,096.

In addition to the enrollee's benefits that were not properly terminated in the sample noted above, we discovered that another Medicaid enrollee's benefits were not properly terminated while performing an audit of CoverKids enrollees for the Children's Health Insurance Program. We tested a sample of 60 CoverKids enrollees' benefits. During the audit period, a CoverKids enrollee's benefits closed, and he became eligible to receive Medicaid. When the enrollee became no longer eligible to receive Medicaid benefits, DHS closed the enrollee's benefits in ACCENT on January 13, 2012; however, the enrollee's benefits remained open in interChange. TennCare mailed the enrollee an RFI on January 26, 2012. According to the Director of Eligibility Services, DHS incorrectly pended the case on February 28, 2012, causing the case to remain open in interChange. The auditor notified the Director of Eligibility Services on October 8, 2012, of the case's open status. TennCare mailed the enrollee a termination notice on October 17, 2012, which gave him a November 6, 2012, termination date. On November 5, 2012, the enrollee filed a new application, re-pending his eligibility in interChange. On November 15, 2012, DHS denied the enrollee's application since his household's income exceeded the income limit, and TennCare set the enrollee's benefits to close on December 6, 2012.

The total questioned costs under the Medicaid program for this enrollee's benefits not properly terminating during the audit period were $300. Federal questioned costs totaled $199, and the remaining $101 was state matching funds. Also, for the subsequent period beginning July 1, 2012, we also noted $500 in questioned costs under the Medicaid program for this enrollee's benefits not properly terminating. Federal questioned costs totaled $331, and the remaining $169 was state matching funds. Additional questioned costs for this enrollee of $688 were noted in a separate finding for the CoverKids program (12-DFA-03).

Office of Management and Budget Circular A-133 requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs exceed $10,000 for these conditions.

When eligibility is not properly terminated, improper payments occur.

Recommendation

The Deputy Commissioner and the Director of Member Services should ensure that the systems change discussed above in the finding is implemented to help ensure that all TennCare enrollees with terminating benefits are properly terminated. Also, the Director of Member Services and the Director of Eligibility Services should ensure that a control is implemented to periodically review cases that are in pending status for an extended period of time.

Management's Comment

We concur with the finding. As noted in the above, one TennCare enrollee's eligibility was closed in the DHS ACCENT system, but the closure was not able to be processed by the TennCare interChange system to begin the redetermination process. There is a monthly reconciliation process which serves as a failsafe in these scenarios. The reconciliation process compares cases that are open in the DHS ACCENT system to those in interChange. If that process identifies a case that is open in ACCENT and closed in interChange, the interChange eligibility will be reopened. The converse is also true. If the reconciliation file identifies a recipient whose eligibility is closed in ACCENT but open in interChange, the process will end date the interChange eligibility, which will begin the redetermination process for that recipient.

In October 2011 a problem was discovered in the reconciliation process. The matching process was not looking at a narrow data set for certain categories, including the category of the recipient in question. A Systems Change Request was written to correct the problem, was immediately prioritized in the Eligibility Workgroup, and that correction was moved into production on January 25, 2013. The case at hand was corrected earlier through a system file fix that was run November 2011, thereby sending the enrollee a November 2011 redetermination packet.

The second case identified in the Audit finding was not closed timely because there was old data from DHS on the Ridmatch file which indicated that the case should remain open pending review of a TennCare Standard application. This particular data element remains in ACCENT unless removed manually by a DHS caseworker. TennCare now has a report that identifies anyone who received redetermination papers but has been pending in the system for more than 90 days. This recipient was listed on that report and was, therefore, in queue to be researched and addressed manually. Once identified, a termination notice was mailed on October 17, 2012, which populated a termination date of November 6, 2012.

Both of the findings identified in this audit will also be addressed as TennCare designs a new eligibility system in response to Medicaid changes mandated by the Federal government. The new system will provide applicants and enrollees an online, real time, rules-based determination that will be handled through automated rather than manual processing. The Centers for Medicare and Medicaid Services have also promulgated regulations which will change the redetermination process and make application and redetermination processes quicker and more reliant on interface data rather than paper documents supplied by the applicant. This new system will be available on January 1, 2014, and will replace the ACCENT system for any Medicaid applications received on or after that date.

Finding Number	12-DFA-04
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-1205TN5MAP, 05-1105TN5MAP
Federal Award Year	2011 and 2012
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	N/A

The Division of Health Care Finance and Administration did not update its cost allocation plan and properly allocate some indirect costs, resulting in higher costs to the Medical Assistance Program and fewer costs to other federal programs

Finding

The Division of Health Care Finance and Administration (HCFA) is required by the *Code of Federal Regulations* to have an approved cost allocation plan (CAP) to use in identifying, measuring, and allocating all of its costs incurred in support of all programs administered by the division. HCFA did not have an updated CAP and improperly allocated indirect salary costs for the HCFA programs to the Medical Assistance Program.

On March 31, 2011, the Commissioner of the Department of Finance and Administration reorganized the department by consolidating five health care programs into the Division of Health Care Finance and Administration. HCFA now includes TennCare (which administers the Medical Assistance Program); Health Insurance Exchange Planning; the Office of eHealth Initiatives; the Division of State Health Planning; and the CoverTennessee Health Care Programs, which include CoverKids, CoverTN, AccessTN, and CoverRx. The Bureau of TennCare's management assumed administrative and fiscal responsibilities over the HCFA programs in October 2011. Although HCFA administered multiple programs during the year ended June 30, 2012, HCFA did not update its CAP to reflect the changed organizational structure.

According to the *Code of Federal Regulations*, Title 45, Part 95, Section 507(a)(1), the CAP must, "Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State Agency." Furthermore, Title 45, Part 95, Section 507(b)(2), requires the CAP to contain "A listing of all Federal and all non-Federal programs performed, administered, or serviced by these organizational units." According to the *Code of Federal Regulations*, Title 45, Part 95, Section 509(a), "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA [Division of Cost Allocation] if any of the following events occur: (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures."

In addition, subsequent to the organizational restructuring, HCFA did not allocate salary costs incurred for those employees who administered multiple HCFA programs to the various programs. Instead, HCFA accounting staff charged these indirect costs to the Medical Assistance Program. Other costs, such as, rent, postage, and supplies were appropriately charged directly to the applicable program.

Since HCFA did not amend and subsequently implement the CAP, it did not allocate the applicable salaries to the applicable programs, which resulted in HCFA reporting higher costs to the Medical Assistance Program and fewer costs for all other programs administered by HCFA. We could not determine the amount of questioned costs incorrectly charged to the Medical Assistance Program since there was not an approved allocation method for allocating HCFA salary costs. Office of Management and Budget Circular A-133 requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe that questioned costs are likely to exceed $10,000 based on the salary amounts of the employees who administered HCFA programs.

HCFA staff did not specifically identify the risk of not implementing an updated cost allocation plan in their 2012 annual risk assessment. HCFA accounting staff have stated that they are already aware that the CAP needs to be amended and have started determining methods for allocating indirect costs.

Recommendation

The Deputy Commissioner should ensure that the CAP meets the requirements stated in the *Code of Federal Regulations*. Also, the Deputy Commissioner should ensure that the CAP is implemented so that all indirect costs are appropriately allocated. In addition, HCFA's risk assessment should be updated to include the proper preparation and implementation of a cost allocation plan.

Management's Comment

We concur. We are currently in the process of revising our current Cost Allocation Plan (CAP) and allocation methodology. We project that the revised CAP will be ready to be submitted to Division of Cost Allocation of Health and Human Services (HHS) by April 30, 2013. We will await notice of approval with the hope that approval will come before the State books for June 30, 2013, are closed so that allocations for 2013 fiscal year can be recorded. Under the new Division of Health Care Finance and Administration reporting structure, there are five federal grants under our administration. The Medicaid grant constitutes 96.7 percent of our federal dollars. The other four federal grants are vastly immaterial in relation to this grant. As a result, the administrative costs to be allocated to the other programs are immaterial to both the Medicaid program and to the other grant programs. However, we understand the importance of performing these allocations and will do so once an approved plan is in place. Our administrative structure is changing rapidly due to changes at the Federal level. As a result, we will likely submit an amended CAP to HHS for the 2014 fiscal year. We will additionally make necessary updates to our 2013 Risk Assessment pertinent to the CAP preparation and updates.

Finding Number	12-MHSAS-01
CFDA Number	93.959
Program Name	Block Grants for Prevention and Treatment of Substance Abuse
Federal Agency	Department of Health and Human Services
State Agency	Department of Mental Health and Substance Abuse Services
Grant/Contract No.	3B08TI010050-11S1, 3B08TI010050-12S1
Federal Award Year	2011 and 2012
Finding Type	Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Questioned Costs	$19,789

The Tennessee Department of Mental Health and Substance Abuse Services exceeded the federal funding limits for treatment services in penal or correctional institutions

Finding

The Tennessee Department of Mental Health and Substance Abuse Services exceeded the federal funding limits for treatment services in penal or correctional institutions. According to the state's accounting system, Edison, the department charged the Substance Abuse Prevention and Treatment (SAPT) Block Grant $19,789 for these services.

The *United States Code*, Title 42, Section 300x-31(a)(3), states:

> . . . for the purpose of providing treatment services in penal or correctional institutions of the State, the State will not expend more than an amount equal to the amount expended for such purpose by the State . . . for fiscal year 1991. . . .

According to the Program Development Manager, who serves as SAPT Block Grant Coordinator, the state did not expend funds in 1991 for the purpose of providing treatment programs to correctional and penal institutions. The Assistant Commissioner of Substance Abuse Services stated the cause of the improper charges stemmed from a belief that these services could be billed to the SAPT Block Grant when in fact they have to be paid for with state funding. The Division of Substance Abuse Services communicated to Fiscal Services that these services could be paid for with the SAPT Block Grant. As a result, Fiscal Services set up the Edison program code to improperly charge SAPT instead of the state for the services. The Assistant Commissioner and Program Development Manager identified the error during a fiscal year budget review and directed Fiscal Services to reallocate the costs to state funding. Fiscal Services reallocated $524,760 of $544,549 in erroneously charged payments. A total of $19,789 was not reallocated.

The department has an indirect cost rate proposal approved by the United States Department of Health and Human Services, which allows the department to bill the federal government an additional percentage up to a maximum of 5 percent of direct costs to offset the department's indirect costs of administering the program. As costs are recorded, Edison calculates the indirect costs and includes the indirect costs along with the direct costs in amounts billed to the federal government.

Consequently, when costs must be reallocated, both the direct and the indirect portion of the costs must be reallocated. According to the accounting manager, when direct costs are reallocated, Edison should automatically reallocate the related indirect costs. The accounting manager stated that for a certain period during the fiscal year, this was not working and the indirect costs were not automatically reallocated by Edison. Indirect costs that were not reallocated account for most of the $19,789 difference. The remainder was attributable to an invoice received after the completion of the reallocations.

Not complying with earmarking requirements increases the risk that the program's resources are allocated to areas that do not help meet the grantor's objectives of the program.

Recommendation

When setting up program codes in Edison for expenditures for treatment services in penal or correctional institutions, the Director of Fiscal Services should ensure that the program code does not classify the expenditures as SAPT Block Grant expenditures.

Management's Comment

We concur. The Division of Substance Abuse Services communicated to Fiscal Services that these services could be paid from the SAPT Block Grant. As a result, the Edison program code was setup in Edison with the Purchase Order improperly charging these expenditures to the SAPT Block Grant instead of State dollars. Fiscal Services management will implement internal controls sufficient to ensure that program codes set up in Edison do not classify expenditures for treatment to incarcerated individuals as SAPT Block Grant expenditures. The remaining amount of $19,789 that was not reallocated at the beginning of the audit was reallocated by journal entry on November 20, 2012 while the auditors were still conducting their fieldwork. These charges were reallocated from SAPT Block Grant dollars to State dollars.

Finding Number	12-MHSAS-02
CFDA Number	93.959
Program Name	Block Grants for Prevention and Treatment of Substance Abuse
Federal Agency	Department of Health and Human Services
State Agency	Department of Mental Health and Substance Abuse Services
Grant/Contract No.	2B08TI010050-10, 3B08TI010050-10S1, 2B08TI010050-11, 3B08TI010050-11S1, 3B08TI010050-12, and 3B08TI010050-12S1
Federal Award Year	2010 through 2012
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Cash Management
Questioned Costs	N/A

The Tennessee Department of Mental Health and Substance Abuse Services did not establish internal controls sufficient to prevent or detect noncompliance with federal cash management requirements

Finding

The Tennessee Department of Mental Health and Substance Abuse Services did not establish internal controls sufficient to prevent or detect noncompliance with federal cash management requirements. In regard to the timing of federal cash draws, the *Code of Federal Regulations*, Title 31, Part 205, Subpart B, Section 205.33(a), states, in part, ". . . The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. . . ." The *Office of Management and Budget Circular A-133 Compliance Supplement*, Part 3C, states, ". . . program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. . . ."

Our testing of the Department of Mental Health and Substance Abuse Services (MHSAS) revealed two deficiencies in internal control over compliance that have resulted in a reasonable possibility that material noncompliance with federal cash management requirements would not be prevented, or detected and corrected on a timely basis:

- MHSAS fiscal staff did not follow existing guidance from the Department of Finance and Administration regarding federal cash draw procedures, resulting in unnecessary delays of cash draws; and
- MHSAS draw procedures did not account for varying expenditure payment terms, resulting in draws prior to the state's actual cash outlay.

MHSAS fiscal staff did not follow existing guidance from the Department of Finance and Administration regarding federal cash draw procedures, resulting in unnecessary delays of cash draws

Each day the Department of Finance and Administration uses Edison to produce "temporary bills" which indicate expenditures eligible for federal reimbursement. When the department receives notice that its temporary bills are ready, the department's fiscal staff approve or delete the temporary bills. To assist in this effort, the departmental staff run a query in Edison that has details of the transactions supporting the temporary bills. When bills are approved they become the basis for federal drawdowns. When bills are deleted, they will reappear in the following day's temporary bills. The *Edison Grants Accounting Manual*, Part 5, page 5, states

> . . . Normally, all bills should be "approved" and drawn each day. . . .

The accountant responsible for the approval or deletion of the temporary bills stated that he runs the queries weekly. Although the *Edison Grants Accounting Manual* is available in the Edison system, the accountant stated that he was not aware of it. Our analysis of transactional data revealed that MHSAS on average drew funds 30.6 days after the state's cash outlay. If the transactions had been approved daily, there would have been many more draws during the fiscal year, and the time between cash outlay and federal reimbursement would have been shorter. The accountant stated he was instructed by management to run the query, approve billings, and make draws on a weekly basis. The Director of Fiscal Services confirmed this statement.

Draw procedures did not account for expenditure payment terms, resulting in draws prior to the state's actual cash outlay

We tested 20 federal cash draws of grant funds made during the year ended June 30, 2012, for compliance with the cash management requirement cited above. These draws were composed of 4,943 transactions totaling $37,343,211.18 and included direct costs and the proportionate share of indirect costs. The draws were made under the department's federal fiscal year 2010, 2011, and 2012 grant awards. For 10 of 20 draws tested (50%), management requested reimbursement for 234 transactions totaling $1,775,908.33 from one to 22 days prior to the state's actual cash outlay. These early reimbursements occurred because Edison delays payment so the state can benefit from holding the funds longer while federal drawdown requests are made when the related temporary bill is approved. For example, based on our analysis, a transaction with a payment term of "Net 30" might be paid (cash outlay) 25 to 30 days after the expenditure was recognized in the state's accounting records. Under such circumstances, if management requests reimbursement without consideration of the delayed payment terms, federal reimbursements are received sooner than permitted by federal regulations. Our analysis of the 234 transactions noted above indicated that 232 of the transactions had "Net 30" invoice payment terms and 2 of the transactions had "Net 10" invoice payment terms. Based on our discussions with the MHSAS Fiscal Director and other fiscal staff, management was unaware that Edison does not delay the generation of the related temporary bills even though the payment terms are delaying the payment.

Draws prior to the state's actual cash outlay could result in the state incurring an interest obligation to the federal government. Unnecessary delays in draws after the state's actual cash outlay result in a loss of interest to the state.

Recommendation

The Commissioner should ensure fiscal staff develop controls to ensure that the timing and amount of funds transfers account for the disbursements' payment terms. To assist in this effort, staff should consult with the Department of Finance and Administration to determine the best way to account for varying payment terms in the draw process. As a part of this process, the department should also seek advice from the Department of Finance and Administration to ensure the frequency of draws minimizes the time frame between the state's actual cash outlay and the draw.

Management's Comments

Department of Mental Health and Substance Abuse Services

We concur. TDMHSAS fiscal staff did not follow existing guidance from the Department of Finance and Administration to draw down federal funds at least weekly. There were transactions that were tested where we actually drew down federal funds prior to the state's actual cash outlay. These early reimbursements from the federal government occurred due to the payment term of "Net 30" being used to process the invoices. We receive notification from F&A (Edison Division) each day stating that we may now run Edison report TN_GR03 to get the billing details for what is available to bill and draw. It was our understanding that once we receive this notification, the federal funds are available for us to draw down. We have recently been told by F&A that the GR_03 is generated based on the Accounting Date rather than the actual payment date. A transaction with a payment term of "Net 30" might be paid twenty-five (25) to thirty (30) days after the expenditure had been recognized in Edison. There were other instances mentioned where we did not make draws for several weeks. Even though the staff member, who makes the draws, and his Accounting Manager, had been instructed to make draws at least weekly, we did not have adequate internal controls in place to ensure this procedure was followed. Management will establish written procedures for fiscal staff to follow to ensure that federal funds are drawn down and transferred as close as administratively feasible to the state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The Director of Fiscal Services or the Assistant Director of Fiscal Services will monitor these procedures on a weekly basis to ensure they are followed. Management will also ensure that fiscal services staff are familiar with the cash management requirements as stated in the Edison Grants Accounting Manual and OMB's Circular A-133 Compliance Supplement, Part 3C. Fiscal Services Management will develop internal controls to ensure that the timing and amount of funds transferred are in agreement with the disbursement/payment terms. We have consulted with Robert K. Lawson, Department of Finance and Administration, Edison Division, and he has informed us that the driver for Federal draws is the Accounting Date. From an accounting perspective, he stated that the expenditure is recognized as of the Accounting Date used on the transaction, regardless of when the voucher is actually paid. We will consult further with the Department of Finance and Administration to help us determine the best way to account for varying terms in the federal draw process. In collaboration with the Department of Finance and Administration, we will set up these procedures to ensure the frequency of draws to minimize the time between the state's actual cash outlay and the draw.

We are currently running a query to cross-reference against the GR_03 to ensure that the transactions have cleared the bank prior to being drawn. Transactions that have not cleared the bank will be deleted from the temporary bill. These deleted transactions will then reappear on the next day's GR_03 report to be worked.

Department of Finance and Administration

We concur. F&A is willing to assist and advise the department in understanding the draw process and related cash management issues.

Finding Number	12-MHSAS-03
CFDA Number	93.959
Program Name	Block Grants for Prevention and Treatment of Substance Abuse
Federal Agency	Department of Health and Human Services
State Agency	Department of Mental Health and Substance Abuse Services
Grant/Contract No.	2B08TI010050-10, 3B08TI010050-10S1, 2B08TI010050-11, 3B08TI010050-11S1, 3B08TI010050-12, and 3B08TI010050-12S1
Federal Award Year	2010 through 2012
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A

The Department of Mental Health and Substance Abuse Services did not develop internal controls sufficient to ensure compliance with subrecipient monitoring requirements

Finding

The Block Grants for Prevention and Treatment of Substance Abuse (SAPT) program is administered by the Department of Mental Health and Substance Abuse Services (department) through contracts (subawards) with over 100 subrecipients. Office of Management and Budget Circular (OMB) A-133, Section 105, defines a *pass-through entity* as a "…non-Federal entity that provides a federal award to a subrecipient to carry out a Federal program." In regard to a pass-through entity's responsibilities, the OMB Circular A-133 Compliance Supplement, Part 3.M., states that the pass-through entity is responsible for

> . . . (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 . . . and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Based on our review of the department's design of internal controls to ensure compliance with subrecipient monitoring requirements and also based on our inquiries with fiscal staff, we determined the internal controls to be ineffective. Our review and inquiries indicated the following:

1. the department did not develop written policies or procedures related to pass-through entity's subrecipient monitoring responsibilities noted above;
2. informal procedures were insufficient to determine which subrecipients met the audit requirements of OMB Circular A-133 and, therefore, ensure that the

required audits were completed within nine months of the end of the subrecipients’ audit periods;

3. informal procedures were insufficient to obtain subrecipients’ corrective action plans and issue management decisions on audit findings within six months after receipt of the subrecipients’ audit reports; and
4. informal procedures were insufficient to ensure that subrecipients take timely and appropriate corrective actions on all audit findings.

We performed procedures to identify subrecipients that might have been subject to the audit requirements of OMB Circular A-133. However, considering the department’s related internal controls, we were unable to identify all such subrecipients. Our procedures indicated that the department did not obtain audit reports that were issued for two subrecipients that met OMB A-133 audit requirements. After we notified management that these audit reports were issued, management obtained copies of the audit reports. Based on a review of one of these subrecipients’ schedule of expenditures of federal awards (SEFA) in the audit report, we noted that SAPT grant funds provided by the department were not included in the subrecipient’s SEFA. The department reimbursed this subrecipient for over $900,000 in SAPT funds during the year ended June 30, 2011. Accordingly, it is possible that the audit of the subrecipient was not conducted in accordance with OMB A-133. We also reviewed another subrecipient’s audit report that management did obtain from the subrecipient and noted 3 findings related to the department’s SAPT program. Based on discussion with management, no corrective action plans addressing these findings were obtained from the subrecipient and no management decisions were issued by the department.

The absence of adequate internal controls resulted in noncompliance with subrecipient monitoring requirements.

Recommendation

The Commissioner should see that written policies and procedures establishing internal controls sufficient to comply with pass-through entity’s subrecipient monitoring responsibilities are designed and implemented. In addition, such controls should be monitored to ensure they continue to operate as intended. In regard to the noncompliance noted above, the Commissioner should determine if the subrecipient’s audit was conducted in accordance with OMB A-133 and issue management decisions for the three audit findings included in the subrecipient’s audit report.

Management’s Comment

We concur. The TDMHSAS is in the process of writing and implementing policies and procedures sufficient to comply with pass-thru-entity’s subrecipient monitoring responsibilities. These controls will be monitored to ensure that they operate as designed. A written report will be furnished to the Assistant Commissioner of Administration on a quarterly basis detailing the results of the testing of these controls. A review of subrecipients was conducted and noncompliant agencies were notified of their noncompliance by e-mail. All subrecipients except one have sent in their audit reports and are now in compliance with OMB Circular A-133's requirement. A tracking log has been established that tracks subrecipients that expend $500,000 or more in Federal awards during the subrecipient's fiscal year and are required to have an independent audit conducted. The log will be reviewed to ensure that (1) audit reports are submitted within nine months of the end of the subrecipient's audit period, (2) a management decision has been issued by the TDMHSAS within six months after receipt of the subrecipient's audit report, and (3) the subrecipient takes timely and appropriate corrective action on all audit findings. In addition, the Commissioner or his designee will review the specific subrecipient audit noted in the finding and determine if it was conducted in accordance with OMB A-133 and will issue management decisions for the three audit findings included in the audit report. If a subrecipient who meets the audit requirements fails to produce an independent audit report, the TDMHSAS will take appropriate actions including sanctions. The Department will immediately begin reviewing the SEFA reports in the independent audit report to ensure that grant funds provided through the Department of Mental Health and Substance Abuse Services are included in the SEFA and that audits were conducted in accordance with OMB A-133.

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, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Unclustered Programs				
Department of Agriculture				
Direct Programs				
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001		$ 2,432,855.33
Agriculture	Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 834,867.63	
Tennessee Wildlife Resources Agency	Plant and Animal Disease, Pest Control, and Animal Care	10.025	3,818.48	
University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care	10.025	103,037.86	941,723.97
Agriculture	Conservation Reserve Program	10.069		9,934.92
Agriculture	Market Protection and Promotion	10.163		24,598.97
Middle Tennessee State University	Farmers' Market Promotion Program	10.168		13,169.90
Agriculture	Specialty Crop Block Grant Program - Farm Bill	10.170		237,602.84
Agriculture	Organic Certification Cost Share Programs	10.171		1,818.66
University of Tennessee	Cooperative Forestry Research	10.202		746,445.60
University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		4,300,911.55
Tennessee State University	1890 Institution Capacity Building Grants	10.216		412,815.91
Tennessee Technological University	Higher Education Challenge Grants	10.217	$ 5,616.18	
University of Tennessee	Higher Education Challenge Grants	10.217	17,956.81	23,572.99
University of Tennessee	Integrated Programs	10.303		143,332.40
Agriculture	Homeland Security_Agricultural	10.304		74,399.78
University of Tennessee	International Science and Education Grants	10.305		59,660.43
University of Tennessee	Beginning Farmer and Rancher Development Program	10.311		26,490.28
Tennessee State University	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443		522,245.19
Tennessee State University	Cooperative Extension Service	10.500	$ 4,058,008.98	
University of Tennessee	Cooperative Extension Service	10.500	10,592,386.41	14,650,395.39
Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		118,626,240.87
Human Services	Child and Adult Care Food Program	10.558		55,007,445.29
Agriculture	State Administrative Expenses for Child Nutrition	10.560	$ 171,969.61	
Education	State Administrative Expenses for Child Nutrition	10.560	2,265,080.31	
Human Services	State Administrative Expenses for Child Nutrition	10.560	1,347,898.38	3,784,948.30
Health	Commodity Supplemental Food Program	10.565	$ 855,692.28	
Health	Commodity Supplemental Food Program (Noncash Award)	10.565	3,589,146.00	4,444,838.28
Health	WIC Farmers' Market Nutrition Program (FMNP)	10.572		84,025.07
Health	Senior Farmers Market Nutrition Program	10.576		544,349.07
Health	ARRA-WIC Grants To States (WGS)	10.578		209,995.54
Education	Child Nutrition Discretionary Grants Limited Availability	10.579		370,848.16
Education	Fresh Fruit and Vegetable Program	10.582		3,198,572.60

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Agriculture	Forestry Research	10.652		353,890.83
Agriculture	Cooperative Forestry Assistance	10.664		1,465,168.95
Agriculture	Urban and Community Forestry Program	10.675		282,138.75
Agriculture	Forest Legacy Program	10.676		7,176,683.08
Agriculture	Forest Stewardship Program	10.678		321,693.00
Agriculture	Forest Health Protection	10.680	$ 366,085.46	
University of Tennessee	Forest Health Protection	10.680	18,665.68	384,751.14
University of Tennessee	Wood Education and Resource Center (WERC)	10.681		16,841.84
Chattanooga State Community College	Rural Business Enterprise Grants	10.769	$ 12,124.67	
Economic and Community Development	Rural Business Enterprise Grants	10.769	60,067.12	
Middle Tennessee State University	Rural Business Enterprise Grants	10.769	(12.54)	
University of Tennessee	Rural Business Enterprise Grants	10.769	49,956.85	122,136.10
Economic and Community Development	ARRA-Rural Business Opportunity Grants	10.773	$ 28,250.00	
University of Tennessee	Rural Business Opportunity Grants	10.773	172,804.10	201,054.10
Dyersburg State Community College	Distance Learning and Telemedicine Loans and Grants	10.855	$ 343,319.06	
East Tennessee State University	Distance Learning and Telemedicine Loans and Grants	10.855	33,625.00	
Jackson State Community College	Distance Learning and Telemedicine Loans and Grants	10.855	477,372.87	
Walters State Community College	Distance Learning and Telemedicine Loans and Grants	10.855	156,664.38	1,010,981.31
Tennessee State University	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856		(1,866.70)
University of Tennessee	Public Television Station Digital Transition Grant Program	10.861		375,266.86
Agriculture	Agricultural Statistics Reports	10.950		44,554.31
Tennessee State University	Technical Agricultural Assistance	10.960		13,154.77
Tennessee State University	Cochran Fellowship Program-International Training-Foreign Participant	10.962		1,644.26
Agriculture	Cooperative Forestry Position to Implement Forestry Provisions of Farm Bill	10 / 68-4741-1-121		26,764.31
Tennessee State University	Strengthening the 1890 Community to Assist with the Implementation of the Marriott/USDA Agreement	10 / ASCR1890-0001		226.55
Tennessee State University	TSU Small Farm Expo and Small Farmer Recognition Program	10 / TN-2010-OS-0003		2,400.00
University of Tennessee	USDA APHIS Cankers Walnut Logs-Taylor	10 / 11-8130-0074-CA		27,890.87
University of Tennessee	USDA APHIS Cold Treatment Blk Soil-FRREC	10 / 11-8130-0086-CA		12,083.86
University of Tennessee	USDA APHIS Emerald Ash Borer 2012-Long	10 / 12-8247-0778-CA		48,418.81
University of Tennessee	USDA APHIS Emerald Ash Borer 2011-Long	10 / 11-8247-0778-CA		71,806.58
University of Tennessee	USDA ARS Honey Bee Health-Skinner	10 / 58-1275-8-391 AMD 5		12,723.09
University of Tennessee	USDA FS 07CA11330134109 Stand-Mercker	10 / 07CA11330134109		5,543.69
University of Tennessee	USDA FS 09DG11420004078 Fuel Plts-Taylor	10 / 09DG11420004078		125.12
University of Tennessee	USDA FS Silviculture 2012-Clatterbuck	10 / SILVICULTURE 2012		128,408.00
University of Tennessee	USDA FS Sudden Oak Death-Long	10 / 11-DG-1108350-002		18,437.17

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	USDA RD Entrepreneurial Sys/ETN-Wilcox	10 / EAST TN		24,454.37
University of Tennessee	USDA RD Entrepreneurial Sys/West-Wilcox	10 / WEST		8,882.72
Subtotal Direct Programs				$ 223,049,495.03
Passed Through University of Florida				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1000019158	$ 7,828.11	
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1000061654	1,334.44	$ 9,162.55
University of Tennessee	Homeland Security_Agricultural	10.304 / UFIFAS00069564 AMD 3		27,422.13
Passed Through University of Georgia				
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / RC293502/3843598		492.38
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309105/4690218	$ 8,922.45	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309105/4786546	3,182.05	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD3091054785846	2,035.76	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD3091094786236	17,799.74	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RE675116/489346	508.49	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RE675155/4690398	391.94	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RE675161/4786096	10,618.59	43,459.02
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / RC293365/4693958		28,988.30
Passed Through Cornell University				
University of Tennessee	Integrated Programs	10.303 / 61384-9312		42,995.20
Passed Through North Carolina State University				
University of Tennessee	Integrated Programs	10.303 / 2007-1634-11	$ 30,051.29	
University of Tennessee	Integrated Programs	10.303 / 2007-1634-32	22,303.74	52,355.03
Passed Through Auburn University				
University of Tennessee	Cooperative Extension Service	10.500 / 10-ACES-374384-UTK		1,471.29
University of Tennessee	Environmental Quality Incentives Program	10.912 / 10-AGR-361124-UTQ		1,112.91
Passed Through Kansas State University				
University of Tennessee	Cooperative Extension Service	10.500 / S09126	$ 161.29	
University of Tennessee	Cooperative Extension Service	10.500 / S09126.01	20,125.08	
University of Tennessee	Cooperative Extension Service	10.500 / S10079	9,675.35	
University of Tennessee	Cooperative Extension Service	10.500 / S11087	36,011.17	
University of Tennessee	Cooperative Extension Service	10.500 / S12077	64,724.27	
University of Tennessee	Cooperative Extension Service	10.500 / S12133	4,317.77	
University of Tennessee	Cooperative Extension Service	10.500 / S12205	9,933.06	144,947.99

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Louisiana State University				
University of Tennessee	Cooperative Extension Service	10.500 / PO/AWARD 52939		3,654.09
Passed Through University of Kentucky				
University of Tennessee	Cooperative Extension Service	10.500 / 3048107511-11-136	$ 13,050.55	
University of Tennessee	Cooperative Extension Service	10.500 / 3048107580-11-228	6,310.45	19,361.00
Passed Through University of Massachusetts				
University of Tennessee	Cooperative Extension Service	10.500 / 1-006323 M 00		5,333.84
Passed Through University of Nebraska				
University of Tennessee	Cooperative Extension Service	10.500 / 25-635-0023-450		15,000.00
Passed Through Volunteer State Community College Foundation				
Volunteer State Community College	Rural Business Enterprise Grants	10.769 / UNKNOWN		15,219.17
Passed Through Georgia Public Broadcasting				
University of Tennessee	Public Television Station Digital Transition Grant Program	10.861 / 8500018250		42,126.51
Passed Through University of Arizona				
University of Tennessee	Scientific Cooperation and Research	10.961 / CYFAR 2010		675.84
Passed Through Texas Agriculture Extension Services				
University of Tennessee	TX Coop Water Res Project-Smith/Clark	10 / NO. 451004		58,125.90
Subtotal Pass-Through Programs				$ 511,903.15
Subtotal Department of Agriculture				$ 223,561,398.18
Department of Commerce				
Direct Programs				
University of Tennessee	Economic Development_ Technical Assistance	11.303		$ 142,277.36
State	ARRA-Broadband Technology Opportunities Program (BTOP)	11.557		5,126.85
University of Tennessee	Manufacturing Extension Partnership	11.611		1,900,662.12
Military	Nextel South Corp	11 / NEXTEL PROJECT 2010		(29,036.22)
Subtotal Department of Commerce				$ 2,019,030.11
Department of Defense				
Direct Programs				
University of Tennessee	Procurement Technical Assistance For Business Firms	12.002		$ 344,734.79
Revenue	Payments to States in Lieu of Real Estate Taxes	12.112		819,184.48

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Environment and Conservation	State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		236,770.86
University of Tennessee	Collaborative Research and Development	12.114		59,515.92
Military	Military Construction, National Guard	12.400		335,699.26
Military	National Guard Military Operations and Maintenance (O&M) Projects	12.401	$ 26,613,566.43	
Military	ARRA-National Guard Military Operations and Maintenance (O&M) Projects	12.401	35,050.85	26,648,617.28
University of Tennessee	Basic Scientific Research	12.431		8,000.00
Education	Troops to Teachers Memorandum of Agreement	12 / UNKNOWN		62,149.13
Tennessee State University	Tennessee Consortium for International Studies (TnCIS)-China Technology Study Abroad	12 / N00164-11-P-0966		24,105.06
University of Tennessee	Army Consumer Affs/Fin Planning 2011	12 / MIPR1E10025421		37,295.40
University of Tennessee	Army Consumer Affs/Fin Planning 2012	12 / ADVANCED ACCOUNT		68,304.64
University of Tennessee	Army Family Advocacy 2011	12 / MIPR1E10040032		7,291.89
University of Tennessee	Army Family Advocacy 2012	12 / ADVANCED ACCOUNT		22,212.70
University of Tennessee	Army Mobilization Deployment 2011	12 / MIPR1E10040875		6,154.76
University of Tennessee	Army Mobilization Deployment 2012	12 / ADVANCED ACCOUNT		22,314.40
University of Tennessee	Army Relocation Office 2011	12 / MIPR1E10040806		31,872.46
University of Tennessee	Army Relocation Office 2012	12 / ADVANCED ACCOUNT		101,383.66
University of Tennessee	Army Soldier Readiness Office 2011	12 / MIPR1E10040943		8,167.47
University of Tennessee	Army Soldier Readiness Office 2012	12 / ADVANCED ACCOUNT		24,147.07
University of Tennessee	Peace Corps-PC-11-8-039 Wood	12 / PC-11-8-039		13,850.98
Subtotal Direct Programs				$ 28,881,772.21
Passed Through Academy of Applied Sciences				
University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering	12.630 / W911NF-10-2-0076		$ 25,458.80
Passed Through Defense Equal Opportunity Management Institute				
Austin Peay State University	Defense Equal Opportunity Climate Survey	12 / FA2521-06-P-0292		2,384.55
Subtotal Pass-Through Programs				$ 27,843.35
Subtotal Department of Defense				$ 28,909,615.56

Department of Housing and Urban Development

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Housing Development Agency	Supportive Housing for Persons with Disabilities	14.181		$ 174,489.00
Tennessee Housing Development Agency	Emergency Solutions Grant Program	14.231		1,614,672.53
University of Tennessee	Supportive Housing Program	14.235		137,220.09
Tennessee Housing Development Agency	Home Investment Partnerships Program	14.239		19,862,737.85
Health	Housing Opportunities for Persons with AIDS	14.241		860,721.30
Tennessee Housing Development Agency	ARRA-Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257		2,970,129.96

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Housing Development Agency	ARRA-Tax Credit Assistance Program (Recovery Act Funded)	14.258		3,555,818.91
Tennessee Human Rights Commission	Fair Housing Assistance Program_ State and Local	14.401		364,490.00
Tennessee State University	Historically Black Colleges and Universities Program	14.520		466,518.45
Middle Tennessee State University	Operation Lead Elimination Action Program	14.903		525,862.29
Environment and Conservation	Lead Hazard Reduction Demonstration Grant Program	14.905		1,006,055.27
Southwest Tennessee Community College	Economic Development Initative Grant - Biotechnology Expansion Project	14 / B-05-SP-TN-0974		51,600.34
Subtotal Direct Programs				$ 31,590,315.99
Passed Through City of Johnson City				
East Tennessee State University	Home Investment Partnerships Program	14.239 / ESGP 6133		$ 9,124.00
Passed Through The Next Door				
University of Tennessee	ARRA-Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257 / CHECK #8035		3,090.00
Passed Through University of Kentucky				
University of Tennessee	Sustainable Communities Regional Planning Grant Program	14.703 / 3048108055-11-349		21,849.15
Passed Through City of Knoxville				
University of Tennessee	City of Knoxville HUD Regional Everett	14 / HUD REGIONAL PLANNIN		129,952.74
Passed Through Knoxville-Knox County Community Action Committee				
University of Tennessee	ARRA-Knoxville-Knox-CAC-HMIS Patterson	14 / KNOX HMIS HPRP EVAL		2,592.16
Subtotal Pass-Through Programs				$ 166,608.05
Subtotal Department of Housing and Urban Development				$ 31,756,924.04
Department of the Interior				
Direct Programs				
Environment and Conservation	Abandoned Mine Land Reclamation (AMLR) Program	15.252		$ 2,378,747.28
Environment and Conservation	Cooperative Endangered Species Conservation Fund	15.615	$ 39,586.65	
Tennessee Wildlife Resources Agency	Cooperative Endangered Species Conservation Fund	15.615	1,467,886.05	1,507,472.70
Tennessee Wildlife Resources Agency	Clean Vessel Act	15.616		301,709.31
Tennessee Wildlife Resources Agency	Enhanced Hunter Education and Safety Program	15.626		1,910,276.69
Agriculture	ARRA-Partners for Fish and Wildlife	15.631		63,001.06

State of Tennessee
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For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Wildlife Resources Agency	Landowner Incentive Program	15.633		342,357.84
Tennessee Wildlife Resources Agency	State Wildlife Grants	15.634		1,085,260.07
Environment and Conservation	Recovery Act Funds - Habitat Enhancement, Restoration and Improvement	15.656		719.55
Tennessee Wildlife Resources Agency	Cooperative Landscape Conservation	15.669		147,506.01
University of Memphis	Earthquake Hazards Reduction Program	15.807		30,643.31
Environment and Conservation	U.S. Geological Survey_ Research and Data Collection	15.808		137,526.20
Finance and Administration	National Spatial Data Infrastructure Cooperative Agreements Program	15.809		42,295.50
Environment and Conservation	National Cooperative Geologic Mapping Program	15.810		(902.07)
University of Tennessee	Cooperative Research Units Program	15.812		19,425.18
Environment and Conservation	Minerals Resources External Research Program	15.816		8,129.51
Environment and Conservation	Historic Preservation Fund Grants-In-Aid	15.904	$ 711,067.69	
Middle Tennessee State University	Historic Preservation Fund Grants-In-Aid	15.904	607,171.17	1,318,238.86
Environment and Conservation	Outdoor Recreation_Acquisition, Development and Planning	15.916		438,763.62
State	American Battlefield Protection	15.926		16,304.88
Tennessee State Museum	Save America's Treasures	15.929		13,074.36
Tennessee Wildlife Resources Agency	Aquatic Nuisance Species	15 / 40181AG013		29,251.00
University of Memphis	CERI Annual Support of USGS Personnel	15 / G09PX01478		59,194.11
University of Tennessee	BIA Silviculture 2012-Clatterbuck	15 / A11PX00473		27,516.00
University of Tennessee	BLM Silviculture 2012-Clatterbuck	15 / 4500028668		13,758.00
University of Tennessee	USF&W 40181AG103 4H Wldlf Judging-Harper	15 / 20181AG103		(715.01)
Subtotal Direct Programs				$ 9,889,553.96
Passed Through Western Kentucky University				
Tennessee State University	Rivers, Trails and Conservation Assistance	15.921 / H5000095041		$ 44,189.01
Subtotal Pass-Through Programs				$ 44,189.01
Subtotal Department of the Interior				$ 9,933,742.97

Department of Justice

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Finance and Administration	Sexual Assault Services Formula Program	16.017		$ 214,112.57
Correction	Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		14,884.10
Commission on Children and Youth	Juvenile Accountability Block Grants	16.523		988,688.55
University of Tennessee	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		105,061.15

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Commission on Children and Youth	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	$ 1,166,074.28	
Mental Health	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	78,326.06	1,244,400.34
Commission on Children and Youth	Tiltel V_Delinquency Prevention Program	16.548		(32,556.64)
Tennessee Bureau of Investigation	State Justice Statistics Program for Statistical Analysis Centers	16.550		99,500.00
Finance and Administration	National Criminal History Improvement Program (NCHIP)	16.554		36,120.13
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		520,630.45
Finance and Administration	Crime Victim Assistance	16.575		7,470,563.21
Treasury	Crime Victim Compensation	16.576		4,991,000.00
University of Tennessee	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		266,845.35
Court System	Drug Court Discretionary Grant Program	16.585		59,724.40
Finance and Administration	Violence Against Women Formula Grants	16.588	$ 2,259,010.58	
Finance and Administration	ARRA-Violence Against Women Formula Grants	16.588	166,465.30	2,425,475.88
Finance and Administration	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		393,685.05
Finance and Administration	Residential Substance Abuse Treatment for State Prisoners	16.593		502,549.32
Southwest Tennessee Community College	Corrections_Technical Assistance/ Clearinghouse	16.603		31,147.01
Correction	State Criminal Alien Assistance Program	16.606		266,499.00
Tennessee Bureau of Investigation	Project Safe Neighborhoods	16.609	$ 139,502.40	
University of Memphis	Project Safe Neighborhoods	16.609	1,597.86	141,100.26
Tennessee Bureau of Investigation	Regional Information Sharing Systems	16.610		5,202,390.00
Tennessee Bureau of Investigation	Public Safety Partnership and Community Policing Grants	16.710	$ 1,507,320.39	
Tennessee Technological University	Public Safety Partnership and Community Policing Grants	16.710	125,042.62	1,632,363.01
Commission on Children and Youth	Enforcing Underage Drinking Laws Program	16.727		399,702.20
Tennessee Bureau of Investigation	DNA Backlog Reduction Program	16.741		1,590,263.76
Finance and Administration	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		563,542.03
Tennessee Bureau of Investigation	Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748		479,527.65
Tennessee Bureau of Investigation	Support for Adam Walsh Act Implementation Grant Program	16.750		15,684.46
University of Memphis	Edward Byrne Memorial Competitive Grant Program	16.751		282,286.95
Middle Tennessee State University	Congressionally Recommended Awards	16.753	$ 292,175.41	
Southwest Tennessee Community College	Congressionally Recommended Awards	16.753	66,762.59	
University of Tennessee	Congressionally Recommended Awards	16.753	368,345.98	727,283.98
Finance and Administration	ARRA-Recovery Act - State Victim Assistance Formula Grant Program	16.801		167,895.47

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	ARRA-Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810		776,862.20
Mental Health	Second Chance Act Prisoner Reentry Initiative	16.812		368,683.71
Tennessee Student Assistance Corporation	John R. Justice Prosecutors and Defenders Incentive Act	16.816		161,881.00
Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	16 / 2011-114		607,951.56
Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	16 / 2012-		173,097.76
Subtotal Direct Programs				$ 32,888,845.87
Passed Through Radford University				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / 2009-DN-BX-K200		$ 7,934.62
Passed Through City of Knoxville				
University of Tennessee	Project Safe Neighborhoods	16.609 / C-10-0218	$ 31,817.11	
University of Tennessee	Project Safe Neighborhoods	16.609 / C-11-0203	8,403.01	40,220.12
University of Tennessee	Anti-Gang Initiative	16.744 / 2007PGBX0069		(403.52)
Passed Through Knoxville Police Department				
University of Tennessee	Project Safe Neighborhoods	16.609 / 2007GPCX0044		16,815.14
Passed Through National 4-H Council				
Tennessee State University	Juvenile Mentoring Program	16.726 / 2010-JU-FX-0016		39,051.29
Passed Through Shelby County Government				
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / PO #006176		12,285.16
Passed Through Franklin County Government				
Motlow State Community College	Second Chance Act Prisoner Reentry Initiative	16.812 / 2011-RV-BX-0004		40,055.74
Passed Through City of Memphis Police Department				
University of Memphis	Safeways - Old Allen Demonstration	16 / 28084		127,279.33
Subtotal Pass-Through Programs				$ 283,237.88
Subtotal Department of Justice				$ 33,172,083.75

Department of Labor

Direct Programs				
Labor and Workforce Development	Labor Force Statistics	17.002		$ 1,290,058.72
Labor and Workforce Development	Compensation and Working Conditions	17.005		93,580.02
Labor and Workforce Development	Unemployment Insurance	17.225	$ 1,274,880,182.26	
Labor and Workforce Development	ARRA-Unemployment Insurance	17.225	562,814.20	1,275,442,996.46

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Labor and Workforce Development	Senior Community Service Employment Program	17.235		1,827,569.40
Labor and Workforce Development	Trade Adjustment Assistance	17.245		14,581,405.65
Labor and Workforce Development	Incentive Grants - WIA Section 503	17.267		669,711.52
Roane State Community College	H-1B Job Training Grants	17.268		39,269.16
Jackson State Community College	Community Based Job Training Grants	17.269	$ 320,267.29	
Northeast State Community College	Community Based Job Training Grants	17.269	513,503.52	833,770.81
Labor and Workforce Development	Work Opportunity Tax Credit Program (WOTC)	17.271		776,415.41
Labor and Workforce Development	Temporary Labor Certification for Foreign Workers	17.273		95,624.25
Labor and Workforce Development	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	$ 145,118.80	
Roane State Community College	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	851,351.60	996,470.40
Labor and Workforce Development	Workforce Investment Act (WIA) National Emergency Grants	17.277	$ 6,432,435.11	
Labor and Workforce Development	ARRA-Workforce Investment Act (WIA) National Emergency Grants	17.277	580,528.56	7,012,963.67
Motlow State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282		235,120.85
Labor and Workforce Development	Occupational Safety and Health_State Program	17.503		3,573,315.28
Labor and Workforce Development	Consultation Agreements	17.504		900,915.18
Labor and Workforce Development	OSHA Data Initiative	17.505		72,586.50
Labor and Workforce Development	Mine Health and Safety Grants	17.600		137,668.78
Subtotal Direct Programs				$ 1,308,579,442.06
Passed Through Knoxville-Knox County Community Action Committee				
University of Tennessee	Community Based Job Training Grants	17.269 / KNOX CAC WIA YOUTH	$ 44,924.08	
University of Tennessee	Community Based Job Training Grants	17.269 / KNOX CAC WIA OUT-OF	55,677.16	$ 100,601.24
Passed Through Southeast Tennessee Development District				
Chattanooga State Community College	Community Based Job Training Grants	17.269 / CB-18208-09-60-A-47		225,602.97
Passed Through Memphis Bioworks Foundation				
Jackson State Community College	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275 / GJ-19864-10-60-A-47	$ 34,783.40	
Southwest Tennessee Community College	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275 / GJ-19864-10-60	515,530.53	550,313.93
Dyersburg State Community College	Green Jobs Innovation Fund Grants	17.279 / GI-19864-10-60-A-47		108,154.08

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Anne Arundel Community College				
Roane State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282 / SGA/DFA PY 10-03		65,228.57
Passed Through Operation Stand Down Nashville, Incorporated				
Tennessee State University	Veterans' Employment Program	17.802 / VW-20702-10-60-5-47		45,358.76
Subtotal Pass-Through Programs				$ 1,095,259.55
Subtotal Department of Labor				$ 1,309,674,701.61
	Department of State			
Passed Through Kirkwood Community College				
Roane State Community College	Academic Exchange Programs - Undergraduate Programs	19.009 / RSC94660-67024		$ 5,056.07
Subtotal Department of State				$ 5,056.07
	Department of Transportation			
Direct Programs				
Transportation	Airport Improvement Program	20.106	$ 14,404,773.56	
Transportation	ARRA-Airport Improvement Program	20.106	89,732.24	$ 14,494,505.80
Tennessee State University	Highway Training and Education	20.215		16,900.70
Safety	National Motor Carrier Safety	20.218		10,357,909.45
Transportation	Metropolitan Transportation Planning	20.505		1,048,642.36
Transportation	Formula Grants for Other Than Urbanized Areas	20.509	$ 16,707,899.08	
Transportation	ARRA-Formula Grants for Other Than Urbanized Areas	20.509	1,286,518.07	17,994,417.15
Transportation	Clean Fuels	20.519		454,456.94
Transportation	Paul S. Sarbanes Transit in the Parks	20.520		310,829.00
Transportation	Alcohol Open Container Requirements	20.607		13,975,377.25
Transportation	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614		129,530.26
Commerce and Insurance	E-911 Grant Program	20.615		1,041,805.35
Tennessee Regulatory Authority	Pipeline Safety Program State Base Grant	20.700		557,488.43
Military	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		328,987.69
University of Tennessee	FHWA-DTFH61-06-D-00026/Task 2-Everett	20 / DTFH61-06-D-00026		32,069.68
University of Tennessee	USDOT DTFH61-11-D-00007 Kohls	20 / DTFH61-11-D-00007		62,423.29
Subtotal Department of Transportation				$ 60,805,343.35
	Department of the Treasury			
Passed Through NeighborWorks America				
Tennessee Housing Development Agency	National Foreclosure Mitigation Counseling (NFMC) Program	21 / PL 112-1095X1350		$ 870,164.20

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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursement/Issues
Subtotal Department of the Treasury				$ 870,164.20
Appalachian Regional Commission				
Direct Programs				
University of Tennessee	Appalachian Regional Development	23.001		$ (1,932.00)
East Tennessee State University	Appalachian Area Development	23.002	$ 204,407.16	
Economic and Community Development	Appalachian Area Development	23.002	79,794.64	
Tennessee Technological University	Appalachian Area Development	23.002	212,707.17	496,908.97
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	$ 82,741.38	
Economic and Community Development	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	139,795.93	222,537.31
Subtotal Direct Programs				$ 717,514.28
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011 / 4-67886-04-435		$ 100.00
Subtotal Pass-Through Programs				$ 100.00
Subtotal Appalachian Regional Commission				$ 717,614.28
Equal Employment Opportunity Commission				
Direct Programs				
Tennessee Human Rights Commission	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	30.002		$ 248,600.00
Subtotal Equal Employment Opportunity Commission				$ 248,600.00
General Services Administration				
Direct Programs				
General Services	Donation of Federal Surplus Personal Property (Noncash Award)	39.003		$ 1,669,108.00
State	Election Reform Payments	39.011		525,628.01
Subtotal General Services Administration				$ 2,194,736.01
Library of Congress				
Direct Programs				
Middle Tennessee State University	Teaching with Primary Sources	42 / GA08C0077		$ 142,130.05
Subtotal Library of Congress				$ 142,130.05

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
National Aeronautics and Space Administration				
Direct Programs				
Tennessee Technological University	Science	43.001	$	74,250.59
Tennessee State University	NASA Science Engineering Mathematics Aerospace Academy (SEMAA)	43 / NAS3-02123-STSU		77,397.99
University of Tennessee	NASA NNX08AT42H Moersch	43 / NNX08AT42H		1,801.75
University of Tennessee	NASA SSC/JSC NNX10TT44P	43 / NNX10TT44P		15,746.25
Subtotal Direct Programs			$	169,196.58
Passed Through Vanderbilt University				
East Tennessee State University	Science	43.001 / 21603-S13	$	8,750.00
Tennessee State University	Tennessee Space Grant College and Fellowship Program	43 / NNX10AM45H		39,571.98
Passed Through United Negro College Fund Special Programs Corporation				
University of Memphis	Computational Design of Organometallic Molecular Switches for Use in Optical Computing	43 / JPFP AWD K RUDDICK		10,000.00
University of Memphis	Development and Optimizing a Sensor for the Water Disinfectant Silver (I) Ion and Studies of the Chemical Kinetics and Mechanics of its Long-term Stability/ Decomposition	43 / JPFP WILLIAMSON		8,500.00
Subtotal Pass-Through Programs			$	66,821.98
Subtotal National Aeronautics and Space Administration			$	236,018.56
National Endowment for the Arts				
Direct Programs				
University of Tennessee	Promotion of the Arts_Grants to Organizations and Individuals	45.024	$	2,633.23
Tennessee Arts Commission	Promotion of the Arts_Partnership Agreements	45.025		819,300.00
Subtotal Direct Programs			$	821,933.23
Passed Through National Arts and Disability Center at UCLA				
Tennessee Arts Commission	Promotion of the Arts_Grants to Organizations and Individuals	45.024 / UNKNOWN	$	3,000.00
Passed Through South Arts				
University of Memphis	Southern Arts Federation Dance Touring Initiative	45 / NEA TOURING		8,000.00
Subtotal Pass-Through Programs			$	11,000.00
Subtotal National Endowment for the Arts			$	832,933.23

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
National Endowment for the Humanities				
Direct Programs				
University of Tennessee	Promotion of the Humanities_ Division of Preservation and Access	45.149		$ 152,532.89
Middle Tennessee State University	Promotion of the Humanities_Public Programs	45.164	$ 860.04	
University of Memphis	Promotion of the Humanities_Public Programs	45.164	(477.11)	382.93
Columbia State Community College	Promotion of the Humanities-We the People	45.168		1,723.23
Subtotal National Endowment for the Humanities				$ 154,639.05
Institute of Museum and Library Services				
Direct Programs				
University of Memphis	Museums for America	45.301		$ 3,011.71
State	Grants to States	45.310		3,463,263.78
Tennessee State University	National Leadership Grants	45.312		64,132.43
University of Memphis	Laura Bush 21st Century Librarian Program	45.313	$ 185,543.22	
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313	423,490.08	609,033.30
Subtotal Institute of Museum and Library Services				$ 4,139,441.22
National Science Foundation				
Direct Programs				
University of Tennessee	Engineering Grants	47.041		$ (916.61)
East Tennessee State University	Mathematical and Physical Sciences	47.049	$ 52,378.54	
Tennessee Technological University	Mathematical and Physical Sciences	47.049	93,532.96	
University of Tennessee	Mathematical and Physical Sciences	47.049	154,377.78	300,289.28
Austin Peay State University	Biological Sciences	47.074	$ 5,110.32	
East Tennessee State University	Biological Sciences	47.074	10,000.00	15,110.32
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075		16,856.04
Austin Peay State University	Education and Human Resources	47.076	$ 91,484.77	
Cleveland State Community College	Education and Human Resources	47.076	56,258.94	
East Tennessee State University	Education and Human Resources	47.076	149,823.59	
Middle Tennessee State University	Education and Human Resources	47.076	902,811.00	
Nashville State Community College	Education and Human Resources	47.076	164,468.33	
Pellissippi State Community College	Education and Human Resources	47.076	34,230.66	
Tennessee State University	Education and Human Resources	47.076	719,129.53	
University of Memphis	Education and Human Resources	47.076	6,635.74	
University of Tennessee	Education and Human Resources	47.076	1,310,388.20	3,435,230.76
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	$ 105,633.04	
Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	955,188.83	
University of Memphis	ARRA-Trans-NSF Recovery Act Research Support	47.082	245,774.52	1,306,596.39

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Direct Programs				$ 5,073,166.18
Passed Through American Physical Society				
Middle Tennessee State University	Mathematical and Physical Sciences	47.049 / PHY-0808790		$ 15,180.92
Passed Through EdLab Group Foundation				
Middle Tennessee State University	Education and Human Resources	47.076 / HRD-0631789		3,603.64
Passed Through Georgia Institute of Technology				
University of Tennessee	Education and Human Resources	47.076 / CK 752212		1,598.50
Passed Through Indian River State College				
Chattanooga State Community College	Education and Human Resources	47.076 / RCNET CSCC 0001		6,289.13
Passed Through Kentucky Community and Technical College System				
Pellissippi State Community College	Education and Human Resources	47.076 / KCT-PS-494		28,612.51
Passed Through Lorain County Community College				
Chattanooga State Community College	Education and Human Resources	47.076 / 0703018	$ 434.80	
Chattanooga State Community College	Education and Human Resources	47.076 / 1104107	6,651.79	7,086.59
Passed Through National Center for Science and Civic Engagement				
Middle Tennessee State University	Education and Human Resources	47.076 / DUE 0717407		660.73
Passed Through University of Oklahoma				
Columbia State Community College	Education and Human Resources	47.076 / 14-2-1203284-94835		1,619.95
Passed Through University of Tulsa				
Jackson State Community College	Education and Human Resources	47.076 / 14-2-1203355-94830		90,880.42
Subtotal Pass-Through Programs				$ 155,532.39
Subtotal National Science Foundation				$ 5,228,698.57

Small Business Administration

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
Roane State Community College	7(j) Technical Assistance	59.007		$ 12,308.08
Middle Tennessee State University	Small Business Development Centers	59.037	$ 1,009,898.19	
Tennessee Board of Regents	Small Business Development Centers	59.037	2,281,592.65	3,291,490.84
University of Tennessee	Federal and State Technology Partnership Program	59.058		59,176.49
Economic and Community Development	State Trade and Export Promotion Pilot Grant Program	59.061		123,873.58
Subtotal Small Business Administration				$ 3,486,848.99

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Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Department of Veterans Affairs

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee State Veterans Homes Board	Veterans State Nursing Home Care	64.015		$ 9,932,547.00
East Tennessee State University	Veterans Home Based Primary Care	64.022		247,589.67
Tennessee Higher Education Commission	All-Volunteer Force Educational Assistance	64.124		264,669.59
Veterans Affairs	State Cemetery Grants	64.203		4,330,701.16
Tennessee Technological University	Educational Assistance Annual Reporting Fees	64 / Annual Reporting Fee		1,033.61
University of Memphis	Support of Veteran's Service Office	64 / 11908142		4,487.00
Subtotal Department of Veterans Affairs				$ 14,781,028.03

Environmental Protection Agency

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Environment and Conservation	Air Pollution Control Program Support	66.001		$ 917,744.04
Environment and Conservation	State Indoor Radon Grants	66.032		241,972.30
Environment and Conservation	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		323,394.68
Transportation	ARRA-National Clean Diesel Emissions Reduction Program	66.039		1,008,952.83
Environment and Conservation	State Clean Diesel Grant Program	66.040		329,863.02
Environment and Conservation	Water Pollution Control State, Interstate, and Tribal Program Support	66.419		2,867,909.62
Environment and Conservation	State Public Water System Supervision	66.432		5,563,874.67
Environment and Conservation	Water Quality Management Planning	66.454	$ 334,973.22	
Environment and Conservation	ARRA-Water Quality Management Planning	66.454	91,491.40	426,464.62
Environment and Conservation	Capitalization Grants for Clean Water State Revolving Funds	66.458	$ 16,620,005.53	
Environment and Conservation	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	12,364,200.08	28,984,205.61
Agriculture	Nonpoint Source Implementation Grants	66.460		3,053,029.58
Environment and Conservation	Regional Wetland Program Development Grants	66.461		166,969.07
Environment and Conservation	Water Quality Cooperative Agreements	66.463		55,415.19
Environment and Conservation	Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 5,962,531.29	
Environment and Conservation	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	1,387,883.17	7,350,414.46
Environment and Conservation	Water Protection Grants to the States	66.474		150,459.32
University of Tennessee	Office of Research and Development Consolidated Research/Training/ Fellowships	66.511		53,793.76
University of Tennessee	Science To Achieve Results (STAR) Fellowship Program	66.514		12,778.17
Agriculture	Performance Partnership Grants	66.605		587,362.49

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Environment and Conservation	Environmental Information Exchange Network Grant Program and Related Assistance	66.608		176,896.87
Environment and Conservation	Protection of Children from Environmental Health Risks	66.609		21,052.73
Environment and Conservation	Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		52,077.77
Environment and Conservation	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		87,082.60
Environment and Conservation	Pollution Prevention Grants Program	66.708		55,518.31
Environment and Conservation	Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716		6,802.05
University of Tennessee	Source Reduction Assistance	66.717		91.23
Environment and Conservation	Hazardous Waste Management State Program Support	66.801		2,397,591.20
Environment and Conservation	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		1,534,266.67
Environment and Conservation	Underground Storage Tank Prevention, Detection and Compliance Program	66.804		1,253,574.32
Environment and Conservation	Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	$ 2,475,109.55	
Environment and Conservation	ARRA-Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	1,113,917.09	3,589,026.64
Environment and Conservation	Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		297,743.84
Tennessee State University	Technical Assistance on Environmental Justice-Community Engagement in Longtown, Fayette County, Tennessee	66 / EP-11-4-000071		7,234.49
Subtotal Environmental Protection Agency				$ 61,573,562.15

Department of Energy

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Economic and Community Development	State Energy Program	81.041	$ 504,439.16	
Economic and Community Development	ARRA-State Energy Program	81.041	31,937,801.75	
Environment and Conservation	State Energy Program	81.041	3,661,248.87	$ 36,103,489.78
Human Services	Weatherization Assistance for Low-Income Persons	81.042	$ 7,278,876.99	
Human Services	ARRA-Weatherization Assistance for Low-Income Persons	81.042	3,704,077.87	10,982,954.86
University of Tennessee	Office of Science Financial Assistance Program	81.049		15,510.62
University of Tennessee	ARRA-Conservation Research and Development	81.086		907,432.45
Environment and Conservation	Renewable Energy Research and Development	81.087		39,691.96
Tennessee State University	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		360,594.89

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Economic and Community Development	ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	$ 33,570.09	
Tennessee Regulatory Authority	ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	9,237.36	42,807.45
Economic and Community Development	ARRA-Energy Efficient Appliance Rebate Program (EEARP)	81.127		1,853,570.00
Economic and Community Development	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		5,529,264.04
Military	Department of Energy Emergency Preparedness	81 / DOE FFY 2010 AWARD		8,607.53
Military	Department of Energy Emergency Preparedness	81 / DOE FFY 2011 AWARD		584,937.44
Military	Department of Energy Emergency Preparedness	81 / DOE FFY 2012 AWARD		504,805.33
Roane State Community College	Miscellaneous Federal Activities	81 / DEFG0505OR23185		1,120.00
Tennessee State University	Minority Serving Institutions Technical Assistance & Capacity Building Conference	81 / DE-NA0001352		10,705.07
Tennessee Wildlife Resources Agency	Oak Ridge Wildlife Management Area	81 / REORDOER-3-97-0702		183,318.34
University of Tennessee	B&W Y-12 EMS Ass-4300084704-Stone	81 / 4300084704		21,533.38
University of Tennessee	National Renewable Energy Lab Stach	81 / ADC-1-40023-20		(25,752.90)
University of Tennessee	Secretariat Lab Energy R&D Group 2010	81 / LERDWG		18,152.77
Subtotal Direct Programs				$ 57,142,743.01
Passed Through Yale University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / C12E1130(E00146)		$ 6,200.00
Passed Through Tennessee Energy, Industry and Construction Consortium				
Chattanooga State Community College	ARRA-Conservation Research and Development	81.086 / 8500017799		4,750.00
Passed Through Georgia Environmental Finance Authority				
Tennessee Technological University	State Energy Program Special Projects	81.119 / SIEA2010-102 AMENDMENT NUMBER ONE		85,193.75
Passed Through University of Minnesota				
Tennessee State University	ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122 / DE-0E0000427		7,320.06
Passed Through Argonne National Laboratory				
University of Tennessee	Argonne Natl Lab-Workshops-IESP-Dongarra	81 / 9F-31202		85,433.82
Passed Through UT-Battelle, Limited Liability Company				
Austin Peay State University	DMARK-3	81 / 4000112222		151,238.03

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Austin Peay State University	UT Battelle - Oak Ridge National Laboratory	81 / 4000080888		37,535.14
Austin Peay State University	UT Battelle - Oak Ridge National Laboratory	81 / 4000103191		139,246.02
Subtotal Pass-Through Programs				$ 516,916.82
Subtotal Department of Energy				$ 57,659,659.83

Department of Education

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Labor and Workforce Development	Adult Education - Basic Grants to States	84.002		$ 13,536,533.70
Education	Migrant Education_State Grant Program	84.011		527,344.30
Education	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		421,585.76
Austin Peay State University	Higher Education_Institutional Aid	84.031	$ 310,834.41	
Cleveland State Community College	Higher Education_Institutional Aid	84.031	158,166.44	
Dyersburg State Community College	Higher Education_Institutional Aid	84.031	423,901.64	
Nashville State Community College	Higher Education_Institutional Aid	84.031	259,182.39	
Northeast State Community College	Higher Education_Institutional Aid	84.031	59,900.00	
Southwest Tennessee Community College	Higher Education_Institutional Aid	84.031	214,530.29	
Tennessee State University	Higher Education_Institutional Aid	84.031	7,591,984.89	9,018,500.06
Tennessee Student Assistance Corporation	Federal Family Education Loans	84.032		151,187,666.13
Education	Career and Technical Education -- Basic Grants to States	84.048		22,619,520.12
Austin Peay State University	Fund for the Improvement of Postsecondary Education	84.116	$ 78,973.09	
Cleveland State Community College	Fund for the Improvement of Postsecondary Education	84.116	83,391.87	
East Tennessee State University	Fund for the Improvement of Postsecondary Education	84.116	113,228.49	
Middle Tennessee State University	Fund for the Improvement of Postsecondary Education	84.116	350,166.04	
Roane State Community College	Fund for the Improvement of Postsecondary Education	84.116	157,595.62	
University of Tennessee	Fund for the Improvement of Postsecondary Education	84.116	1,627,127.48	2,410,482.59
University of Memphis	Rehabilitation Long-Term Training	84.129	$ 177,438.99	
University of Tennessee	Rehabilitation Long-Term Training	84.129	276,566.52	454,005.51
Education	Migrant Education_Coordination Program	84.144		219,844.52
University of Tennessee	Business and International Education Projects	84.153		14,323.42
Education	Safe and Drug-Free Schools and Communities_National Programs	84.184	$ 420,829.54	
University of Tennessee	Safe and Drug-Free Schools and Communities_National Programs	84.184	243,733.85	664,563.39
Education	Safe and Drug-Free Schools and Communities_State Grants	84.186		742,282.16
Human Services	Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		504,282.00

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Adult Education_National Leadership Activities	84.191		164,596.43
Education	Even Start_State Educational Agencies	84.213		830,606.84
Education	Fund for the Improvement of Education	84.215		215,945.24
Human Services	Assistive Technology	84.224		462,824.53
Education	Tech-Prep Education	84.243		936,122.06
University of Tennessee	National Institute for Literacy	84.257		400,096.48
Human Services	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265		143,740.26
Education	Charter Schools	84.282		5,647,330.37
Education	Twenty-First Century Community Learning Centers	84.287		16,149,975.14
Education	Special Education - State Personnel Development	84.323		1,019,244.17
University of Memphis	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325		266,778.21
University of Tennessee	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		580,473.85
Education	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		259,803.00
Correction	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		139,402.40
East Tennessee State University	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	$ 340,840.27	
Tennessee Higher Education Commission	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	383,936.30	
University of Tennessee	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	508,748.68	1,233,525.25
East Tennessee State University	Child Care Access Means Parents in School	84.335		57,586.80
Austin Peay State University	Transition to Teaching	84.350	$ 167,192.00	
Education	Transition to Teaching	84.350	52,295.60	219,487.60
Tennessee Arts Commission	Arts in Education	84.351		206,503.67
Education	Rural Education	84.358		5,223,155.69
Education	English Language Acquisition State Grants	84.365	$ 5,533,511.84	
University of Tennessee	English Language Acquisition State Grants	84.365	8,153.60	5,541,665.44
Education	Mathematics and Science Partnerships	84.366		1,981,305.12
Education	Improving Teacher Quality State Grants	84.367	$ 42,178,223.22	
Tennessee Higher Education Commission	Improving Teacher Quality State Grants	84.367	939,404.30	43,117,627.52
Education	Grants for State Assessments and Related Activities	84.369		8,329,313.47
Tennessee Higher Education Commission	College Access Challenge Grant Program	84.378		2,600,854.98
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395		88,660,901.15

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act	84.396		265,700.33
Education	ARRA-Education Jobs Fund	84.410		106,291,985.45
Education	National Cooperative Education Statistic System-Basic Participation	84 / ED-08-CO-0064		1,035.14
Education	NCES Task Order Contract: National Assessment of Educational Progress	84 / ED-03-CO-0091		120,429.09
Education	State Data Task Order	84 / UNKNOWN		16,741.34
Subtotal Direct Programs				$ 493,405,690.68
Passed Through Dekalb County School System				
Middle Tennessee State University	Career and Technical Education -- Basic Grants to States	84.048 / C11-1280		$ 22,679.61
Passed Through National Commission on Teaching				
University of Memphis	Fund for the Improvement of Postsecondary Education	84.116 / TLINC		15,000.00
Passed Through Community Anti-Drug Coalitions of America				
Jackson State Community College	Safe and Drug-Free Schools and Communities_National Programs	84.184 / UNKNOWN		1,188.00
Passed Through Bedford County Department of Education				
Middle Tennessee State University	Fund for the Improvement of Education	84.215 / U215X100126		4,750.38
Passed Through Pennsylvania State University				
University of Tennessee	National Institute for Literacy	84.257 / 4041-UTK-USDOE-0004		16,058.07
Passed Through Edvantia				
University of Tennessee	Parental Information and Resource Centers	84.310 / S-31000-07-004		10,315.93
Passed Through California State University				
University of Tennessee	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326 / F11-2963UTK		98,546.52
Passed Through Memphis City Schools				
Southwest Tennessee Community College	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334 / UNKNOWN	$ 77,132.92	
University of Memphis	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334 / PO 05 00739 Z 05	52,781.72	129,914.64
University of Memphis	Memphis Career Connections (MC2)	84 / 2010 0789		12,475.38
Passed Through Signal Centers, Incorporated				
University of Tennessee	Child Care Access Means Parents in School	84.335 / CCR & R		497,448.21

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Drexel University				
University of Tennessee	Transition to Teaching	84.350 / 213025 AMENDMENT # 1		105,798.42
Passed Through University of Louisiana at Monroe				
University of Tennessee	Transition to Teaching	84.350 / TEACH PROJECT		27,926.31
Passed Through Sallie B. Howard School				
University of Tennessee	Arts in Education	84.351 / U351C090008		184,088.04
Passed Through Alliance for Business and Training, Incorporated				
Northeast State Community College	College Access Challenge Grant Program	84.378 / CAGC-GR1134839		155,863.17
Passed Through Tennessee College Access and Success Network				
University of Tennessee	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / TCASN MODEL PROGRAM		15,020.06
Passed Through National Writing Project Corporation				
Middle Tennessee State University	National Writing Project	84.928 / 05-TN03	$ 13,183.88	
Tennessee Technological University	National Writing Project	84.928 / 08-TN04 AMEND #3	10,416.15	23,600.03
University of Tennessee	National Writing Project '10 Caruthers	84 / 94-TN02 AMND #19		(545.45)
University of Tennessee	National Writing Project '11 Caruthers	84 / 94-TN02 AMND #20		11,401.58
University of Tennessee	National Writing Project '12 Caruthers	84 / 94-TN02		36,823.50
University of Tennessee	National Writing Project '12 Program Income	84 / 94-TN02		1,187.74
Passed Through Clinton City Schools				
University of Tennessee	Clinton City Schools Consultation Spence	84 / CHILD NUTRITION CONS		(93.68)
Subtotal Pass-Through Programs				$ 1,369,446.46
Subtotal Department of Education				$ 494,775,137.14

National Archives and Records Administration

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
State	National Historical Publications and Records Grants	89.003	$ 47,078.43	
University of Tennessee	National Historical Publications and Records Grants	89.003	(1,124.80)	$ 45,953.63
Subtotal National Archives and Records Administration				$ 45,953.63

Delta Regional Authority

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
Economic and Community Development	Delta Regional Development	90.200		$ 25,000.00
Subtotal Delta Regional Authority				$ 25,000.00

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
U.S. Election Assistance Commission				
Direct Programs				
University of Tennessee	Help America Vote College Program	90.400		$ (0.19)
State	Help America Vote Act Requirements Payments	90.401		1,023,115.34
Subtotal U.S. Election Assistance Commission				$ 1,023,115.15
Department of Health and Human Services				
Direct Programs				
Commission on Aging and Disability	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		$ 78,486.00
Commission on Aging and Disability	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042		343,066.00
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043		456,700.00
Commission on Aging and Disability	Special Programs for the Aging_Title IV_and Title II_ Discretionary Projects	93.048		257,613.28
Commission on Aging and Disability	Alzheimer's Disease Demonstration Grants to States	93.051		249,840.97
Commission on Aging and Disability	National Family Caregiver Support, Title III, Part E	93.052		2,819,723.00
Health	Public Health Emergency Preparedness	93.069		10,787,280.18
Health	Environmental Public Health and Emergency Response	93.070		486,896.29
Commission on Aging and Disability	Lifespan Respite Care Program	93.072		133,191.38
University of Tennessee	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		193,730.76
Mental Health	Enhance Safety of Children Affected by Substance Abuse	93.087		417,010.48
Children's Services	Guardianship Assistance	93.090	$ 1,860,166.90	
Children's Services	ARRA-Guardianship Assistance	93.090	(2,032.96)	1,858,133.94
Health	Food and Drug Administration_ Research	93.103	$ 4,318.66	
University of Tennessee	Food and Drug Administration_ Research	93.103	499,701.87	504,020.53
Mental Health	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		4,256,621.69
Health	Maternal and Child Health Federal Consolidated Programs	93.110	$ 210,411.09	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110	251,531.89	461,942.98
Health	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		1,129,335.09
University of Tennessee	Oral Diseases and Disorders Research	93.121		4,581.20

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Nurse Anesthetist Traineeships	93.124	$ 14,773.50	
University of Tennessee	ARRA-Nurse Anesthetist Traineeships	93.124	23,095.00	37,868.50
Health	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		157,938.30
Health	Injury Prevention and Control Research and State and Community Based Programs	93.136		580,904.58
Mental Health	Projects for Assistance in Transition from Homelessness (PATH)	93.150		864,272.04
University of Tennessee	Centers of Excellence	93.157		1,163,203.06
Health	Grants to States for Loan Repayment Program	93.165		140,488.00
University of Tennessee	Nursing Workforce Diversity	93.178		306,931.14
University of Tennessee	Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		27,583.97
Health	Surveillance of Hazardous Substance Emergency Events	93.204		153,642.74
Health	Family Planning_Services	93.217		7,810,841.65
Health	Traumatic Brain Injury State Demonstration Grant Program	93.234		249,660.95
Health	Affordable Care Act (ACA) Abstinence Education Program	93.235		732,409.70
Health	State Capacity Building	93.240		198,653.26
Health	State Rural Hospital Flexibility Program	93.241		369,950.24
Court System	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	$ 248,805.93	
Mental Health	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	5,325,803.41	
University of Memphis	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	77,381.88	
University of Tennessee	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1,761,941.55	7,413,932.77
East Tennessee State University	Advanced Nursing Education Grant Program	93.247	$ 258,282.44	
University of Memphis	Advanced Nursing Education Grant Program	93.247	212,248.99	
University of Tennessee	Advanced Nursing Education Grant Program	93.247	1,400,265.62	1,870,797.05
Health	Universal Newborn Hearing Screening	93.251		288,368.45
Health	Adult Viral Hepatitis Prevention and Control	93.270		135,796.77
University of Tennessee	Alcohol National Research Service Awards for Research Training	93.272		24,673.74
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279		(2,640.53)
Health	The Affordable Care Act: Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283		7,016,306.05

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Health	State Partnership Grant Program to Improve Minority Health	93.296		129,713.40
Health	Small Rural Hospital Improvement Grant Program	93.301		368,054.02
East Tennessee State University	Advanced Education Nursing Traineeships	93.358	$ 71,253.93	
University of Memphis	Advanced Education Nursing Traineeships	93.358	34,776.00	
University of Tennessee	Advanced Education Nursing Traineeships	93.358	155,456.00	261,485.93
East Tennessee State University	Nurse Education, Practice Quality and Retention Grants	93.359	$ 278,840.80	
University of Tennessee	Nurse Education, Practice Quality and Retention Grants	93.359	835,801.17	1,114,641.97
University of Tennessee	National Center for Research Resources	93.389		148,989.43
University of Tennessee	Cancer Detection and Diagnosis Research	93.394		10,150.00
East Tennessee State University	Cancer Research Manpower	93.398		274,820.33
Roane State Community College	ARRA-Equipment to Enhance Training for Health Professionals	93.411	$ 16,552.00	
University of Tennessee	ARRA-Equipment to Enhance Training for Health Professionals	93.411	115,652.80	132,204.80
Health	ARRA-State Primary Care Offices	93.414		57.40
Health	Pregnancy Assistance Fund Program	93.500		142,958.95
Health	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		1,795,325.03
Health	PPHF 2012 National Public Health Improvement Initiative	93.507		342,222.18
Commerce and Insurance	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511		169,225.12
East Tennessee State University	ARRA-Affordable Care Act (ACA) Advanced Nursing Education Expansion Initiative	93.513		103,032.00
East Tennessee State University	ARRA-Affordable Care Act (ACA) Nurse-Managed Health Clinics	93.515		414,577.88
East Tennessee State University	Affordable Care Act (ACA) Public Health Training Centers Program, Resources Development and Academic Support to the Public Health Training Centers Program and Public Health Infrastructure and Systems Support	93.516		623,737.46
Commission on Aging and Disability	Affordable Care Act - Medicare Improvements for Patients and Providers	93.518		373,620.43
Commerce and Insurance	Affordable Care Act (ACA) - Consumer Assistance Program Grant	93.519		22,785.96
Health	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	93.521		772,436.60
Finance and Administration	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525		296,315.45

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	ARRA-Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	$ 3,815,686.65	
Health	Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	2,708,042.46	6,523,729.11
Health	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544		167,975.37
Children's Services	Promoting Safe and Stable Families	93.556		9,348,720.10
Human Services	Child Support Enforcement	93.563		35,103,306.26
Human Services	Child Support Enforcement Research	93.564		235,724.40
Human Services	Low-Income Home Energy Assistance	93.568		62,579,383.03
Court System	State Court Improvement Program	93.586		575,167.66
Children's Services	Community-Based Child Abuse Prevention Grants	93.590		755,218.84
Human Services	Grants to States for Access and Visitation Programs	93.597		160,932.46
Children's Services	Chafee Education and Training Vouchers Program (ETV)	93.599		718,484.99
State	Voting Access for Individuals with Disabilities_Grants to States	93.617		147,957.39
Intellectual and Developmental Disabilities	Developmental Disabilities Basic Support and Advocacy Grants	93.630		1,493,319.11
University of Tennessee	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632		552,354.95
Children's Services	Children's Justice Grants to States	93.643		325,706.76
Children's Services	Stephanie Tubbs Jones Child Welfare Services Program	93.645		7,301,892.32
University of Tennessee	Child Welfare Research Training or Demonstration	93.648		763,531.33
Children's Services	Foster Care_Title IV-E	93.658	$ 36,655,836.75	
Children's Services	ARRA-Foster Care_Title IV-E	93.658	4,588.61	36,660,425.36
Children's Services	Adoption Assistance	93.659	$ 33,539,817.18	
Children's Services	ARRA-Adoption Assistance	93.659	(90,644.84)	33,449,172.34
Human Services	Social Services Block Grant	93.667		28,843,105.01
Children's Services	Child Abuse and Neglect State Grants	93.669		508,459.00
Finance and Administration	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671		1,800,302.84
Children's Services	Chafee Foster Care Independence Program	93.674		1,180,659.46
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701		65,257.92
East Tennessee State University	ARRA-Grants to Health Center Programs	93.703	$ 241,440.83	
Health	ARRA-Grants to Health Center Programs	93.703	37,011.94	278,452.77
Health	ARRA-Preventing Healthcare-Associated Infections	93.717		441,437.24
Finance and Administration	ARRA-State Grants to Promote Health Information Technology	93.719		725,883.10
Health	ARRA-Prevention and Wellness-State, Territories and Pacific Islands	93.723		1,157,843.31
Commission on Aging and Disability	ARRA-Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725		339,597.14

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Finance and Administration	Children's Health Insurance Program	93.767		118,816,130.84
Commission on Aging and Disability	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	$ 1,203,601.64	
Mental Health	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	36,899.28	1,240,500.92
Finance and Administration	Money Follows the Person Rebalancing Demonstration	93.791		1,046,606.59
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		164,649.96
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855		81,588.26
Tennessee State University	Biomedical Research and Research Training	93.859	$ 82,189.14	
University of Tennessee	Biomedical Research and Research Training	93.859	940,251.32	1,022,440.46
University of Tennessee	Aging Research	93.866		17,037.36
University of Tennessee	Vision Research	93.867		22,612.72
East Tennessee State University	Grants for Primary Care Training and Enhancement	93.884		502,040.97
Health	Health Care and Other Facilities	93.887	$ 93,360.00	
Southwest Tennessee Community College	Health Care and Other Facilities	93.887	112,151.25	
University of Memphis	Health Care and Other Facilities	93.887	(303,484.00)	(97,972.75)
Health	National Bioterrorism Hospital Preparedness Program	93.889		6,458,653.38
Tennessee State University	Family and Community Violence Prevention Program	93.910		315,792.84
Health	Grants to States for Operation of Offices of Rural Health	93.913		173,605.91
Health	HIV Care Formula Grants	93.917		22,172,827.87
Education	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		272,853.98
Health	HIV Prevention Activities_Health Department Based	93.940		4,118,241.67
Health	HIV Demonstration, Research, Public and Professional Education Projects	93.941		(586.00)
Health	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		1,215,954.15
Health	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		934,099.13
Health	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		105,256.63
Mental Health	Block Grants for Community Mental Health Services	93.958		9,767,697.94
Mental Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959		32,238,138.60
Health	Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977		2,836,996.87
Mental Health	Mental Heath Disaster Assistance and Emergency Mental Health	93.982		1,340,402.22
Health	Preventive Health and Health Services Block Grant	93.991		1,470,714.26

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Health	Maternal and Child Health Services Block Grant to the States	93.994		10,653,591.35
Subtotal Direct Programs				$ 510,569,986.24
Passed Through Vanderbilt University				
Tennessee State University	Maternal and Child Health Federal Consolidated Programs	93.110 / 5T83MC00008-56-00	$ 36,508.80	
Tennessee State University	Maternal and Child Health Federal Consolidated Programs	93.110 / T73 MC00050	10,111.00	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / VUMC6915	8,008.26	$ 54,628.06
Passed Through National Partnership for Environmental Technology Education				
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 10421	$ 14,468.55	
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 10453	83,825.08	98,293.63
Passed Through University of Cincinnati				
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 5U45ES006184-18	$ (5,418.36)	
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 7038	23,504.07	
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 007038	236,044.32	254,130.03
Passed Through Community Health Network				
East Tennessee State University	Telehealth Programs	93.211 / 6H2AIT16623		56,740.90
Passed Through Morehouse School of Medicine				
Tennessee State University	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243 / TI-020447		9,596.42
Passed Through United Way of Chattanooga				
University of Tennessee	ARRA-Alcohol Research Programs	93.273 / GOLD SNEAKER PROJECT		16,004.69
Passed Through Meharry Medical College				
Tennessee State University	The Affordable Care Act: Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283 / 5U84DD000443 03		1,742.95
Tennessee State University	PPHF-2012 Geriatric Education Centers	93.969 / 1UB4HP19055-01	$ 3.61	
Tennessee State University	PPHF-2012 Geriatric Education Centers	93.969 / 5UB4HP19055-02-00	8,523.15	8,526.76
Passed Through Pitt Community College				
Dyersburg State Community College	ARRA-State Grants to Promote Health Information Technology	93.719 / 90CC0078/01		228,783.36
Chattanooga State Community College	ARRA-Health Information Technology Professionals in Health Care	93.721 / 90CC0078/01	$ 250,624.58	

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Chattanooga State Community College	ARRA-Health Information Technology Professionals in Health Care	93.721 / 90CC0078/02-04	74,672.39	
Walters State Community College	ARRA-Health Information Technology Professionals in Health Care	93.721 / 90CC0078/01	279,716.69	605,013.66
Passed Through Carnegie Mellon University				
Tennessee State University	Biomedical Research and Research Training	93.859 / 1T36GM095335-01	$ 31,199.53	
Tennessee State University	Biomedical Research and Research Training	93.859 / 5T36GM095335-02	477.04	31,676.57
Passed Through Stone Mountain Health Services				
East Tennessee State University	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912 / 1G98RH19720		11,436.55
Passed Through United Way of the Mid-South				
University of Memphis	HIV Prevention Activities_Health Department Based	93.940 / UWROYHIV 12	$ 2,047.86	
University of Memphis	HIV Prevention Activities_Health Department Based	93.940 / UWROYHIV 11	23,357.55	25,405.41
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	PPHF-2012 Geriatric Education Centers	93.969 / 3048108629-12-384		91,496.21
Passed Through Douglas-Cherokee Economic Authority				
University of Tennessee	Douglas-Cherokee Econ Authority Campbell	93 / TEEN PREGNANCY PREVE		2,403.49
Passed Through Signal Centers, Incorporated				
University of Tennessee	Signal Centers Inc PSAM Campbell FY12	93 / PSAM DATABASE MAINTE		4,358.14
Passed Through Slippery Rock University				
Tennessee Technological University	Slippery Rock University I can Do It, You can Do It! Upper Cumberland Expansion	93 / HHSP233200844EC AMENDMENT 2		11,531.89
Subtotal Pass-Through Programs				$ 1,511,768.72
Subtotal Department of Health and Human Services				$ 512,081,754.96

Corporation for National and Community Service				
Direct Programs				
Finance and Administration	State Commissions	94.003		$ 369,453.75
Finance and Administration	Learn and Serve America_School and Community Based Programs	94.004		251,583.75
Dyersburg State Community College	AmeriCorps	94.006	$ 5,350.00	

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Finance and Administration	AmeriCorps	94.006	3,645,886.84	3,651,236.84
Finance and Administration	Program Development and Innovation Grants	94.007		38,736.10
Finance and Administration	Training and Technical Assistance	94.009		87,191.68
Subtotal Corporation for National and Community Service				$ 4,398,202.12
	Department of Homeland Security			
Direct Programs				
Tennessee Wildlife Resources Agency	Boating Safety Financial Assistance	97.012		$ 1,744,645.41
Military	Pre-Disaster Mitigation (PDM) Competitive Grants	97.017		1,015,589.73
Economic and Community Development	Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		179,905.11
Military	Flood Mitigation Assistance	97.029		1,767,956.34
Labor and Workforce Development	Disaster Unemployment Assistance	97.034		102,390.11
Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		109,195,087.80
Military	Hazard Mitigation Grant	97.039		18,275,516.90
Environment and Conservation	National Dam Safety Program	97.041		74,369.89
Military	Emergency Management Performance Grants	97.042		5,564,836.97
Commerce and Insurance	State Fire Training Systems Grants	97.043		18,302.40
Commerce and Insurance	Assistance to Firefighters Grant	97.044		2,853.25
Military	Pre-Disaster Mitigation	97.047		236,261.66
Southwest Tennessee Community College	Scientific Leadership Awards	97.062		66,216.87
Military	Homeland Security Grant Program	97.067		20,380,265.09
University of Memphis	Competitive Training Grant	97.068		(120.55)
Economic and Community Development	Map Modernization Management Support	97.070		87,500.00
Military	Buffer Zone Protection Program (BZPP)	97.078		1,424,220.51
Military	Earthquake Consortium	97.082		52,519.73
Safety	Driver's License Security Grant Program	97.089		912,004.47
University of Memphis	Degrees at a Distance Program	97.103		9,357.19
Military	Interoperable Communications and Training Project	97.124		593,339.73
University of Tennessee	HLS 08GTT8K021 Food-Thompson	97 / 2008GTT8K021		382,763.18
University of Tennessee	HLS 08GTT8K026 Animal-Thompson	97 / 2008GTT8K026		246,417.14
University of Tennessee	HLS 10DMT0K004 Asmnt Trng 2010-Thompson	97 / 2010DMT0K004		80,472.14
Subtotal Direct Programs				$ 162,412,671.07
Passed Through Eastern Kentucky University				
East Tennessee State University	State and Local Homeland Security National Training Program	97.005 / UNKNOWN		$ 350,147.08
Passed Through Alabama Emergency Management Agency				
Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036 / EMAC ALABAMA DR-1971		24,257.35

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through City of Knoxville				
University of Tennessee	Homeland Security Grant Program	97.067 / C-10-0091		10,241.25
Passed Through Shelby County Government				
University of Memphis	Homeland Security Grant Program	97.067 / PO S005387	$ 641,774.85	
University of Memphis	Homeland Security Grant Program	97.067 / PO S006423	22,530.37	664,305.22
Subtotal Pass-Through Programs				$ 1,048,950.90
Subtotal Department of Health and Human Services				$ 163,461,621.97
Agency for International Development				
Passed Through Purdue University				
Tennessee State University	USAID Foreign Assistance for Programs Overseas	98.001 / EPP-A-00-09-00004		$ 4,462.80
Tennessee State University	USAID Development Partnerships for University Cooperation and Development	98.012 / 306-A-00-11-00516-00		5,271.88
Subtotal Agency for International Development				$ 9,734.68
Other Federal Assistance				
Office of National Drug Control Policy				
Passed Through Laurel County Fiscal Court				
Safety	Appalachia High Intensity Drug Trafficking Area	07 / I5PAPP501	$ 72,538.27	
Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	07 / C10-03-10-08-06	19,747.50	
Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	07 / G11AP0001A	136,782.94	
Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	07 / G12AP0001A	124,835.26	$ 353,903.97
Subtotal Office of National Drug Control Policy				$ 353,903.97
Tennessee Valley Authority				
Direct Programs				
Pellissippi State Community College	Tennessee Valley Region_Economic Development	62.004		$ 88,585.97
Military	Tennessee Valley Authority Emergency Preparedness	62 / FY2010-2014 TVA AWARD	$ 2,451,298.10	
Military	Tennessee Valley Authority Emergency Preparedness	62 / TVA FFY 2010 AWARD	(761,468.62)	
Military	Tennessee Valley Authority Emergency Preparedness	62 / TVA2009	(14,485.12)	1,675,344.36
Southwest Tennessee Community College	Minority, Small Business and Women Entrepreneur Grant	62 / 299060		6,000.00
Tennessee Technological University	Diversity Alliance Partnership	62 / 299056		3,424.23
University of Tennessee	TVA - Solar Farm 8500021516 - Patterson	62 / 8500021516		16,980.08
University of Tennessee	TVA- 8500020705 - Patterson	62 / 8500020705		513.00

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	TVA PO 267095 Sullivan	62 / PO 267095		204.53
University of Tennessee	TVA Release 25 - Gangaware	62 / PO 81093		(51.20)
University of Tennessee	TVA Release 55 - Gangaware	62 / PO 92321		10,044.74
University of Tennessee	TVA-Women Minority Business	62 / 3823	$ 1,882.80	
University of Tennessee	TVA-Women Minority Business	62 / 299068	19,625.73	21,508.53
Subtotal Tennessee Valley Authority				$ 1,822,554.24

Nuclear Regulatory Commission

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		$ 20,250.30
Chattanooga State Community College	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	$ 1,137.20	
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	343,821.91	344,959.11
Tennessee State University	Minority Serving Institutions Technical Assistance & Capacity Building Conference	77 / NRC-27-10-510		21,636.84
Subtotal Direct Programs				$ 386,846.25

Passed Through Southern University

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	SouthernUnivOSP-02-8300-2012-0011 Miller	77 / OSP-02-8300-2012-011		$ 27,242.65
Subtotal Pass-Through Programs				$ 27,242.65
Subtotal Nuclear Regulatory Commission				$ 414,088.90
Subtotal Other Federal Assistance				$ 2,590,547.11
Total Unclustered Programs				$ 3,030,515,036.57

Research and Development Cluster

Department of Agriculture

Agricultural Research Service

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee State University	Agricultural Research_Basic and Applied Research	10.001	$ 394,463.68	
University of Memphis	Agricultural Research_Basic and Applied Research	10.001	345.84	
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001	996,914.02	$ 1,391,723.54
Subtotal Agricultural Research Service				$ 1,391,723.54

Animal and Plant Health Inspection Service

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee State University	Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ 27,006.48

State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursement/Issues		
Subtotal Animal and Plant Health Inspection Service					$	27,006.48
		Economic Research Service				
Direct Programs						
University of Tennessee	Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations	10.250			$	6,011.06
Subtotal Economic Research Service					$	6,011.06
		Food and Nutrition Service				
Passed Through Metropolitan Government of Nashville and Davidson County						
Tennessee State University	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557 / GG1030160-01			$	2,800.73
Subtotal Food and Nutrition Service					$	2,800.73
		Forest Service				
Direct Programs						
University of Memphis	Forestry Research	10.652	$	2,589.37		
University of Tennessee	Forestry Research	10.652		52,268.73	$	54,858.10
University of Tennessee	Forest Health Protection	10.680				132,884.73
Subtotal Direct Programs					$	187,742.83
Passed Through National Fish and Wildlife Foundation						
University of Tennessee	National Fish and Wildlife Foundation	10.683 / 2010-0005-000	$	104,094.64		
University of Tennessee	National Fish and Wildlife Foundation	10.683 / 2011-0065-000/25760		349,721.68	$	453,816.32
Subtotal Pass-Through Programs					$	453,816.32
Subtotal Forest Service					$	641,559.15
		National Institute of Food and Agriculture				
Direct Programs						
Middle Tennessee State University	Grants for Agricultural Research, Special Research Grants	10.200	$	31,659.26		
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200		1,305,955.66	$	1,337,614.92
Tennessee State University	Cooperative Forestry Research	10.202				63,176.40
Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205				3,599,589.63
Tennessee State University	Grants for Agricultural Research_ Competitive Research Grants	10.206	$	(1,135.50)		
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206		479,828.73		478,693.23
Tennessee State University	1890 Institution Capacity Building Grants	10.216				870,543.51
University of Tennessee	Higher Education Challenge Grants	10.217				22,411.58

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Biotechnology Risk Assessment Research	10.219		119,924.93
Tennessee State University	Integrated Programs	10.303	$ 286,108.61	
University of Tennessee	Integrated Programs	10.303	316,003.57	602,112.18
University of Tennessee	Organic Agriculture Research and Extension Initiative	10.307		42,125.58
University of Tennessee	Specialty Crop Research Initiative	10.309		7,694.46
Tennessee State University	Agriculture and Food Research Initiative (AFRI)	10.310	$ 903,974.70	
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310	1,597,582.25	2,501,556.95
University of Tennessee	Sun Grant Program	10.320		165,478.92
Subtotal Direct Programs				$ 9,810,922.29
Passed Through Oklahoma State University				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / AB-5-67940-UTN		$ 1,423.66
Passed Through South Dakota State University				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 3TF050		(25.65)
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / 3TN017		3,061.01
University of Tennessee	Sun Grant Program	10.320 / ADVANCED ACCOUNT		5,261.76
Passed Through University of Florida				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1200139947		7,838.54
University of Tennessee	Specialty Crop Research Initiative	10.309 / UF 11284		1,210.50
Passed Through University of Hawaii				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO Z960240		35,150.84
University of Tennessee	Biotechnology Risk Assessment Research	10.219 / 2889453		23,374.05
Passed Through University of Kentucky				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 304810659010143		1,205.08
University of Tennessee	Biotechnology Risk Assessment Research	10.219 / 304803920007119		6,109.85
Passed Through Kansas State University				
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / S09032		4,750.35
Passed Through University of Kentucky Research Foundation				
University of Memphis	Grants for Agricultural Research_ Competitive Research Grants	10.206 / 3048105000-09-275		46,656.26
Passed Through University of Nebraska				
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / 2562420086004		541.70

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Georgia				
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-109/4787876		7,035.44
Passed Through Virginia State University				
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2010-38821-21614		600.00
Passed Through North Carolina State University				
University of Tennessee	Integrated Programs	10.303 / ADVANCED ACCOUNT	$ 34,232.36	
University of Tennessee	Integrated Programs	10.303 / 2011-2893-01	11,128.55	45,360.91
Passed Through Texas A&M University				
Tennessee State University	Integrated Programs	10.303 / 2008-51130-19537		(16,441.81)
Passed Through University of Arkansas at Pine Bluff				
Tennessee State University	Integrated Programs	10.303 / 2008-51110-19303		11,739.43
Passed Through Virginia Polytechic Institute and State University				
University of Tennessee	Integrated Programs	10.303 / 545850-19121		18,555.05
Passed Through Cornell University				
University of Tennessee	Specialty Crop Research Initiative	10.309 / 613414-9392 YEAR 2		81,263.59
Passed Through Washington State University				
University of Tennessee	Specialty Crop Research Initiative	10.309 / 112674-G002611		134,787.18
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 115334 G002889		90,288.91
Subtotal Pass-Through Programs				$ 509,746.65
Subtotal National Institute of Food and Agriculture				$ 10,320,668.94
Natural Resources Conservation Service				
Direct Programs				
University of Tennessee	Soil and Water Conservation	10.902		$ 35,849.36
Tennessee Technological University	Soil Survey	10.903	$ 2,121.86	
University of Tennessee	Soil Survey	10.903	484,066.08	486,187.94
University of Tennessee	Environmental Quality Incentives Program	10.912		128,278.48
Subtotal Natural Resources Conservation Service				$ 650,315.78
Other Programs				
Direct Programs				
University of Tennessee	Long Term Standing Agreements For Storage, Transportation And Lease	10.999		$ 47,871.29
Austin Peay State University	USDA Forest Service, Land Between the Lakes Botany Survey	10 / 11-PA-11086000-017		1,225.37

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Tennessee State University	Attractiveness of Girdled Walnut to Bark and Ambrosia Beetles	10 / 11-CR-11242310-061	9,543.39
University of Tennessee	Delta Regional Authority Sub-USDA-Wa	10 / UNKNOWN	8,818.11
University of Tennessee	NRCS 693A759133 Grazing-Keyser	10 / 693A759133	258,316.47
University of Tennessee	TAES Hatch McIntire Stennis	10 / HATCH	(922.94)
University of Tennessee	USDA - NCRS - CESU - Gale	10 / 68-7482-11-514	2,595.87
University of Tennessee	USDA 085521518799 After School-Moussa	10 / 20085521518799	26,062.95
University of Tennessee	USDA APHIS Improving TN Hemlock-Grant	10 / 10-8247-0723-CA	164,071.52
University of Tennessee	USDA APHIS Parasitoids Ash Borer-Grant	10 / 11-8130-0079-CA	5,801.55
University of Tennessee	USDA ARS Ag Support 2011-Arelli	10 / 58-6402-2-111	49,669.84
University of Tennessee	USDA ARS Pathogens-Horvath	10 / 58-1230-0-466	2,116.72
University of Tennessee	USDA FS 07CR11330134108 Neotrpcl-Franzre	10 / 07CR11330134108	40.29
University of Tennessee	USDA FS 09CA11330131043 Swtgum CRC-Labbe	10 / 09CA11330131043	32,993.49
University of Tennessee	USDA FS 09CR11330134077 Habitat-Belli	10 / 09CR11330134077	809.36
University of Tennessee	USDA FS 09CR11330145029 FIA 2009-Belli	10 / 09CR11330145029	74,641.00
University of Tennessee	USDA FS 09CS11080400029 Sngbd-Buehler	10 / 09CS11080400029	19,002.88
University of Tennessee	USDA FS 09JV11242311106 Pln-Schlarbaum	10 / 09JV11242311-106	1,508.21
University of Tennessee	USDA FS 10CR11330134023 Data-Belli	10 / 10CR11330134023	16,182.58
University of Tennessee	USDA FS 10CS11330144082 TCM/NVUM-Cho	10 / 10-CS-11330144-082	10,492.54
University of Tennessee	USDA FS 10JV11330134066 Chsnt-Schlarbaum	10 / 10JV11330134066	46,771.50
University of Tennessee	USDA FS 12CA11330134025 Oaks-Schlarbaum	10 / 12CA11330134025	1,219.18
University of Tennessee	USDA FS Chem/Bio Control Adelgid-Grant	10 / 11-DG-11083150-021	154,704.42
University of Tennessee	USDA FS Cherokee Visitor Monitoring-Fly	10 / 11-CS-11080-100-015	51,348.20
University of Tennessee	USDA FS Genetic Specialist - Schlarbaum	10 / 09-CS-1108-3133-001	17,084.26
University of Tennessee	USDA FS National Survey 2011-Fly	10 / 11CR11330109-029	7,581.43
University of Tennessee	USDA FS Rearing Predators TN Rls-Parkman	10 / 10-DG-11083150-011	101,587.63
University of Tennessee	USDA FS Sasajiscymnus-Grant	10 / 10-CA-11330129-054	9,310.81
University of Tennessee	USDA FS Songbird Community-Buehler	10 / SRS09CA-11330134-028	8,633.25
University of Tennessee	USDA FS Walnut Twig Beetle-Lambdin	10 / 11-DG-11083150-005	19,020.15
University of Tennessee	USDA Household Food Demand-Yen	10 / 58-4000-7-0029	43,483.71
University of Tennessee	USDA NIFA Anaerobic Soil-Butler	10 / 2010-51102-21707	217,543.87
University of Tennessee	USDA NIFA Pollen-Mediate Gene-Stewart	10 / 2010-39211-21699	87,874.58
University of Tennessee	USDA NRCS 685C161061 Bnchmrk Soil-Ammons	10 / 685C161061	1,224.25
University of Tennessee	USDA-09-PA-11080600-017 - Anderson	10 / 09-PA-11080600-017	3,646.55
Subtotal Direct Programs			$ 1,501,874.28
Passed Through Alabama Agricultural and Mechanical University			
University of Tennessee	AAMU Expand Canola Acreage-West	10 / 2011-38624-31002-UTN	$ 2,697.48

State of Tennessee
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For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Indiana University of Pennsylvania				
University of Tennessee	IUP-RI Warbler Breeding Mgt-Buehler	10 / 1112-045UT		7,921.05
Passed Through University of Georgia				
University of Tennessee	UGA SARE Organic Corn-West	10 / RD309-122/4941266		5,560.03
Subtotal Pass-Through Programs				$ 16,178.56
Subtotal Other Programs				$ 1,518,052.84
Subtotal Department of Agriculture				$ 14,558,138.52
Department of Commerce				
National Oceanic and Atmospheric Administration (NOAA)				
Direct Programs				
University of Tennessee	Special Oceanic and Atmospheric Projects	11.460		$ 425,937.37
East Tennessee State University	Meteorologic and Hydrologic Modernization Development	11.467		179,142.93
University of Tennessee	Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478		17,637.96
Subtotal National Oceanic and Atmospheric Administration (NOAA)				$ 622,718.26
Other Programs				
Direct Programs				
University of Tennessee	Measurement and Engineering Research and Standards	11.609		$ 22,337.96
Subtotal Other Programs				$ 22,337.96
Subtotal Department of Commerce				$ 645,056.22
Department of Defense				
Direct Programs				
Tennessee Technological University	Basic and Applied Scientific Research	12.300	$ 629,852.66	
University of Tennessee	Basic and Applied Scientific Research	12.300	2,893,766.49	$ 3,523,619.15
University of Tennessee	Basic Scientific Research - Combating Weapons of Mass Destruction	12.351		408,417.00
University of Memphis	Military Medical Research and Development	12.420	$ 1,295,861.44	
University of Tennessee	Military Medical Research and Development	12.420	2,863,534.72	4,159,396.16
Tennessee State University	Basic Scientific Research	12.431	$ 125,921.01	
University of Memphis	Basic Scientific Research	12.431	602,727.86	
University of Tennessee	Basic Scientific Research	12.431	489,520.17	1,218,169.04
University of Tennessee	Air Force Defense Research Sciences Program	12.800		605,196.56

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Middle Tennessee State University	Mathematical Sciences Grants Program	12.901		7,136.28
University of Memphis	Information Security Grant Program	12.902		92,541.52
University of Memphis	Research and Technology Development	12.910	$ 27,303.44	
University of Tennessee	Research and Technology Development	12.910	77,217.70	104,521.14
Tennessee Technological University	Advanced Portable Power Institute Phase 4	12 / W909MY-09-C-0058 P00001		1,046.25
Tennessee Technological University	Life Modeling of Li-Ion Cells - Phase Two	12 / NRO000-09-C-0056 P00001		1,812.06
University of Memphis	Test and Evaluation Methodologies for Skill Gap Analysis	12 / HC1047-11-P-4202		773,927.88
University of Tennessee	AF AF9101-06-D-0001/0006 MOELLER	12 / FA9101-06-D-00010006		67,637.38
University of Tennessee	AF FA7014-06-D-0019-T10 Clin 1 Sal	12 / FA7014-06-D-0019-T10		242,620.27
University of Tennessee	AF FA7014-10-D-0012-T1-Clin 0001-Sal	12 / FA7014-10-D-0012-T1		7,663,805.18
University of Tennessee	AF FA8650-09-C-7916 - Dongarra	12 / FA8650-09-C-7916		274,036.84
University of Tennessee	AF FA9101-06-0001-0009 FLANDRO	12 / FA9101-06-D-0001-009		(5,223.22)
University of Tennessee	AF FA9101-06-D-0001/0002 BOMAR	12 / FA9101-06-D0001/0002		4,205.69
University of Tennessee	AF FA9101-06-D-0001/0004 DAVENPORT	12 / FA9101-06-D-00010004		48,451.88
University of Tennessee	AF FA9101-06-D-0001/0008 MOELLER	12 / FA9101-06D-0001-0008		3,803.56
University of Tennessee	AF FA9101-06-D-0001/0013 VAKILI	12 / FA9101-06-D-0001/013		7,887.46
University of Tennessee	AF FA9101-06-D-0001/0014 MOELLER	12 / FA9101-06-D-0001/014		7,775.40
University of Tennessee	AF FA9101-06-D-0001/0015 VAKILI	12 / FA9101-06-D-00010015		31,814.02
University of Tennessee	AF FA9101-06-D-0001/0016 MOELLER	12 / FA9101-06-D-00010016		24,804.79
University of Tennessee	AF FA9550-09-1-0570 STEINHOFF	12 / FA9550-09-1-0570		26,523.72
University of Tennessee	AF-FA8750-09-1-0185 - Peterson	12 / FA8750-09-1-0185-P08		41,899.54
University of Tennessee	AF-FA9550-11-1-0082 Hu	12 / FA9550-11-1-0082-P01		87,036.31
University of Tennessee	Army Bimolecular Architectures-Stewart	12 / W911NF0810107		77,115.48
University of Tennessee	Army CERL/CESU Vehicle Dynamics-Ayers	12 / W9132T-08-2-0004		59,203.21
University of Tennessee	Army W911NF-10-1-0297 Mays	12 / W911NF-10-1-0297-P01		172,130.19
University of Tennessee	Army W912HZ1120036 Atchafalaya Bsn-Clark	12 / SW912HZX-11-20036		13,531.59
University of Tennessee	DOD Acoustic Aerial Monitoring-Wilkerson	12 / W912HZ-11-2-0024		286,180.66
University of Tennessee	DOD Stream Bank Mapping-Ayers	12 / ADVANCED ACCOUNT		4,364.52
University of Tennessee	Missile Defense HQ0147-12-C-6019 Abidi	12 / HQ0147-12-C-6019		39,894.73
University of Tennessee	Navy N62583-11-C-0521 Loeffler	12 / N62583-11-C-0521		80,895.69
University of Tennessee	ONR Qulty Dfcts MRE/TTI Values-Zivanovic	12 / SP4701-08-D-0014		12,324.50
University of Tennessee	ONR SP010302D0014 Applesauce-Zivanovic	12 / SP010302D0014		6,217.20
University of Tennessee	ONR SP470108D0014 CORANET Trvl-Zivanovic	12 / SP470108D0014		3,702.21
University of Tennessee	ONR SP470108D0014 MRE Pckg Sawhney	12 / SP470108D0014 ORDER3		94,378.67
University of Tennessee	ONR SP470108D001402 Vitamins-Zivanovic	12 / SP470108D0014-0002		(1,748.30)

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University of Tennessee	SERDP W912HQ10C0006 Sb Lead-Essington	12 / W912HQ-10-C-0006		157,119.13
University of Tennessee	SERDP W912HQ11C0067 Bioremedial Parker	12 / W912HQ-11-C-00067		338,408.22
University of Tennessee	US Air Force FA8601-11-P-0439 Bell	12 / FA8601-11-P-0439		42,886.33
University of Tennessee	US Army Evaluate Bacterial Spore-Ye	12 / W911QY-09-0184		(150.00)
University of Tennessee	US Army W912HQ-10-C-0062 Loeffler	12 / W912HQ-10-C-0062		338,848.17
University of Tennessee	USACE W91237-11-C-0017 Bray	12 / W91237-11-C-0017		48,676.25
University of Tennessee	USACE W91237-11-P-0108 Bray	12 / W91237-11-P-0108		50,000.00
University of Tennessee	USACE W91237-11-P-0299 Bray	12 / W91237-11-P-0299		40,729.38
Subtotal Direct Programs				$ 21,287,569.69
Passed Through University of Colorado				
University of Tennessee	Basic and Applied Scientific Research	12.300 / 1548375		$ 42,375.99
Passed Through Children's Research Institute				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-09-1-0592		30,472.87
Passed Through Indiana University				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-11-1-0347		36,946.48
Passed Through National Neurovision Research Institute				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH0710720		136.96
Passed Through National Trauma Institute				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH0810758	$ 142,562.73	
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH1110841	35,270.19	177,832.92
Passed Through University of Connecticut				
University of Tennessee	Military Medical Research and Development	12.420 / PSA 524631 / 6911		534.85
Passed Through Pennsylvania State University				
University of Tennessee	Basic Scientific Research	12.431 / 4542-UTK-USA-0531		17,712.46
Tennessee State University	Robust Networking Architectures & Security Schemes for Heterogeneous Sensor Networks	12 / DTRA01-03-D-0010		(576.60)
Passed Through State University of New York				
Tennessee State University	Basic Scientific Research	12.431 / W911NF-09-1-0392		91,398.39
Passed Through University of California				
University of Memphis	Basic Scientific Research	12.431 / SA5213-11807		1,506.63

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through Thurgood Marshall College Fund			
Tennessee State University	Basic, Applied, and Advanced Research in Science and Engineering	12.630 / 32698	3,372.95
Passed Through University of Dayton			
Tennessee State University	Air Force Defense Research Sciences Program	12.800 / FA8650-09-D-3944/0006	115,333.27
Passed Through University of Houston			
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / SUB NO R-09-0127-03	70,570.72
Passed Through University of Texas			
Tennessee State University	Air Force Defense Research Sciences Program	12.800 / FA9550-09-1-0165	5,312.76
Passed Through Academy of Applied Science			
Tennessee State University	Research and Engineering Apprentice Program	12 / DAAH04-93-G-0163	5,010.43
Passed Through Arkansas State University			
University of Memphis	Sensors for Material Identification, Detection, and Characterization (SMIDC)	12 / W15P7T 10 C A012	300,866.37
Passed Through Auburn University			
University of Tennessee	Auburn Univ 10-ENG-202607-UTK Tolbert Y1	12 / 10-ENG-202607-UTK-M1	261,399.29
University of Tennessee	Auburn Univ Ultra High Efficiency Tolbert	12 / 12-ECE-202626-UTK	70,840.24
Passed Through Marshall University Research Corporation			
University of Tennessee	Marshall Univ Research Corp2011-232 Bray	12 / P1200033	253,117.63
Passed Through The Ohio State University Research Foundation			
University of Tennessee	OSU 60020780 Pb As Cleanup Goals-Jardine	12 / 60020780	18,580.75
Passed Through Public Broadcasting Service			
University of Memphis	Public Broadcasting Service Teaching Climate Change Project	12 / NASAPBS	39,903.19
Passed Through Sandia National Laboratories			
University of Tennessee	Sandia Natl Lab PO#1231736 Parigger	12 / PO# 1231736	1,915.50
Passed Through The Geneva Foundation			
University of Tennessee	The Geneva Foundation S-1192-01 Speraw	12 / S-1192-01;HU0001-10	22,050.69

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursement/Issues
Passed Through Tufts University				
University of Tennessee	Tufts University IN Situ RemedI Loeffler	12 / USAF68		35,960.40
Passed Through University of Michigan				
Tennessee State University	Nanosensors for Explosive Detection	12 / N65540-10-C-0003		84,849.19
Passed Through Virginia Polytechic Institute and State University				
University of Tennessee	Virginia Polytech-CR-19121-430344-Parker	12 / CR-19121-430344 MOD5		21,009.17
Subtotal Pass-Through Programs			$	1,708,433.50
Subtotal Department of Defense			$	22,996,003.19
Department of Housing and Urban Development				
Office of Sustainable Housing and Community				
Passed Through Ken-Tenn Regional Alliance				
Middle Tennessee State University	Sustainable Communities Regional Planning Grant Program	14.703 / 3048108055	$	13,808.12
Passed Through City of Memphis Planning and Development				
University of Memphis	Community Challenge Planning Grants and the Department of Transportation's TIGER II Planning Grants	14.704 / CCPTN0023-10		130,105.75
Subtotal Office of Sustainable Housing and Community			$	143,913.87
Subtotal Department of Housing and Urban Development			$	143,913.87
Department of the Interior				
Bureau of Land Management				
Direct Programs				
University of Tennessee	Wildland Fire Research and Studies Program	15.232	$	603.15
Subtotal Bureau of Land Management			$	603.15
Bureau of Reclamation				
Direct Programs				
University of Tennessee	Colorado Ute Indian Water Rights Settlement Act	15.510	$	23,088.61
Subtotal Bureau of Reclamation			$	23,088.61

State of Tennessee
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For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Fish and Wildlife Service				
Direct Programs				
University of Tennessee	Coastal Program	15.630		$ 1,487.60
University of Tennessee	Challenge Cost Share	15.642		0.01
University of Tennessee	Research Grants (Generic)	15.650		42,305.98
University of Tennessee	Migratory Bird Monitoring, Assessment and Conservation	15.655		33,108.46
University of Tennessee	Endangered Species - Candidate Conservation Action Funds	15.660		5,229.90
Subtotal Direct Programs				$ 82,131.95
Passed Through Cornell University				
University of Tennessee	Fish and Wildlife Management Assistance	15.608 / 60287-9334		$ 60,949.44
Passed Through The Nature Conservancy				
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-080110-3830-02 AMENDMENT #2	$ 92,049.11	
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-100111-3850-01	156,388.19	248,437.30
Passed Through Mississippi State University				
University of Tennessee	Challenge Cost Share	15.642 / 080300331289		28,326.03
Subtotal Pass-Through Programs				$ 337,712.77
Subtotal Fish and Wildlife Service				$ 419,844.72
National Park Service				
Direct Programs				
Tennessee Technological University	Outdoor Recreation_Acquisition, Development and Planning	15.916	$ 2,071.87	
University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	15.916	59,448.73	$ 61,520.60
East Tennessee State University	National Center for Preservation Technology and Training	15.923		223.95
Tennessee Technological University	Natural Resource Stewardship	15.944		15,573.38
University of Memphis	Cooperative Research and Training Programs - Resources of the National Park System	15.945	$ 40,201.50	
University of Tennessee	Cooperative Research and Training Programs - Resources of the National Park System	15.945	455,196.42	495,397.92
Middle Tennessee State University	Cultural Resources Management	15.946		15,620.64
Subtotal Direct Programs				$ 588,336.49
Passed Through Western Kentucky University				
Tennessee State University	Outdoor Recreation_Acquisition, Development and Planning	15.916 / P11AC50530		$ 18,598.14

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through New Mexico State University				
University of Tennessee	Cooperative Research and Training Programs - Resources of the National Park System	15.945 / Q01537		2,245.14
Subtotal Pass-Through Programs				$ 20,843.28
Subtotal National Park Service				$ 609,179.77
		Office of Surface Mining		
Direct Programs				
University of Tennessee	Science and Technology Projects Related to Coal Mining and Reclamation	15.255		$ 15,677.23
Subtotal Office of Surface Mining				$ 15,677.23
		U.S. Geological Survey		
Direct Programs				
University of Tennessee	Assistance to State Water Resources Research Institutes	15.805		$ 79,314.45
University of Memphis	Earthquake Hazards Reduction Program	15.807	$ 956,951.58	
University of Memphis	ARRA-Earthquake Hazards Reduction Program	15.807	11,593.95	968,545.53
University of Memphis	U.S. Geological Survey_ Research and Data Collection	15.808	$ 105,076.97	
University of Tennessee	U.S. Geological Survey_ Research and Data Collection	15.808	134,633.89	239,710.86
University of Memphis	National Cooperative Geologic Mapping Program	15.810	$ 987.35	
University of Tennessee	National Cooperative Geologic Mapping Program	15.810	15,055.34	16,042.69
Tennessee Technological University	Cooperative Research Units Program	15.812		316,426.81
Subtotal U.S. Geological Survey				$ 1,620,040.34
		Other Programs		
Direct Programs				
University of Tennessee	Fish, Wildlife, and Parks Programs on Indian Lands	15.039		$ 25,895.30
Tennessee Technological University	Conservation Grants Private Stewardship for Imperiled Species	15.632		15,681.05
Middle Tennessee State University	Oral History Project for Congaree National Park (CESU)	15 / H5000095041		829.44
University of Tennessee	NPS Fraser Fir Health in GSMNP-Franklin	15 / J5471100013		21,946.79
University of Tennessee	NPS H5000095041 Nat'l Cemetery-Sorochan	15 / TASK #J5450100012		690.46
University of Tennessee	NPS J2265100006 Freeman	15 / J2265100006 H5000095		30,833.98
University of Tennessee	NPS J5471100059 Treatment Mgt Plan-Grant	15 / J5471100059		76,293.58

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	NPS River Habitat Mapping #3-Ayers	15 / H5000055040 MOD 3	30,306.97
University of Tennessee	USDI/FWS TN M-5-C Biologist-McKenzie	15 / TN M-5-C	120,119.16
University of Tennessee	USDI-NPS J5160101650 Fordyce	15 / J5160101650	4,926.88
University of Tennessee	USDI-OSM S11PX00094 Schwartz	15 / S11PX00094	44,509.41
University of Tennessee	USDI-OSM-S10PX00742 Schwartz	15 / S10PX00742	4,248.62
University of Tennessee	USGS Amphibian Disease Monitoring-Miller	15 / G11PX10282	6,440.50
University of Tennessee	USGS Louisiana Black Bear-Belli	15 / G10AC00275 MOD 1	58,080.77
Subtotal Direct Programs			$ 440,802.91
Passed Through University of Nebraska			
University of Tennessee	UN of Neb Nematodes of GW Pkwy-Bernard	15 / ADVANCED ACCOUNT	$ 2,697.66
Subtotal Pass-Through Programs			$ 2,697.66
Subtotal Other Programs			$ 443,500.57
Subtotal Department of the Interior			$ 3,131,934.39

Department of Justice

Bureau of Justice Assistance

Direct Programs

University of Memphis	Congressionally Recommended Awards	16.753	$ 326,270.34
Subtotal Bureau of Justice Assistance			$ 326,270.34

National Institute of Justice

Direct Programs

University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	$ 454,598.71
Subtotal National Institute of Justice			$ 454,598.71

Violence Against Women Office

Direct Programs

University of Tennessee	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	$ 291,246.73
Subtotal Violence Against Women Office			$ 291,246.73

Other Programs

Direct Programs

University of Memphis	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	$ 769,314.71

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Direct Programs				$ 769,314.71
Passed Through Memphis City Schools				
University of Memphis	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540 / SHAPE 11		$ 4,143.58
Passed Through City of Memphis Police Department				
University of Memphis	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580 / 27866		9,762.36
Passed Through Shelby County Office of Early Childhood and Youth				
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / PO#S006177 2011-MU-MU-K005	$ 38,516.25	
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / CA1113041	9,379.32	47,895.57
Passed Through Research Triangle Institute				
University of Tennessee	ARRA-Recovery Act - VOCA Crime Victim Assistance Discretionary Grant Program	16.807 / 2009-SZ-B9-K002		2,902.74
Passed Through Shelby County District Attorney General's Office				
University of Memphis	DA's Truancy Abatement/Mentoring Evaluation Project	16 / CA129628 PO #005887		26,000.00
Passed Through Virginia Polytechic Institute and State University				
University of Tennessee	Virginia Tech-Sub 425977-19121 Liu 10&11	16 / SUB 425977-19121		120,212.99
Subtotal Pass-Through Programs				$ 210,917.24
Subtotal Other Programs				$ 980,231.95
Subtotal Department of Justice				$ 2,052,347.73

Department of Labor

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
University of Tennessee	Wage and Hour Standards	17.303	$ 1,720,174.55	
University of Tennessee	ARRA-Wage and Hour Standards	17.303	(2,384.27)	$ 1,717,790.28
University of Tennessee	US DOL-DOLJ089F26523-Moore	17 / DOLJ089F26523		248,237.65
Subtotal Direct Programs				$ 1,966,027.93
Passed Through Virginia Polytechic Institute and State University				
University of Tennessee	Va Tech Production Sys Africa-Eash	17 / 425966-19121		$ 320,913.51
Subtotal Pass-Through Programs				$ 320,913.51
Subtotal Department of Labor				$ 2,286,941.44

Department of State

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursement/Issues		
Bureau of Educational and Cultural Affairs						
Direct Programs						
University of Tennessee	Professional and Cultural Exchange Programs - Citizen Exchanges	19.415			$	3,469.03
Subtotal Bureau of Educational and Cultural Affairs					$	3,469.03
Other Programs						
Passed Through University of Delaware						
University of Memphis	The National Fund of the Republic of Kazakhstan: Is the Future Now?	19 / 22336			$	(211.41)
Subtotal Other Programs					$	(211.41)
Subtotal Department of State					$	3,257.62
Department of Transportation						
Federal Highway Administration (FHWA)						
Passed Through Knox County Schools						
University of Tennessee	Highway Research and Development Program	20.200 / DTFH61-08-G-00020			$	7,508.84
Passed Through The National Academies						
University of Memphis	Highway Research and Development Program	20.200 / HR24-11(02)				10,049.65
Subtotal Federal Highway Administration (FHWA)					$	17,558.49
Federal Transit Administration (FTA)						
Direct Programs						
University of Tennessee	Public Transportation Research	20.514			$	621,604.31
Subtotal Federal Transit Administration (FTA)					$	621,604.31
Pipeline and Hazardous Materials Safety Administration						
Direct Programs						
University of Tennessee	Pipeline Safety Program State Base Grant	20.700			$	182,895.15
Subtotal Pipeline and Hazardous Materials Safety Administration					$	182,895.15
Research and Innovative Technology Administration						
Direct Programs						
University of Memphis	University Transportation Centers Program	20.701	$	283,772.38		

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Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues		
University of Tennessee	University Transportation Centers Program	20.701	1,593,902.36	$	1,877,674.74
Subtotal Direct Programs				$	1,877,674.74
Passed Through University of Illinois					
University of Tennessee	University Transportation Centers Program	20.701 / 2012-02061-04 A0694		$	(20,595.18)
Passed Through University of Georgia					
Middle Tennessee State University	Biobased Transportation Research	20.761 / RR722-134/4893566			2,930.78
Subtotal Pass-Through Programs				$	(17,664.40)
Subtotal Research and Innovative Technology Administration				$	1,860,010.34
Other Programs					
Direct Programs					
University of Tennessee	FTA TN-26-7029 Vakili	20 / TN-26-7029		$	14,478.10
University of Tennessee	US DOT Regional DTOS5907G00050 CRC-Rials	20 / DTOS5907G00050			1,651,398.79
University of Tennessee	USDOT FHA DTFH64-10-G-0062 Han	20 / DTFH64-10-G-0062			4,995.12
University of Tennessee	USDOT FHA DTFH64-11-G-00056 Cherry	20 / DTFH64-11-G-00056			4,899.94
University of Tennessee	USDOT FHA DTFH64-11-G-00062 Cherry	20 / DTFH64-11-G-00062			5,000.00
Subtotal Direct Programs				$	1,680,771.95
Passed Through Mississippi State University					
University of Tennessee	Mississippi State 061300-363994-02 JIn	20 / 061300-363994-02		$	35,252.94
Passed Through National Transportation Research Center					
University of Tennessee	NTRCI-03-06 Task Order 20 - Irick	20 / TASK ORDER 20			11,508.81
University of Tennessee	NTRCI-DTRT-06-G-0043-04-U27-06-021-Han	20 / DTRT-06-G-0043-04-21			62,832.17
University of Tennessee	NTRCI-DTRT-06-G-0043-04-U30-06-22 Clarke	20 / DTRT-06-G-0043-04-U3			31,790.22
University of Tennessee	NTRCI-DTRT-06-G-0043-04-U35-06-023 Irick	20 / DTRT-06-G-0043-04-U3			6,876.02
University of Tennessee	NTRCI-Task -Order No. 016 Cherry	20 / TASK ORDER NO. 016			529.27
Subtotal Pass-Through Programs				$	148,789.43
Subtotal Other Programs				$	1,829,561.38
Subtotal Department of Transportation				$	4,511,629.67
Department of the Treasury					
Direct Programs					
University of Tennessee	IRS-BPA-TIRNO09-Z-00019-TO-0003-Vossler	21 / TIRNO09-Z-00019-TO-3		$	193,787.41

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Department of the Treasury				$ 193,787.41
	Appalachian Regional Commission			
Direct Programs				
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011		$ 97,858.81
University of Tennessee	ARC CO-16505-09 Ezzell	23 / CO-16505-09		(2,699.91)
Subtotal Appalachian Regional Commission				$ 95,158.90
	National Aeronautics and Space Administration			
Direct Programs				
East Tennessee State University	Science	43.001	$ 22,162.67	
Tennessee Technological University	Science	43.001	54,422.48	
University of Tennessee	Science	43.001	307,779.60	$ 384,364.75
Middle Tennessee State University	Aeronautics	43.002	$ 622,094.54	
Tennessee State University	Aeronautics	43.002	76.10	622,170.64
Austin Peay State University	Solar Energy LASER Physics	43 / NNX10AJ04G		177,196.47
Middle Tennessee State University	Cost Modeling for Telescopes	43 / NNX09AG08G		4,997.74
Middle Tennessee State University	MTSU Center for Research on Aviation Training	43 / NNX09AU52G		(1,682.27)
University of Tennessee	JPL Moersch	43 / 1242851		60,988.80
University of Tennessee	JPL-IRS Spectra of Basaltic Astero-Emery	43 / RSA NO. 1353476		(36.37)
University of Tennessee	JPL-NASA-RSA # 1367691-22.9% - Emery	43 / RSA # 1367691		(1,323.90)
University of Tennessee	JPL-NASA-RSA#1416716 Emery Proposal 1	43 / RSA# 1416716		48,160.59
University of Tennessee	NASA Glenn NNX07AD58A MARTOS	43 / NNX07AD58A		135,254.39
University of Tennessee	NASA JPL 1451872 Moersch	43 / CONTRACT NO.		24,503.50
University of Tennessee	NASA JPL RSA # 1439682 Emery	43 / RSA 1439682		104.30
University of Tennessee	NASA NNG06GB44G Islam	43 / NNG06GB44G-004		(22,335.52)
University of Tennessee	NASA NNM08AA13A - Taylor	43 / NNM08AA13A		17,559.20
University of Tennessee	NASA NNX07AC14G Townsend	43 / NNX07AC14G SUPP # 5		114,564.44
University of Tennessee	NASA NNX09AG75G - Fu	43 / NNX09AG75G-000001		32,659.75
University of Tennessee	NASA NNX09AM86G Fedo	43 / NNX09AM86G-000002		75,404.31
University of Tennessee	NASA NNX10AB23G Emery	43 / NNX10AB23G		87,057.85
University of Tennessee	NASA NNX10AH48G McSween	43 / NNX10AH48G		184,941.48
University of Tennessee	NASA NNX10AT66G Hayes	43 / NNX10AT66G		75,701.66
University of Tennessee	NASA NNX11AG58G Taylor	43 / NNX11AG58G		72,838.52
University of Tennessee	NASA-MARSHALL NNM09AB71P CORDA	43 / NNM09AB71P		(225.70)
University of Tennessee	NASA-NNX08AU47G - Burr	43 / NNX08AU47G-00003		15,825.66
University of Tennessee	NASA-NNX08BA24G - Burr	43 / NNX08BA24G-000004		45,468.19
University of Tennessee	NASA-NNX08BA78G - Emery	43 / NNX08BA78G		(13.39)
University of Tennessee	NASA-NNX08BA81G - Burr	43 / NNX08BA81G		63,941.79
University of Tennessee	NASA-NNX09AE08G - Emery	43 / NNX09AE08G		48,718.19
University of Tennessee	NASA-NNX09AH14G - Taylor	43 / NNX09AH14G		124,133.44
University of Tennessee	NASA-NNX09AQ51G - Burr	43 / NNX09AQ51G		88,333.62
University of Tennessee	NASA-RSA # 1378475 - Emery	43 / RSA # 1378475-02		41,510.47
Subtotal Direct Programs				$ 2,520,782.60

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues		
Passed Through Arizona State University					
University of Tennessee	Science	43.001 / 01-082 AMEND # 23	$ 21,550.69		
University of Tennessee	Science	43.001 / 10-254 MOD 4	37,681.24	$	59,231.93
Passed Through California Institute of Technology Jet Propulsion Laboratory					
East Tennessee State University	Science	43.001 / 1353814			2,019.00
Passed Through Space Telescope Science Institute					
East Tennessee State University	Science	43.001 / HST-GO-12198-02-A			9,640.00
Passed Through University of Virginia					
University of Tennessee	Science	43.001 / GP10152-133756-04			45,204.95
Passed Through Vanderbilt University					
University of Memphis	Science	43.001 / 21631 51			103,964.43
Middle Tennessee State University	Tennessee Space Grant College and Fellowship Program	43 / 21603-S6			30,753.74
Tennessee State University	Tennessee NASA Experimental Program to Stimulate Competitive Research (EPSCOR) Infrastructure Development	43 / NNX09AW06A			7,797.49
Tennessee Technological University	Tennessee Space Grant Consortium Award (Tennessee Space Grant College and Fellowship Program)	43 / 21603-S8 AMEND 3			23,779.97
University of Memphis	Development and Automated Drinking Water Disinfection System Offering On Line Analysis of Disinfectants and Disinfection By-products to Optimize Treatment Practices for Higher Water Quality	43 / 20343-S1			11,891.89
University of Memphis	Simulation of Magnetically Induced Fluid Motion in Reduced Gravity	43 / 21603-S9			17,474.40
University of Tennessee	Vanderbilt Univ 21630-S1 Frankel 11	43 / 21630-S1			171,876.52
University of Tennessee	Vanderbilt Univ SUB#21603-SB12 MOELLER	43 / SUB.#21603-S12			28,829.26
University of Tennessee	Vanderbilt University 21603-S11 Taylor	43 / 21603-S11			95,971.56
Passed Through Cornell University					
University of Tennessee	Aeronautics	43.002 / OSP39361-6446			8,549.31
Passed Through University of California					
University of Tennessee	Aeronautics	43.002 / 2090-S-JB694 AMEND19			28,022.78
Passed Through Brown University					
University of Tennessee	Brown Univ - PO #P258656 - Taylor	43 / PO258656/SUB00000242			62,551.00
University of Tennessee	Brown Univ - PO #988930 - Taylor	43 / PO#988930-11			30,231.67
Passed Through Johns Hopkins University					
University of Tennessee	John Hopkins University 971503 Emery	43 / 971503			9,963.63

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Search for Extraterrestrial Intelligence Institute				
University of Tennessee	SETI Institute-Thermal Behavior-Moersch	43 / NNX09AE80A-09-001		(7,070.82)
University of Tennessee	SETI Ins 08-SC-1091 Moersch (AtacamaDes)	43 / 08-SC-1091		5,316.30
University of Tennessee	SETI Ins 08-SC-1092 Moersch (LakeLander)	43 / 08-SC-1092		3,226.90
Passed Through Smithsonian Astrophysical Observatory				
University of Memphis	Solar B XRT	43 / SV7-77005 AMEND 16		124,886.41
Passed Through University of Arizona				
University of Tennessee	University of Arizona PO #30948 Emery	43 / PO # 30948		27,287.06
Passed Through University of New Hampshire				
University of Tennessee	Univ of New Hampshire 11-107 Townsend	43 / 11-107		159,521.23
Subtotal Pass-Through Programs				$ 1,060,920.61
Subtotal National Aeronautics and Space Administration				$ 3,581,703.21
National Endowment for the Arts				
Direct Programs				
University of Memphis	Promotion of the Arts_Grants to Organizations and Individuals	45.024		$ 7,919.41
Subtotal National Endowment for the Arts				$ 7,919.41
National Endowment for the Humanities				
Direct Programs				
Tennessee Technological University	Promotion of the Humanities_ Fellowships and Stipends	45.160		$ 3,102.89
East Tennessee State University	Promotion of the Humanities_ Research	45.161	$ 77,795.09	
University of Memphis	Promotion of the Humanities_ Research	45.161	99,067.04	
University of Tennessee	Promotion of the Humanities_ Research	45.161	271,143.90	448,006.03
University of Tennessee	Promotion of the Humanities_ Professional Development	45.163		(490.95)
Subtotal National Endowment for the Humanities				$ 450,617.97
Institute of Museum and Library Services				
Direct Programs				
University of Tennessee	National Leadership Grants	45.312		$ 325,330.39
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313		112,158.60

State of Tennessee
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For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Direct Programs				$ 437,488.99
Passed Through Johns Hopkins University				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / RE-03-05-0020-05		$ (5,473.65)
Passed Through University of Illinois				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / 2010-03028-02		148,149.66
Subtotal Pass-Through Programs				$ 142,676.01
Subtotal Institute of Museum and Library Services				$ 580,165.00

National Science Foundation

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Engineering Grants	47.041	$ 95,179.34	
Middle Tennessee State University	Engineering Grants	47.041	137,570.69	
Tennessee State University	Engineering Grants	47.041	25,795.34	
Tennessee Technological University	Engineering Grants	47.041	225,919.12	
University of Memphis	Engineering Grants	47.041	73,233.79	
University of Tennessee	Engineering Grants	47.041	4,189,237.05	$ 4,746,935.33
East Tennessee State University	Mathematical and Physical Sciences	47.049	$ 449,567.91	
Tennessee State University	Mathematical and Physical Sciences	47.049	174,207.29	
Tennessee Technological University	Mathematical and Physical Sciences	47.049	15,000.00	
University of Memphis	Mathematical and Physical Sciences	47.049	539,734.95	
University of Tennessee	Mathematical and Physical Sciences	47.049	3,670,060.49	4,848,570.64
East Tennessee State University	Geosciences	47.050	$ 144,258.62	
University of Memphis	Geosciences	47.050	423,794.35	
University of Tennessee	Geosciences	47.050	720,466.08	1,288,519.05
Austin Peay State University	Computer and Information Science and Engineering	47.070	$ 9,905.21	
Middle Tennessee State University	Computer and Information Science and Engineering	47.070	21,059.74	
University of Memphis	Computer and Information Science and Engineering	47.070	312,166.43	
University of Tennessee	Computer and Information Science and Engineering	47.070	1,545,246.57	1,888,377.95
East Tennessee State University	Biological Sciences	47.074	$ 160,950.85	
Middle Tennessee State University	Biological Sciences	47.074	(1,330.10)	
Tennessee State University	Biological Sciences	47.074	160,731.63	
Tennessee Technological University	Biological Sciences	47.074	(8,740.00)	
University of Memphis	Biological Sciences	47.074	326,434.67	
University of Memphis	ARRA-Biological Sciences	47.074	177,000.89	
University of Tennessee	Biological Sciences	47.074	5,593,588.48	6,408,636.42
Austin Peay State University	Social, Behavioral, and Economic Sciences	47.075	$ 4,033.42	
Middle Tennessee State University	Social, Behavioral, and Economic Sciences	47.075	(198.38)	

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Memphis	Social, Behavioral, and Economic Sciences	47.075	406,781.14	
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075	351,629.70	762,245.88
East Tennessee State University	Education and Human Resources	47.076	$ 665,791.58	
Middle Tennessee State University	Education and Human Resources	47.076	120,163.53	
Tennessee State University	Education and Human Resources	47.076	1,135,995.39	
Tennessee Technological University	Education and Human Resources	47.076	1,065,698.83	
University of Memphis	Education and Human Resources	47.076	556,423.14	
University of Tennessee	Education and Human Resources	47.076	1,001,747.70	4,545,820.17
University of Memphis	Polar Programs	47.078	$ 53,241.12	
University of Tennessee	Polar Programs	47.078	2,733.50	55,974.62
University of Tennessee	International Science and Engineering (OISE)	47.079		54,593.26
University of Tennessee	Office of Cyberinfrastructure	47.080		1,981,338.11
Middle Tennessee State University	Office of Experimental Program to Stimulate Competitive Research	47.081	$ 76,534.94	
University of Tennessee	Office of Experimental Program to Stimulate Competitive Research	47.081	3,360,176.08	3,436,711.02
East Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	$ 171,819.23	
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	2,035,408.36	
Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	198,381.67	
Tennessee Technological University	ARRA-Trans-NSF Recovery Act Research Support	47.082	100,152.84	
University of Memphis	ARRA-Trans-NSF Recovery Act Research Support	47.082	511,181.70	
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082	4,813,020.98	7,829,964.78
University of Tennessee	NSF 0711134 Project Management-Zacharia	47 / OCI-0711134		8,251,709.65
University of Tennessee	NSF VSEE Retirement - D Roberts	47 / 11-MOR-1390		29,516.58
Subtotal Direct Programs				$ 46,128,913.46
Passed Through Rice University				
University of Tennessee	Engineering Grants	47.041 / R3B595		$ 3,131.87
Passed Through Texas A&M University				
Tennessee Technological University	Engineering Grants	47.041 / EEC-1106529 Subaward No: 11-0113		4,537.51
Passed Through University of Colorado				
University of Tennessee	Engineering Grants	47.041 / SPO # 0000075352		30,576.79
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075 / PROJECT NO. 1548373		7,800.21
Passed Through University of Georgia				
Middle Tennessee State University	Engineering Grants	47.041 / RR722-136/4786866		51,305.80
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Engineering Grants	47.041 / 478583-19121		26,077.09

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through California Institute of Technology				
University of Tennessee	Mathematical and Physical Sciences	47.049 / 7E-1082277-14		98,387.70
Passed Through Murray State University				
University of Tennessee	Mathematical and Physical Sciences	47.049 / MOA NO. OSP 2009-067		2,983.30
Passed Through University of Texas				
University of Tennessee	Mathematical and Physical Sciences	47.049 / UTA09-000853		105,428.92
Passed Through Vanderbilt University				
Tennessee State University	Mathematical and Physical Sciences	47.049 / DMR-0907619	$ 14,346.69	
University of Tennessee	Mathematical and Physical Sciences	47.049 / 20726-S2 AMEND # 2	71,240.07	85,586.76
Passed Through Florida International University				
University of Tennessee	Geosciences	47.050 / 800001191-02		10,904.80
Passed Through Pennsylvania State University				
University of Tennessee	Geosciences	47.050 / 3687-UT-NSF-5019-05		5,024.13
University of Tennessee	Biological Sciences	47.074 / 4373-UT-NSF-5974		39,223.83
Passed Through University of Texas at El Paso				
University of Tennessee	Geosciences	47.050 / EAR-1009533		22,375.55
Passed Through University of Chicago				
University of Tennessee	Computer and Information Science and Engineering	47.070 / SUBAWARD # 30085-S-2		528,013.29
University of Tennessee	Office of Cyberinfrastructure	47.080 / 41994-E AMEND # 2		820,983.81
Passed Through University of Minnesota				
University of Tennessee	Computer and Information Science and Engineering	47.070 / A001629601		18,156.50
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082 / A001887402		76,128.07
Passed Through University of New Mexico				
University of Tennessee	Computer and Information Science and Engineering	47.070 / 063014-87H2 AMEND# 4		542,310.14
Passed Through University of North Carolina				
University of Tennessee	Computer and Information Science and Engineering	47.070 / 2975-07-0580-UTK-A03		1,916.14
Passed Through University of South Florida				
Tennessee Technological University	Computer and Information Science and Engineering	47.070 / 2108-1039-00-A		12,776.32
Passed Through Auburn University				
Middle Tennessee State University	Biological Sciences	47.074 / 10-FAA-360030-MTSU		15,196.47

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through Boston University			
University of Tennessee	Biological Sciences	47.074 / 4500000653	28,042.23
Passed Through Carnegie Museum of Natural History			
University of Tennessee	Biological Sciences	47.074 / SUBGRANT #1	194.96
Passed Through Portland State University			
University of Tennessee	Biological Sciences	47.074 / 201REY307	5,423.51
Passed Through University of Arizona			
University of Tennessee	Biological Sciences	47.074 / PO Y553515 MOD #4	134,322.83
Passed Through University of California			
University of Tennessee	Biological Sciences	47.074 / S-0000336 AMENDMENT 3	199,815.65
Passed Through University of Massachusetts			
University of Memphis	Biological Sciences	47.074 / 07-004407 B 00	3,676.86
Passed Through University of South Carolina			
University of Tennessee	Biological Sciences	47.074 / SUB11-1890; PO#31834	55,130.70
Passed Through University of California, Irvine			
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075 / 2010-2420 AMEND # 1	9,392.50
Passed Through Alignment Nashville			
Tennessee Technological University	Education and Human Resources	47.076 / DRL-0833643 AMEND 2	56,697.26
Passed Through Cal Poly Corporation			
Middle Tennessee State University	Education and Human Resources	47.076 / 10-020-51621	(3.93)
Passed Through Illinois Institute of Technology			
University of Memphis	Education and Human Resources	47.076 / SA460-1201-7993	75,827.49
Passed Through Loyola Marymount University			
University of Memphis	Education and Human Resources	47.076 / 12019	7,915.02
Passed Through North Carolina Central University			
University of Memphis	Education and Human Resources	47.076 / P0042123	21,061.73
Passed Through San Diego State University Research Foundation			
Tennessee Technological University	Education and Human Resources	47.076 / DUE-1044172 Subaward 56825A P1623 7803 211	14,059.91
Passed Through Stark State College of Technology			
University of Tennessee	Education and Human Resources	47.076 / NSFFC-0802536-11-10	78,277.44

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Louisville Research Foundation				
Tennessee Technological University	Education and Human Resources	47.076 / HRD-1136234 Subaward ULRF 11-1048-01		5,501.41
Passed Through University of Maryland				
Tennessee Technological University	Education and Human Resources	47.076 / Prime DRL-1118755; Subaward Z379202		3,495.47
Passed Through University of Wisconsin				
University of Memphis	Education and Human Resources	47.076 / DRL-0918409		157,056.77
Passed Through Columbia University				
University of Tennessee	International Science and Engineering (OISE)	47.079 / 1(ACCT#5-60276)		188,541.73
Passed Through Georgia Institute of Technology				
University of Tennessee	Office of Cyberinfrastructure	47.080 / RA241-G1		335,692.78
Passed Through Indiana University				
University of Tennessee	Office of Cyberinfrastructure	47.080 / BL-4812439-UTK		167,008.69
Passed Through Rowan University				
Tennessee State University	Office of Cyberinfrastructure	47.080 / OCI-1041306		58,508.00
Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082 / NSF0935089		14,444.14
Passed Through University of Illinois				
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2009-06519-05-00	$ (44,837.86)	
University of Tennessee	Office of Cyberinfrastructure	47.080 / SUB2009-02232-02	24,055.77	
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2011-00318-04 AMEND1	2,308,300.55	2,287,518.46
Passed Through University of Oregon				
University of Tennessee	Office of Cyberinfrastructure	47.080 / 207401C-05		9,479.60
Passed Through Clemson University				
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / 13292062087448 ARRA		46,958.45
Passed Through Dartmouth College				
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / SUBWARD NO. 969		16,484.20
Passed Through Louisiana State University				
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / SUBAWARD NO. 64512		5,743.28
Passed Through Purdue University				
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / 4101-31975 AMEND #3		52,835.34

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Louisiana at Monroe				
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / P0006114/HYS008-UTC		6,081.47
Passed Through Washington University				
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / WU-HT-10-51-AMEND# 1		36,939.31
Passed Through Smithsonian Institution				
University of Memphis	Best Practices & Inventory Development for Smithsonian Steam Education 2011	47 / 11-PO-620-0000225545		12,003.36
Subtotal Pass-Through Programs				$ 6,602,951.62
Subtotal National Science Foundation				$ 52,731,865.08
Securities and Exchange Commission				
Direct Programs				
University of Memphis	One Year Visiting at the Securities and Exchange Commission (SEC) - Intergovernmental Personnel Act Appointment	58 / MOD35000-11-0006	$ 224,134.27	
University of Memphis	One Year Visiting at the Securities and Exchange Commission (SEC) - Intergovernmental Personnel Act Appointment	58 / M10 0636	31,632.86	$ 255,767.13
Subtotal Securities and Exchange Commission				$ 255,767.13
Small Business Administration				
Direct Programs				
University of Memphis	8(a) Business Development Program	59.006		$ 227,699.73
Subtotal Small Business Administration				$ 227,699.73
Environmental Protection Agency				
Office of Air and Radiation				
Direct Programs				
University of Tennessee	Air Pollution Control Program Support	66.001		$ 418,359.80
Subtotal Office of Air and Radiation				$ 418,359.80
Office of Chemical Safety and Pollution Prevention				
Direct Programs				
University of Tennessee	Source Reduction Assistance	66.717		$ (356.30)
Subtotal Office of Chemical Safety and Pollution Prevention				$ (356.30)

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues			
Office of Research and Development (ORD)						
Direct Programs						
University of Tennessee	Science To Achieve Results (STAR) Research Program	66.509			$	(1,121.39)
University of Memphis	Greater Research Opportunities (GRO) Fellowships for Undergraduate Environmental Study	66.513				(601.00)
University of Tennessee	P3 Award: National Student Design Competition for Sustainability	66.516				(3,132.21)
Subtotal Office of Research and Development (ORD)					$	(4,854.60)
Office of the Chief Financial Officer						
Passed Through Consortium for Plant Biotechnnology Research, Incorporated						
University of Tennessee	Congressionally Mandated Projects	66.202 / EM83438801	$	1,454.75		
University of Tennessee	Congressionally Mandated Projects	66.202 / EPA83438801-303		24,982.13	$	26,436.88
Passed Through University of New Hampshire						
University of Tennessee	Congressionally Mandated Projects	66.202 / AGREEMENT NO. 10-				41,237.39
Subtotal Office of the Chief Financial Officer					$	67,674.27
Office of Water						
Direct Programs						
Middle Tennessee State University	Regional Wetland Program Development Grants	66.461	$	31,050.08		
Tennessee Technological University	Regional Wetland Program Development Grants	66.461		41,890.03	$	72,940.11
Subtotal Office of Water					$	72,940.11
Other Programs						
Direct Programs						
University of Tennessee	EPA-Nat'l Resource Policy Ctr-Schwartz	66 / EM-83298901-1			$	2,660.85
Subtotal Other Programs					$	2,660.85
Subtotal Environmental Protection Agency					$	556,424.13
Nuclear Regulatory Commission						
Direct Programs						
University of Tennessee	U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006			$	16,186.98
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008				166,128.22
University of Tennessee	U.S. Nuclear Regulatory Commission Office of Research Financial Assistance Program	77.009				44,399.37

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues			
Subtotal Direct Programs					$	226,714.57
Passed Through University of Florida						
University of Tennessee	U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006 / UF-EIES-1008038-UTN			$	6,737.47
Passed Through Oak Ridge Institute for Science and Education						
Tennessee State University	Gamma Spectroscopy of Heavy Metals in Bauxite Tailings and COUNT Summer Program	77 / NRC-27-10-506				10,024.29
Subtotal Pass-Through Programs					$	16,761.76
Subtotal Nuclear Regulatory Commission					$	243,476.33
		Department of Energy				
Direct Programs						
Middle Tennessee State University	Office of Science Financial Assistance Program	81.049	$	459,499.64		
Tennessee Technological University	Office of Science Financial Assistance Program	81.049		94,142.51		
University of Memphis	Office of Science Financial Assistance Program	81.049		137,915.97		
University of Tennessee	Office of Science Financial Assistance Program	81.049		5,537,691.77		
University of Tennessee	ARRA-Office of Science Financial Assistance Program	81.049		83,367.49	$	6,312,617.38
University of Tennessee	University Coal Research	81.057				57,686.83
University of Tennessee	Conservation Research and Development	81.086				308,562.27
Education	ARRA-Renewable Energy Research and Development	81.087	$	767,338.75		
University of Memphis	Renewable Energy Research and Development	81.087		53,888.45		821,227.20
Tennessee State University	Fossil Energy Research and Development	81.089	$	80,669.93		
Tennessee Technological University	Fossil Energy Research and Development	81.089		71,002.62		
University of Tennessee	Fossil Energy Research and Development	81.089		429,889.79		581,562.34
University of Tennessee	Stewardship Science Grant Program	81.112				138,319.02
University of Tennessee	Defense Nuclear Nonproliferation Research	81.113				490,068.26
Tennessee Technological University	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	$	213,826.94		
Tennessee Technological University	ARRA-Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		9,745.80		
University of Tennessee	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		182,951.06		406,523.80
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121				227,831.46

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123		250,435.02
Tennessee State University	Department of Energy Chair of Excellence Professorship	81 / DE-FG02-94EW11428		59,499.80
University of Tennessee	DOE DE-FG02-06ER46338 Nieh	81 / DE-FG02-06ER46338-03		10,355.88
University of Tennessee	DOE DE-FG05-91ER40627 Task T Siopsis	81 / DE-FG05-91ER40627-34		730,641.07
University of Tennessee	DOE Energy Crop Operating CRC-Jackson	81 / DE-EE0002993		590,171.21
University of Tennessee	DOE Foxtail Millet Biomass Prod CRC-Chen	81 / DE-FG02-08ER64667		74,159.83
University of Tennessee	DOE-Minimize System Noise Effects-Dongarra	81 / DE-FG02-08ER25845		916.15
University of Tennessee	DOE-Spectroscopic Investig - Musfeldt	81 / DE-FG02-01ER45885-12		169,626.66
University of Tennessee	Lawrence Livermore B591195 Symes	81 / B591195		2,131.55
University of Tennessee	NREL ZCO-0-40616-01 Zawodzinski 11	81 / ZCO-0-40616-01		188,080.55
University of Tennessee	PNNL Battelle POLYSYS-FCA-Hellwinckel	81 / 150652		32,946.26
University of Tennessee	Savannah River Nuclear AC841440 Miller	81 / AC841440		20,369.47
University of Tennessee	Univ of California-LBNL-6898750 - Liu	81 / 6898750		9,761.05
Subtotal Direct Programs			$	11,483,493.06
Passed Through Louisiana State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 44159-3	$	112,610.49
Passed Through Pennsylvania State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 4230-UT-DOE-5267		135,119.52
University of Tennessee	Renewable Energy Research and Development	81.087 / 4502-UTK-NFCI-SUX1		96,970.13
Passed Through Princeton University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / SUBAWARD # 00001871		241,149.68
Passed Through Purdue University				
University of Tennessee	ARRA-Office of Science Financial Assistance Program	81.049 / 4105-29625 MOD 3		294,157.30
Passed Through University of California				
University of Tennessee	ARRA-Office of Science Financial Assistance Program	81.049 / 00007727		237,358.67
Passed Through University of Massachusetts				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / DOE-03001804D-00		(3,252.88)

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through University of Texas			
University of Tennessee	Office of Science Financial Assistance Program	81.049 / UTA08-929 AMEND 1	(8,727.76)
Passed Through South Dakota State University			
University of Tennessee	Regional Biomass Energy Programs	81.079 / 3TA157	96,831.19
Passed Through Northeastern University			
University of Tennessee	Renewable Energy Research and Development	81.087 / 50301678052	197,315.05
Passed Through University of Georgia			
Middle Tennessee State University	Renewable Energy Research and Development	81.087 / RR722-077/4785266	3,865.99
Passed Through Wichita State University			
University of Tennessee	Renewable Energy Research and Development	81.087 / SUB110169-1	55,123.03
Passed Through Rutgers, The State University of New Jersey			
University of Tennessee	Stewardship Science Grant Program	81.112 / SUB #3538 PO #S1135633	195,950.50
Passed Through Southern Methodist University			
University of Tennessee	Defense Nuclear Nonproliferation Research	81.113 / SUBCONTRACT #20499-10	39,084.55
Passed Through University of Idaho			
University of Tennessee	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117 / PO # 0024282	75,546.81
Passed Through West Virginia University			
Tennessee Technological University	ARRA-State Energy Program Special Projects	81.119 / 09-232-TTU AMENDMENT NO. 2	14,053.13
Passed Through Washington State University			
Tennessee Technological University	Nuclear Energy Research, Development and Demonstration	81.121 / 108880 G002296 AMENDMENT NO 3	3,289.25
Passed Through Electric Power Research Institute			
University of Tennessee	Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122 / EP-P36560/C16585	2,209.14
Passed Through Ames Laboratory			
University of Tennessee	Ames Laboratory SC-09-323 Zhu	81 / SC-09-323 MOD# 1	101,819.19
University of Tennessee	Ames Laboratory SC-10-331 Wu	81 / SC-10-331	87.65

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through Argonne National Laboratory			
Middle Tennessee State University	Load-Balancing for Leadership Class Computers and Scalable Systems Software	81 / 1F-32181	35,685.07
University of Tennessee	Argonne Natl Lab-Sub1F-30501 - Dongarra	81 / SUB 1F-30501-M0001	108,484.51
Passed Through Battelle Energy Alliance, Limited Liability Company			
University of Tennessee	Battelle Energy 00103759 Wirth Yr 1	81 / 00103759	122,441.84
University of Tennessee	Battelle Energy Allian00120767 Upadhyaya	81 / 00120767	156,348.23
University of Tennessee	Battelle Energy Alliance 001182894 Hines	81 / 00118294	178,123.74
University of Tennessee	Battelle Energy Alliance 00119262 Liaw	81 / 00119262	85,537.32
University of Tennessee	Battelle Energy Alliance, LLC - Khomami	81 / 00091981	265,973.21
University of Tennessee	Battelle Energy AllianceLLC 120607 Wirth	81 / 120607	85,820.91
University of Tennessee	Battelle Energy-00105162-Wirth	81 / 00105162	319,180.05
Passed Through Battelle Memorial Institute			
University of Tennessee	Battelle Memorial Inst PNNL 169906 Wirth	81 / 169906	38,867.14
University of Tennessee	Battelle Memorial Institute-103164-Liaw	81 / 103164	(380.95)
University of Tennessee	Battelle Memorial-PND 134949 Loeffler	81 / 134949	85,510.09
Passed Through Fermi Research Alliance, Limited Liability Company			
University of Tennessee	Fermi Research Alliance, LLC - Spanier	81 / P. O. # 580849 REV#4	9,779.64
Passed Through Gas Technology Institute			
University of Tennessee	Gas Tech Instit- Sub#S218 - Lin	81 / SUB #S218	14,395.55
Passed Through Los Alamos National Laboratory			
University of Tennessee	Los Alamos National Lab 159500-1 Hall	81 / 159500-1	81,300.19
Passed Through North Carolina State University			
University of Tennessee	NC State Univ-Sub2010-1691-01 Weber Yr1	81 / SUB2010-1691-01	49,936.09
University of Tennessee	NCSU-2007-1694-03 - Sanders	81 / 2007-1694-03 MOD 5	30,526.83
Passed Through Rensselaer Polytechnic Institute			
University of Tennessee	Rensselaer Polytechni-A305260-Nazarewicz	81 / SUBCONTRACT # A30560	63,081.04
Passed Through Sandia National Laboratories			
Tennessee Technological University	Automatic Dynamic Resource-Aware Runtime System	81 / PO 1104071 Revision 1	25,881.22

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Technological University	Establish a Quantitative Structure/Property Relationship (QSAR) for Binding Affinities of Functionalized Organic Molecular Groups	81 / PO 15573 Revision 6		(107.50)
University of Memphis	Strategy Shifting in Complex Multimodal Environments	81 / PO 1071364		40,477.60
University of Tennessee	Sandia National Lab Multisensor Abidi	81 / PO 1101746 Revision 3		65,370.00
Passed Through University of Arizona				
University of Tennessee	Univ of Arizona PO # Y561966 Maldonado	81 / PO # Y561966-MOD 1		66,464.45
Passed Through UT-Battelle, Limited Liability Company				
Middle Tennessee State University	Bio-Sensor Detection Research	81 / 4000071940		290.50
Middle Tennessee State University	Fly Ash Analysis	81 / 4000104962		6,133.55
Tennessee Technological University	Alumina Forming Coatings for Power Generation Applications	81 / 4000071336 MOD 5		26,155.47
Tennessee Technological University	ARRA-Aluminide Coatings	81 / 4000087522 MOD 1		5,593.33
Tennessee Technological University	Environmental Remediation of Radioactive Waste and Chemical Process of Spent Nuclear Fuel	81 / 4000101346 MOD 4		38,246.02
Tennessee Technological University	Molecular Photoredox Chemistry of Mercury in Aquatic Systems: Kinetics, Mechanism and Environmental Implication	81 / 4000069118 MOD 5		8,868.53
Tennessee Technological University	Optimization of High Voltage Lines - Phase II	81 / 4000051155 MOD 4		(5,500.77)
Tennessee Technological University	Resiliency Techniques for Large-Scale and Heterogeneous Environments	81 / 4000112013		22,746.73
Tennessee Technological University	Smart Grid Research (High Voltage Transmission Lines - Phase II)	81 / 4000085540 MOD 2		18,407.74
Tennessee Technological University	Stonecipher Professor of Distinction Joint Faculty Agreement with ORNL	81 / 4000102091 MOD 2		84,455.74
University of Tennessee	UT -Battelle	81 / B0199BTL	$ 21,421,110.18	
University of Tennessee	ARRA-UT-Battelle	81 / B0199BTL	445,449.62	21,866,559.80
Subtotal Pass-Through Programs				$ 25,891,213.54
Subtotal Department of Energy				$ 37,374,706.60

Department of Education

Institute of Education Sciences

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
University of Memphis	Education Research, Development and Dissemination	84.305	$ 1,387,848.76	
University of Tennessee	Education Research, Development and Dissemination	84.305	521,688.52	$ 1,909,537.28
Subtotal Direct Programs				$ 1,909,537.28

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues			
Passed Through Northern Illinois University						
University of Memphis	Education Research, Development and Dissemination	84.305 / PO 89595			$	62,499.27
Passed Through Siskin Children's Institute						
Middle Tennessee State University	Research in Special Education	84.324 / R 324 B070003				29,816.72
Subtotal Pass-Through Programs					$	92,315.99
Subtotal Institute of Education Sciences					$	2,001,853.27
Office of Educational Research and Improvement						
Passed Through Virginia Department of Education						
University of Memphis	Twenty-First Century Community Learning Centers	84.287 / 21CCLC2009	$	(1,423.94)		
University of Memphis	Twenty-First Century Community Learning Centers	84.287 / 780-86784-S287C100047		57,133.36	$	55,709.42
Subtotal Office of Educational Research and Improvement					$	55,709.42
Office of Innovation and Improvement						
Passed Through Hardin County Schools						
University of Memphis	Fund for the Improvement of Education	84.215 / Q215E110461			$	13,754.33
Subtotal Office of Innovation and Improvement					$	13,754.33
Office of Postsecondary Education						
Direct Programs						
University of Tennessee	Fund for the Improvement of Postsecondary Education	84.116			$	13.56
University of Memphis	Centers for International Business Education	84.220				208,708.13
University of Tennessee	Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407				288,688.69
Subtotal Direct Programs					$	497,410.38
Passed Through Smithsonian Institution						
University of Memphis	ARRA-Overseas Programs - Doctoral Dissertation Research Abroad	84.022 / 11-SUBC-440-0000220859			$	901,221.93
Subtotal Pass-Through Programs					$	901,221.93
Subtotal Office of Postsecondary Education					$	1,398,632.31
Other Programs						
Direct Programs						
University of Memphis	Bilingual Education Support Services	84.194			$	248,289.49

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Subtotal Other Programs			$ 248,289.49
Subtotal Department of Education			$ 3,718,238.82
National Archives and Records Administration			
Direct Programs			
University of Tennessee	National Historical Publications and Records Grants	89.003	$ 179,626.33
Subtotal National Archives and Records Administration			$ 179,626.33
Department of Health and Human Services			
Administration for Children and Families			
Passed Through Methodist LeBonheur Healthcare, Incorporated			
University of Memphis	Child Abuse and Neglect Discretionary Activities	93.670 / 97212-2011	$ 5,503.69
Subtotal Administration for Children and Families			$ 5,503.69
Administration for Community Living			
Passed Through Texas A&M University			
University of Memphis	ARRA-Special Programs for the Aging_Title IV_and Title II_ Discretionary Projects	93.048 / S120018	$ 23,597.60
Subtotal Administration for Community Living			$ 23,597.60
Agency for Healthcare Research and Quality			
Direct Programs			
University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	93.226	$ 239,341.39
Subtotal Direct Programs			$ 239,341.39
Passed Through Olmsted Medical Center			
University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	93.226 / HS019408	$ 25,297.98
Subtotal Pass-Through Programs			$ 25,297.98
Subtotal Agency for Healthcare Research and Quality			$ 264,639.37
Centers for Disease Control and Prevention			
Direct Programs			
University of Tennessee	Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects	93.185	$ 3,805.16

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942		234,785.88
Middle Tennessee State University	Assistance Programs for Chronic Disease Prevention and Control	93.945		355,595.29
Subtotal Direct Programs			$	594,186.33
Passed Through Emory University				
University of Tennessee	Environmental Public Health and Emergency Response	93.070 / S519954-01	$	73,780.37
Passed Through Georgia Institute of Technology				
East Tennessee State University	Environmental Public Health and Emergency Response	93.070 / RA153-G1		20,243.07
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects	93.185 / IP000302		80,005.81
University of Tennessee	The Affordable Care Act: Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283 / IP000489		408,397.60
Passed Through Colorado State University				
University of Tennessee	Occupational Safety and Health Program	93.262 / G-4603-1		43,387.61
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	Occupational Safety and Health Program	93.262 / 3049024627-12-474		4,992.62
Passed Through University of North Carolina				
University of Tennessee	The Affordable Care Act: Centers for Disease Control and Prevention_ Investigations and Technical Assistance	93.283 / DD000199		8,719.62
Passed Through Metropolitan Government of Nashville and Davidson County				
Tennessee State University	ARRA-Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724 / 1U58DP002447-01		2,645.93
Passed Through American College of Sports Medicine				
University of Tennessee	Assistance Programs for Chronic Disease Prevention and Control	93.945 / 5U58DP001132-05 CDC		4,820.69
Passed Through Shelby County Office of Early Childhood and Youth				
University of Memphis	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946 / CA1111118		15,666.68

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Pass-Through Programs				$ 662,660.00
Subtotal Centers for Disease Control and Prevention				$ 1,256,846.33
Food and Drug Administration				
Direct Programs				
University of Tennessee	Food and Drug Administration_ Research	93.103		$ 130,461.53
Subtotal Food and Drug Administration				$ 130,461.53
Health Resources and Services Administration				
Direct Programs				
University of Tennessee	Nursing Workforce Diversity	93.178		$ 244,900.52
University of Tennessee	Specially Selected Health Projects	93.888		44,228.77
Subtotal Direct Programs				$ 289,129.29
Passed Through University of North Carolina				
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / MC05053		$ 18,464.33
Passed Through Mountain States Health Alliance				
East Tennessee State University	Telehealth Programs	93.211 / 1H2AIT16637		48,437.05
Passed Through University of Kentucky				
University of Tennessee	Public Health Training Centers Program	93.249 / 304810583-12-526		31,333.67
Passed Through Methodist LeBonheur Healthcare, Incorporated				
University of Memphis	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505 / 97212UMCHANG		16,971.00
Passed Through Delta Health Alliance				
University of Tennessee	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912 / RH08555		35,188.48
Subtotal Pass-Through Programs				$ 150,394.53
Subtotal Health Resources and Services Administration				$ 439,523.82
National Institutes of Health				
Direct Programs				
East Tennessee State University	Environmental Health	93.113	$ 29,496.62	
University of Memphis	Environmental Health	93.113	551,909.41	
University of Tennessee	Environmental Health	93.113	163,337.48	$ 744,743.51
University of Tennessee	Oral Diseases and Disorders Research	93.121		46,039.92
University of Tennessee	Human Genome Research	93.172		19,072.89

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173	$ 38,343.62	
University of Memphis	Research Related to Deafness and Communication Disorders	93.173	619,882.27	
University of Tennessee	Research Related to Deafness and Communication Disorders	93.173	722,175.35	1,380,401.24
East Tennessee State University	Mental Health Research Grants	93.242	$ 733,318.60	
University of Memphis	Mental Health Research Grants	93.242	(0.01)	
University of Tennessee	Mental Health Research Grants	93.242	900,255.72	1,633,574.31
University of Memphis	Alcohol Research Programs	93.273	$ 103,104.25	
University of Tennessee	Alcohol Research Programs	93.273	2,262,078.62	2,365,182.87
East Tennessee State University	Drug Abuse and Addiction Research Programs	93.279	$ 262,526.28	
University of Memphis	Drug Abuse and Addiction Research Programs	93.279	203,245.51	
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279	931,977.52	1,397,749.31
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		231,592.00
East Tennessee State University	Minority Health and Health Disparities Research	93.307		338,196.59
University of Tennessee	Nursing Research	93.361		331,767.00
University of Tennessee	National Center for Research Resources	93.389		540,526.95
East Tennessee State University	Cancer Cause and Prevention Research	93.393	$ 273,853.79	
Tennessee State University	Cancer Cause and Prevention Research	93.393	267,825.02	
University of Tennessee	Cancer Cause and Prevention Research	93.393	1,111,764.36	1,653,443.17
East Tennessee State University	Cancer Detection and Diagnosis Research	93.394	$ 610,008.25	
University of Memphis	Cancer Detection and Diagnosis Research	93.394	52,820.53	662,828.78
University of Tennessee	Cancer Treatment Research	93.395		1,579,859.83
University of Tennessee	Cancer Biology Research	93.396		1,242,066.64
University of Tennessee	Cancer Control	93.399		(16,943.11)
East Tennessee State University	ARRA-Trans-NIH Recovery Act Research Support	93.701	$ 510,839.12	
Middle Tennessee State University	ARRA-Trans-NIH Recovery Act Research Support	93.701	41,524.13	
University of Memphis	ARRA-Trans-NIH Recovery Act Research Support	93.701	373,291.37	
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701	4,381,207.00	5,306,861.62
East Tennessee State University	ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702		116,274.80
East Tennessee State University	Cardiovascular Diseases Research	93.837	$ 1,578,658.08	
University of Memphis	Cardiovascular Diseases Research	93.837	154,909.12	
University of Tennessee	Cardiovascular Diseases Research	93.837	8,983,075.19	10,716,642.39
East Tennessee State University	Lung Diseases Research	93.838	$ 42,639.55	
University of Tennessee	Lung Diseases Research	93.838	1,367,434.86	1,410,074.41
University of Tennessee	Blood Diseases and Resources Research	93.839		247,409.78
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846		959,500.36

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	$ 458,713.06	
Tennessee State University	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	35,673.84	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	3,520,820.22	4,015,207.12
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	$ 390,696.69	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	4,764,394.41	5,155,091.10
East Tennessee State University	Allergy, Immunology and Transplantation Research	93.855	$ 327,543.47	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855	3,784,876.12	
University of Tennessee	ARRA-Allergy, Immunology and Transplantation Research	93.855	92,950.51	4,205,370.10
University of Tennessee	Microbiology and Infectious Diseases Research	93.856		255,000.96
East Tennessee State University	Biomedical Research and Research Training	93.859	$ 598,894.41	
Tennessee State University	Biomedical Research and Research Training	93.859	18,710.24	
University of Tennessee	Biomedical Research and Research Training	93.859	1,780,611.75	2,398,216.40
East Tennessee State University	Child Health and Human Development Extramural Research	93.865	$ 38,867.03	
University of Memphis	Child Health and Human Development Extramural Research	93.865	(11,191.05)	
University of Tennessee	Child Health and Human Development Extramural Research	93.865	641,678.23	669,354.21
University of Tennessee	Aging Research	93.866		1,100,257.11
University of Tennessee	Vision Research	93.867	$ 2,149,512.18	
University of Tennessee	ARRA-Vision Research	93.867	(356.48)	2,149,155.70
Middle Tennessee State University	Medical Library Assistance	93.879		55,282.38
Subtotal Direct Programs				$ 52,909,800.34
Passed Through University of Michigan				
University of Tennessee	Environmental Health	93.113 / 3001668850		$ (1,208.18)
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL094345		40,812.11
Passed Through The Ohio State University Research Foundation				
University of Tennessee	Oral Diseases and Disorders Research	93.121 / 60025882		78,750.87
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / RF01228833 PO		58,253.35
Passed Through University of North Carolina				
University of Tennessee	Human Genome Research	93.172 / #5-34534	$ (8,060.52)	
University of Tennessee	Human Genome Research	93.172 / SUB 5-30792	91,373.24	83,312.72
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI057157		49,534.00

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Cornell University				
University of Tennessee	Research Related to Deafness and Communication Disorders	93.173 / DC-008702		13,374.13
University of Tennessee	Cancer Treatment Research	93.395 / 54352-9027		32,274.83
Passed Through Duke University				
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / 12-NIH-1032		161,989.51
University of Tennessee	Cancer Cause and Prevention Research	93.393 / SUBAWARD # 303-3941	$ 27,980.50	
University of Tennessee	Cancer Cause and Prevention Research	93.393 / 203-0310 AMEND # 1	44,255.28	72,235.78
Passed Through University of Iowa				
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / UNKNOWN		230.75
Passed Through Emory University				
University of Tennessee	Research and Training in Complementary and Alternative Medicine	93.213 / S494529 AMENDMENT# 1		8,951.99
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS062778	$ (10,240.21)	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS065701	215.48	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS067201	118,934.73	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS071867	449.03	109,359.03
Passed Through Medical College of Wisconsin				
University of Memphis	Mental Health Research Grants	93.242 / P01236907		73,647.15
Passed Through Research Foundation for Mental Hygiene, Incorporated				
University of Tennessee	Mental Health Research Grants	93.242 / 96757		68,036.63
Passed Through University of Illinois at Chicago				
University of Tennessee	Mental Health Research Grants	93.242 / 491739 E5151	$ 40,493.71	
University of Tennessee	Mental Health Research Grants	93.242 / 5P20MH078458-03	66,838.63	107,332.34
Passed Through Vanderbilt University				
Middle Tennessee State University	Mental Health Research Grants	93.242 / 21357-S1	$ 32,474.07	
University of Tennessee	Mental Health Research Grants	93.242 / MH063232	19,453.68	51,927.75
University of Tennessee	Lung Diseases Research	93.838 / HL109977		200,276.05
Passed Through Jackson Laboratory				
University of Tennessee	Alcohol Research Programs	93.273 / PO 659700		89,238.38

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of British Columbia				
University of Tennessee	Alcohol Research Programs	93.273 / AA016666		40,187.95
Passed Through Virginia Commonwealth University				
University of Tennessee	Alcohol Research Programs	93.273 / PT100580-SC100569		52,887.44
Passed Through Florida International University				
University of Memphis	Drug Abuse and Addiction Research Programs	93.279 / 800001039-02 AMEND 01		22,306.40
Passed Through Health Research, Incorporated				
East Tennessee State University	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / 3687-01		30,993.39
Passed Through Louisiana State University				
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / 1R01EB006639-01A1		68,574.91
Passed Through Meharry Medical College				
Tennessee State University	Minority Health and Health Disparities Research	93.307 / 5P20MD000516-06	$ (275.94)	
Tennessee State University	Minority Health and Health Disparities Research	93.307 / 5P20MD000516-07	38,899.23	
Tennessee State University	Minority Health and Health Disparities Research	93.307 / 5P20MD000516-08	37,553.32	
University of Tennessee	Minority Health and Health Disparities Research	93.307 / 110804PJ158 02	5,429.99	81,606.60
Tennessee State University	Cancer Centers Support Grants	93.397 / 1P20CA144809-01	$ 4,987.77	
Tennessee State University	Cancer Centers Support Grants	93.397 / 1P20CA144809-02	10,930.00	
Tennessee State University	Cancer Centers Support Grants	93.397 / 1U54CA153708-01	3,241.45	19,159.22
Tennessee State University	Biomedical Research and Research Training	93.859 / 5U54CA091408-10		14,821.35
Passed Through University of Pittsburgh				
University of Tennessee	Nursing Research	93.361 / NR012459		168,426.33
University of Memphis	Cancer Cause and Prevention Research	93.393 / 0019106		116,375.59
University of Tennessee	Aging Research	93.866 / AG028050		4,610.18
Passed Through Clemson University				
University of Tennessee	National Center for Research Resources	93.389 / 1307-7558-2092007132		70,450.42
Passed Through Miami University				
University of Memphis	Cancer Cause and Prevention Research	93.393 / 401966		7,169.06
Passed Through University of Massachusetts				
University of Tennessee	Cancer Cause and Prevention Research	93.393 / 08 004521 C01-1		16,192.66

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Rochester				
East Tennessee State University	Cancer Cause and Prevention Research	93.393 / 414462-G		6,142.30
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS050095		(1,813.86)
Passed Through The Miriam Hospital				
University of Tennessee	Cancer Detection and Diagnosis Research	93.394 / 710-9801 AMENDMENT 2		7,060.37
University of Tennessee	Cardiovascular Diseases Research	93.837 / 710-9866		14,852.38
Passed Through Duke University Medical Center				
University of Tennessee	Cancer Treatment Research	93.395 / CA 112519		(8,182.03)
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / HD057956		10.71
Passed Through National Childhood Cancer Foundation				
East Tennessee State University	Cancer Treatment Research	93.395 / 98543-1033		1,312.20
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	Cancer Treatment Research	93.395 / CA081457	$ 47,531.34	
University of Tennessee	Cancer Treatment Research	93.395 / CA132901	6,893.35	54,424.69
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / AI062415	$ (6,103.68)	
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / EY014867	60,729.16	54,625.48
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK088988		5,741.61
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI062415	$ 110,052.87	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI069529	155,219.72	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI076816	(1,479.52)	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI088729	38,185.93	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI090810	215,060.11	517,039.11
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / HD059292		2,771.44
Passed Through University of Rhode Island				
East Tennessee State University	Cancer Biology Research	93.396 / 041211/0002821	$ 35,020.97	
East Tennessee State University	Cancer Biology Research	93.396 / 052912/0003156	11,994.86	47,015.83
Passed Through CTRC Research Foundation				
East Tennessee State University	Cancer Control	93.399 / CA37429		12,292.60
Passed Through Dana-Farber Cancer Institute				
University of Tennessee	Cancer Control	93.399 / CA148596		42,539.02

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through Children's Mercy Hospital			
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / DK066143	2,009.29
Passed Through University of Florida			
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / AG033005	23,788.56
Passed Through University of Kansas Medical Center			
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / DK057301	3,442.80
Passed Through University of Utah			
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / NS069066	(2,411.10)
Passed Through Baylor College of Medicine			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL056865	14,936.31
Passed Through Ithaca College			
East Tennessee State University	Cardiovascular Diseases Research	93.837 / 1R01HL098589	54,393.17
Passed Through Northwestern University			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL106462	7,817.51
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS047085	210,909.55
Passed Through University of Washington			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL077863	91,593.29
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK080840	12,042.49
Passed Through University of Alabama			
University of Tennessee	Lung Diseases Research	93.838 / 000272595-004	14,197.04
Passed Through University of California, San Francisco			
University of Tennessee	Lung Diseases Research	93.838 / HL094338	31,028.80
University of Memphis	Child Health and Human Development Extramural Research	93.865 / 6705SC	6,599.52
Passed Through University of Chicago			
University of Tennessee	Lung Diseases Research	93.838 / HL080417	(0.01)
Passed Through Johns Hopkins University			
University of Tennessee	Blood Diseases and Resources Research	93.839 / HL68927	(894.68)

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Alabama at Birmingham				
University of Tennessee	Blood Diseases and Resources Research	93.839 / HL095468		59,827.34
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK-082753		14,622.73
Passed Through University of South Florida				
Tennessee Technological University	Arthritis, Musculoskeletal and Skin Diseases Research	93.846 / 2107-1060-00-A MODIFICATION 1		14,136.29
Passed Through Case Western Reserve University				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK094157	$ 6,897.71	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / N01-DK-6-2203	156,565.36	163,463.07
Passed Through State University of New York				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / PO#R635210 AMEND 02		28,735.41
Passed Through Tufts Medical Center				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK091958		3,275.21
Passed Through Children's Hospital Research Foundation				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS045911		6,694.38
Passed Through Cornell Medical Center				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS50324		19,071.30
Passed Through Massachusetts General Hospital				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / AT000613	$ 53,954.96	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS052592	3,605.29	57,560.25
Passed Through Mayo Clinic				
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 1R01NS07087201A1		30,184.47
Passed Through Medical University of South Carolina				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS058728		3,217.67

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Pennsylvania				
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 558624		3,056.54
Passed Through Yale University				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS053865		19,696.96
Passed Through Seattle Children's Hospital				
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI071163		36,067.60
Passed Through University of Arkansas for Medical Sciences				
University of Memphis	Allergy, Immunology and Transplantation Research	93.855 / 30646 AMEND 4		18,522.64
Passed Through Minneapolis Medical Research Foundation				
University of Tennessee	Aging Research	93.866 / AG029824		75,969.38
Passed Through Wake Forest University				
University of Tennessee	Aging Research	93.866 / AG033087		85,982.97
Passed Through University of California				
University of Tennessee	Vision Research	93.867 / EY013198		(0.15)
Passed Through Columbia University				
University of Tennessee	International Research and Research Training	93.989 / 1 (ACCT #5-63306)		7,669.27
Subtotal Pass-Through Programs				$ 3,885,128.41
Subtotal National Institutes of Health				$ 56,794,928.75
Office of the Secretary				
Passed Through Shelby County Government				
University of Memphis	Pregnancy Assistance Fund Program	93.500 / S006102	$ 292,549.86	
University of Memphis	Pregnancy Assistance Fund Program	93.500 / S006172	4,255.00	$ 296,804.86
Passed Through Shelby County Office of Early Childhood and Youth				
University of Memphis	Pregnancy Assistance Fund Program	93.500 / S006101	$ 53,500.94	
University of Memphis	Pregnancy Assistance Fund Program	93.500 / S006103	49,612.32	
University of Memphis	Pregnancy Assistance Fund Program	93.500 / S006170	102,575.81	205,689.07
Passed Through University of Washington				
University of Tennessee	ARRA-Strategic Health IT Advanced Research Projects (SHARP)	93.728 / 716217Z		16,359.82
Subtotal Office of the Secretary				$ 518,853.75

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
President's Council on Fitness, Sports, and Nutrition				
Passed Through University of Kentucky				
University of Tennessee	President's Council on Fitness, Sports, and Nutrition	93.289 / 3049024225-11-192	$	(3.20)
Subtotal President's Council on Fitness, Sports, and Nutrition			$	(3.20)
Substance Abuse and Mental Health Services Administration				
Direct Programs				
East Tennessee State University	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	$	88,250.04
Subtotal Direct Programs			$	88,250.04
Passed Through Case Management, Incorporated				
University of Memphis	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243 / BABYLOVE II	$	8,575.54
Subtotal Pass-Through Programs			$	8,575.54
Subtotal Substance Abuse and Mental Health Services Administration			$	96,825.58
Other Programs				
Direct Programs				
University of Tennessee	Digestive Diseases and Nutrition Research	93.848	$	1,976,419.83
East Tennessee State University	Academic Research Enhancement Award	93 / 1R15HL091502		17,964.18
University of Memphis	Alzheimer's Disease and Social Networks	93 / HHSN268201100195P		27,125.51
University of Tennessee	NCI COTC007a Topotecan Dogs-Phillips	93 / COTC007A		(20,962.49)
University of Tennessee	NIH 1R21EY018935-01A1 Chen, Yl	93 / 1R21EY018935-01A1		161,062.61
University of Tennessee	ARRA-NIH 1R21EY018385-01A2 Chen, Yl	93 / 1R21EY018385-01A2		83,393.56
University of Tennessee	NIH 2R01AI01436725A2 Replication-Brian	93 / 2R01AI01436725A2		317,109.83
University of Tennessee	NIH Green Tea Precancer Prevention-Wang	93 / 1R21CA129772-01A2		68,673.95
University of Tennessee	NIH-NINR IPA Agmt-2256486-Cashion	93 / 2256486		115,944.26
Subtotal Direct Programs			$	2,746,731.24
Passed Through Buffalo Valley, Incorporated				
University of Memphis	Consolidated Knowledge Development and Application (KD&A) Program	93.230 / T109006	$	59,210.04

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Children's Mercy Hospital				
University of Tennessee	Kidney Diseases, Urology and Hematology Research	93.849 / DK066143		351.78
Passed Through Shelby County Drug Court				
University of Memphis	Evaluation of the Shelby County Drug Court for Individuals with Co-Occurring Mental Health Disorders	93 / 1H79T1021892 01		32,701.99
Passed Through University of Alabama at Birmingham				
University of Tennessee	ARRA-Univ Alabama HHSN268200900047C	93 / HHSN268200900047C		163,990.39
Passed Through University of Texas				
University of Tennessee	Univ Texas HSC Subcont HL077863	93 / HL077863		194,677.84
Passed Through University of Toledo				
University of Tennessee	Univ Toledo Sub HHSN261200433000C	93 / HHSN261200433000C		138,722.18
Passed Through Urban Institute				
University of Memphis	Housing Assistance and Supportive Services in Memphis	93 / 08350-022-00-UOM-01		20,362.89
Passed Through Vanderbilt University Medical Center				
Tennessee Technological University	VEHI Subcontract w/ Vanderbilt - Amendment #5	93 / VUMC31882-R - AMENDMENT NO 5		(773.10)
Subtotal Pass-Through Programs			$	609,244.01
Subtotal Other Programs			$	3,355,975.25
Subtotal Department of Health and Human Services			$	62,887,152.47
		Department of Homeland Security		
Direct Programs				
Tennessee State University	Scientific Leadership Awards	97.062	$	163,474.13
University of Tennessee	Homeland Security Research Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Detection	97.077		745,268.77
Tennessee Technological University	Detecting Anomalies in Shipping Data Using a Graph-Based Approach	97 / HSHQDC-10-C-00212		111,469.63
Subtotal Direct Programs			$	1,020,212.53
Passed Through Mississippi State University				
University of Tennessee	Mississippi State 061300-362972-01 JIn	97 / 061300-362972-01	$	16,082.85

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Mississippi				
University of Memphis	Nano Coated Metal Oxides Smart Sensors for Explosive Diagnostics and Monitoring	97 / 1007011		(1,583.10)
Subtotal Pass-Through Programs			$	14,499.75
Subtotal Department of Homeland Security			$	1,034,712.28

Agency for International Development

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
University of Tennessee	USAID Foreign Assistance for Programs Overseas	98.001	$	826,834.87
Subtotal Agency for International Development			$	826,834.87

Other Federal Assistance

Tennessee Valley Authority

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
Tennessee Technological University	Propogation of Pink Muckets (Lampsilis abrupta)	62 / PO 165700	$	10,000.00
University of Tennessee	TVA - PO#205185 - DeCorse	62 / TVA PO#205185		1,522.38
University of Tennessee	TVA 272087 Occasional Flooding-English	62 / PO 272087		41,281.76
University of Tennessee	TVA PO # 215726 DeCorse	62 / PO # 215726/330761		11,759.49
University of Tennessee	TVA PO # 216056 AlgaeWheel Spratt 11	62 / PO NO 216056		8,619.08
University of Tennessee	TVA PO # 226713 DeCorse	62 / PO # 226713		43,225.26
University of Tennessee	TVA PO # 244457 Sander's Site DeCorse	62 / PO # 244457 REV 1		8,098.25
University of Tennessee	TVA PO # 293171 Murray 12	62 / PO # 293171		117,060.00
University of Tennessee	TVA PO # 335382 Yerka	62 / PO # 335382		10,550.92
University of Tennessee	TVA PO # 389909 DeCorse	62 / PO # 389909		11,901.02
University of Tennessee	TVA PO 260141-Elec Transp 11 Bailey	62 / PO # 260141		55,050.25
University of Tennessee	TVA PO# 27296 XRD 09-10 Mies	62 / PO NO 27296		1,985.81
University of Tennessee	TVA PO#274537 Vishnivetskaya	62 / PO#274537		10,542.00
University of Tennessee	TVA Rel #110 Fly Ash Exposure-Souza	62 / RELEASE #110		1,112.62
University of Tennessee	TVA Solar Decathlon Stach Year 1	62 / PO#156617		185,994.61
University of Tennessee	TVA-99998950 Release No. 109 - Gage	62 / PO# 073151		5,535.80
Subtotal Direct Programs			$	524,239.25
Passed Through Tennessee Advisory Commission				
Middle Tennessee State University	Web Site of Economic Indicators for Tennessee's Economy	62 / 16721	$	7,573.41
Subtotal Pass-Through Programs			$	7,573.41
Subtotal Tennessee Valley Authority			$	531,812.66
Subtotal Other Federal Assistance			$	531,812.66

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Total Research and Development Cluster				$ 215,806,890.98
	Student Financial Assistance Cluster			
	Department of Education			
Direct Programs				
Austin Peay State University	Federal Supplemental Educational Opportunity Grants	84.007	$ 286,578.00	
Chattanooga State Community College	Federal Supplemental Educational Opportunity Grants	84.007	192,220.50	
Cleveland State Community College	Federal Supplemental Educational Opportunity Grants	84.007	81,030.50	
Columbia State Community College	Federal Supplemental Educational Opportunity Grants	84.007	115,976.75	
Dyersburg State Community College	Federal Supplemental Educational Opportunity Grants	84.007	66,294.00	
East Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	308,433.00	
Jackson State Community College	Federal Supplemental Educational Opportunity Grants	84.007	217,808.84	
Middle Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	608,091.00	
Motlow State Community College	Federal Supplemental Educational Opportunity Grants	84.007	88,655.50	
Nashville State Community College	Federal Supplemental Educational Opportunity Grants	84.007	236,129.95	
Northeast State Community College	Federal Supplemental Educational Opportunity Grants	84.007	143,523.00	
Pellissippi State Community College	Federal Supplemental Educational Opportunity Grants	84.007	291,018.65	
Roane State Community College	Federal Supplemental Educational Opportunity Grants	84.007	157,042.00	
Southwest Tennessee Community College	Federal Supplemental Educational Opportunity Grants	84.007	447,567.31	
Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	1,148,848.32	
Tennessee Technological University	Federal Supplemental Educational Opportunity Grants	84.007	193,927.26	
University of Memphis	Federal Supplemental Educational Opportunity Grants	84.007	554,677.00	
University of Tennessee	Federal Supplemental Educational Opportunity Grants	84.007	934,300.00	
Volunteer State Community College	Federal Supplemental Educational Opportunity Grants	84.007	161,312.60	
Walters State Community College	Federal Supplemental Educational Opportunity Grants	84.007	149,874.08	$ 6,383,308.26
Cleveland State Community College	Federal Family Education Loans	84.032	$ 8,525,712.00	
Northeast State Community College	Federal Family Education Loans	84.032	6,771,166.00	15,296,878.00
Austin Peay State University	Federal Work-Study Program	84.033	$ 365,857.91	
Chattanooga State Community College	Federal Work-Study Program	84.033	204,557.43	
Cleveland State Community College	Federal Work-Study Program	84.033	101,206.07	
Columbia State Community College	Federal Work-Study Program	84.033	94,638.68	
Dyersburg State Community College	Federal Work-Study Program	84.033	105,707.51	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Federal Work-Study Program	84.033	643,056.00	
Jackson State Community College	Federal Work-Study Program	84.033	138,445.44	
Middle Tennessee State University	Federal Work-Study Program	84.033	575,370.85	
Motlow State Community College	Federal Work-Study Program	84.033	91,122.81	
Nashville State Community College	Federal Work-Study Program	84.033	85,954.44	
Northeast State Community College	Federal Work-Study Program	84.033	122,383.34	
Pellissippi State Community College	Federal Work-Study Program	84.033	146,872.58	
Roane State Community College	Federal Work-Study Program	84.033	221,266.00	
Southwest Tennessee Community College	Federal Work-Study Program	84.033	521,976.24	
Tennessee State University	Federal Work-Study Program	84.033	969,570.46	
Tennessee Technological University	Federal Work-Study Program	84.033	423,605.41	
University of Memphis	Federal Work-Study Program	84.033	945,722.31	
University of Tennessee	Federal Work-Study Program	84.033	1,849,530.40	
University of Tennessee	ARRA-Federal Work-Study Program	84.033	(134.32)	
Volunteer State Community College	Federal Work-Study Program	84.033	76,425.50	
Walters State Community College	ARRA-Federal Work-Study Program	84.033	179,093.22	7,862,228.28
Austin Peay State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	$ 1,049,571.75	
East Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	6,151,826.95	
Jackson State Community College	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	170,169.88	
Middle Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	2,581,178.08	
Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	2,262,720.75	
Tennessee Technological University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	1,812,018.68	
University of Memphis	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	4,388,548.11	
University of Tennessee	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	29,144,476.32	47,560,510.52
Austin Peay State University	Federal Pell Grant Program	84.063	$ 22,811,616.42	
Chattanooga State Community College	Federal Pell Grant Program	84.063	23,879,485.00	
Cleveland State Community College	Federal Pell Grant Program	84.063	8,861,472.86	
Columbia State Community College	Federal Pell Grant Program	84.063	10,796,270.94	
Dyersburg State Community College	Federal Pell Grant Program	84.063	8,115,201.36	
East Tennessee State University	Federal Pell Grant Program	84.063	23,950,642.50	
Jackson State Community College	Federal Pell Grant Program	84.063	16,995,846.25	
Middle Tennessee State University	Federal Pell Grant Program	84.063	42,993,436.00	
Motlow State Community College	Federal Pell Grant Program	84.063	9,289,668.85	
Nashville State Community College	Federal Pell Grant Program	84.063	23,464,857.33	
Northeast State Community College	Federal Pell Grant Program	84.063	15,957,424.38	
Pellissippi State Community College	Federal Pell Grant Program	84.063	20,446,960.98	
Roane State Community College	Federal Pell Grant Program	84.063	16,100,736.99	
Southwest Tennessee Community College	Federal Pell Grant Program	84.063	35,844,924.47	
Tennessee State University	Federal Pell Grant Program	84.063	22,229,521.50	
Tennessee Technological University	Federal Pell Grant Program	84.063	16,149,665.28	
University of Memphis	Federal Pell Grant Program	84.063	40,655,858.00	
University of Tennessee	Federal Pell Grant Program	84.063	57,205,015.50	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Volunteer State Community College	Federal Pell Grant Program	84.063	15,597,404.79	
Walters State Community College	Federal Pell Grant Program	84.063	14,126,085.64	445,472,095.04
Austin Peay State University	Federal Direct Student Loans	84.268	$ 115,315,635.00	
Chattanooga State Community College	Federal Direct Student Loans	84.268	33,321,371.00	
Columbia State Community College	Federal Direct Student Loans	84.268	6,849,352.00	
Dyersburg State Community College	Federal Direct Student Loans	84.268	3,500,360.00	
East Tennessee State University	Federal Direct Student Loans	84.268	95,230,771.00	
Middle Tennessee State University	Federal Direct Student Loans	84.268	129,146,981.58	
Motlow State Community College	Federal Direct Student Loans	84.268	2,135,530.00	
Nashville State Community College	Federal Direct Student Loans	84.268	24,198,107.00	
Pellissippi State Community College	Federal Direct Student Loans	84.268	20,507,177.00	
Tennessee State University	Federal Direct Student Loans	84.268	76,331,045.00	
Tennessee Technological University	Federal Direct Student Loans	84.268	34,474,633.00	
University of Memphis	Federal Direct Student Loans	84.268	136,510,463.00	
University of Tennessee	Federal Direct Student Loans	84.268	287,937,515.00	
Volunteer State Community College	Federal Direct Student Loans	84.268	6,253,202.00	
Walters State Community College	Federal Direct Student Loans	84.268	3,761,707.00	975,473,849.58
Chattanooga State Community College	Academic Competitiveness Grants	84.375	$ (2,251.00)	
Cleveland State Community College	Academic Competitiveness Grants	84.375	750.00	
East Tennessee State University	Academic Competitiveness Grants	84.375	(510.50)	
Jackson State Community College	Academic Competitiveness Grants	84.375	9,124.00	
Middle Tennessee State University	Academic Competitiveness Grants	84.375	(325.00)	
Pellissippi State Community College	Academic Competitiveness Grants	84.375	1,786.50	
Tennessee State University	Academic Competitiveness Grants	84.375	(2,250.00)	
Tennessee Technological University	Academic Competitiveness Grants	84.375	701.00	
University of Memphis	Academic Competitiveness Grants	84.375	(375.00)	
University of Tennessee	Academic Competitiveness Grants	84.375	949.23	
Volunteer State Community College	Academic Competitiveness Grants	84.375	(375.00)	7,224.23
Austin Peay State University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	$ 1,000.00	
Middle Tennessee State University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	1,000.00	
Tennessee State University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	(2,000.00)	
Tennessee Technological University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	11,500.00	
University of Tennessee	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	500.00	12,000.00
Chattanooga State Community College	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	$ 10,000.00	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	30,000.00	
Middle Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	204,619.00	
Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	26,081.50	
Tennessee Technological University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	323,000.00	
University of Memphis	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	96,000.00	
University of Tennessee	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	70,680.00	760,380.50
Austin Peay State University	Postsecondary Education Scholarships for Veteran's Dependents	84.408		2,775.00
Subtotal Department of Education				$ 1,498,831,249.41

Department of Health and Human Services

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Nurse Faculty Loan Program (NFLP)	93.264	$ 107,268.49	
University of Tennessee	Nurse Faculty Loan Program (NFLP)	93.264	66,004.00	$ 173,272.49
University of Tennessee	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342		1,367,663.54
University of Tennessee	Nursing Student Loans	93.364		376,969.77
University of Tennessee	ARRA-Scholarships for Disadvantaged Students	93.407		407.00
Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	$ 182,561.25	
University of Tennessee	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	13,888.00	196,449.25
Subtotal Department of Health and Human Services				$ 2,114,762.05
Total Student Financial Assistance Cluster				$ 1,500,946,011.46

SNAP Cluster

Department of Agriculture

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Human Services	Supplemental Nutrition Assistance Program	10.551		$ 2,075,107,520.68
Human Services	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	$ 50,178,114.69	
Labor and Workforce Development	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	3,609,804.33	53,787,919.02

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Department of Agriculture				$ 2,128,895,439.70
Total SNAP Cluster				$ 2,128,895,439.70
		Child Nutrition Cluster		
		Department of Agriculture		
Direct Programs				
Education	School Breakfast Program	10.553		$ 81,422,919.43
Agriculture	National School Lunch Program (Noncash Award)	10.555	$ 24,912,891.00	
Education	National School Lunch Program	10.555	224,549,339.13	249,462,230.13
Education	Special Milk Program for Children	10.556		30,444.19
Human Services	Summer Food Service Program for Children	10.559		5,815,734.16
Subtotal Department of Agriculture				$ 336,731,327.91
Total Child Nutrition Cluster				$ 336,731,327.91
		Emergency Food Assistance Cluster		
		Department of Agriculture		
Direct Programs				
Agriculture	Emergency Food Assistance Program (Administrative Costs)	10.568		$ 1,742,319.55
Agriculture	Emergency Food Assistance Program (Food Commodities) (Noncash Award)	10.569		6,154,102.00
Subtotal Department of Agriculture				$ 7,896,421.55
Total Emergency Food Assistance Cluster				$ 7,896,421.55
		Forest Service Schools and Roads Cluster		
		Department of Agriculture		
Direct Programs				
Revenue	Schools and Roads - Grants to States	10.665		$ 1,279,478.34
Subtotal Department of Agriculture				$ 1,279,478.34
Total Forest Service Schools and Roads Cluster				$ 1,279,478.34
		Economic Development Cluster		
		Department of Commerce		
Direct Programs				
Roane State Community College	Economic Adjustment Assistance	11.307		$ 32,359.33
Subtotal Department of Commerce				$ 32,359.33

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursement/Issues		
Total Economic Development Cluster					$	32,359.33
		Section 8 Project-Based Cluster				
		Department of Housing and Urban Development				
Direct Programs						
Tennessee Housing Development Agency	Section 8 Housing Assistance Payments Program	14.195			$	156,932,919.94
Subtotal Department of Housing and Urban Development					$	156,932,919.94
Total Section 8 Project-Based Cluster					$	156,932,919.94
		CDBG - Entitlement Grants Cluster				
		Department of Housing and Urban Development				
Passed Through City of Murfreesboro						
Middle Tennessee State University	Community Development Block Grants/Entitlement Grants	14.218 / B-09-MC-47-0009			$	2,442.41
Subtotal Department of Housing and Urban Development					$	2,442.41
Total CDBG - Entitlement Grants Cluster					$	2,442.41
		CDBG - State-Administered CDBG Cluster				
		Department of Housing and Urban Development				
Direct Programs						
Economic and Community Development	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	$	33,007,470.36		
Tennessee Housing Development Agency	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228		6,409,495.20	$	39,416,965.56
Economic and Community Development	ARRA-Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii - (Recovery Act Funded)	14.255				842,908.76
Subtotal Department of Housing and Urban Development					$	40,259,874.32
Total CDBG - State-Administered CDBG Cluster					$	40,259,874.32
		Housing Voucher Cluster				
		Department of Housing and Urban Development				
Direct Programs						
Tennessee Housing Development Agency	Section 8 Housing Choice Vouchers	14.871			$	35,372,929.67
Subtotal Department of Housing and Urban Development					$	35,372,929.67

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Total Housing Voucher Cluster				$ 35,372,929.67
		Fish and Wildlife Cluster		
		Department of the Interior		
Direct Programs				
Tennessee Wildlife Resources Agency	Sport Fish Restoration Program	15.605		$ 8,322,487.44
Tennessee Wildlife Resources Agency	Wildlife Restoration and Basic Hunter Education	15.611		7,857,252.33
Subtotal Department of the Interior				$ 16,179,739.77
Total Fish and Wildlife Cluster				$ 16,179,739.77
		JAG Program Cluster		
		Department of Justice		
Direct Programs				
Finance and Administration	Edward Byrne Memorial Justice Assistance Grant Program	16.738	$ 5,539,634.26	
Middle Tennessee State University	Edward Byrne Memorial Justice Assistance Grant Program	16.738	1,363.62	$ 5,540,997.88
Finance and Administration	ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803		3,037,769.07
Subtotal Direct Programs				$ 8,578,766.95
Passed Through Shelby County District Attorney General's Office				
University of Memphis	ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government	16.804 / PO #S005970		$ 2,499.56
Subtotal Pass-Through Programs				$ 2,499.56
Subtotal Department of Justice				$ 8,581,266.51
Total JAG Program Cluster				$ 8,581,266.51
		Employment Service Cluster		
		Department of Labor		
Direct Programs				
Labor and Workforce Development	Employment Service/Wagner-Peyser Funded Activities	17.207	$ 17,148,036.91	
Labor and Workforce Development	ARRA-Employment Service/Wagner-Peyser Funded Activities	17.207	(10,769.35)	$ 17,137,267.56
Labor and Workforce Development	Disabled Veterans' Outreach Program (DVOP)	17.801		1,206,435.41

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues			
Labor and Workforce Development	Local Veterans' Employment Representative Program	17.804				1,930,062.02
Subtotal Department of Labor					$	20,273,764.99
Total Employment Service Cluster					$	20,273,764.99

WIA Cluster

Department of Labor

State Grantee Agency	Program Name	CFDA / Other Identifying Number				
Direct Programs						
Labor and Workforce Development	WIA Adult Program	17.258	$	15,930,494.59		
Labor and Workforce Development	ARRA-WIA Adult Program	17.258		4,641.80	$	15,935,136.39
Labor and Workforce Development	WIA Youth Activities	17.259	$	18,139,451.45		
Labor and Workforce Development	ARRA-WIA Youth Activiites	17.259		545.83		18,139,997.28
Labor and Workforce Development	WIA Dislocated Workers	17.260	$	725,862.85		
Labor and Workforce Development	ARRA-WIA Dislocated Workers	17.260		211,757.14		937,619.99
Labor and Workforce Development	WIA Dislocated Worker Formula Grants	17.278				19,683,780.97
Subtotal Direct Programs					$	54,696,534.63
Passed Through Upper Cumberland Human Resource Agency						
Volunteer State Community College	WIA Adult Program	17.258 / 11-07-999-501-02-STATE			$	62,920.56
Tennessee Technological University	WIA Dislocated Workers	17.260 / Local				500.00
Passed Through Workforce Solutions						
Middle Tennessee State University	WIA Adult Program	17.258 / 16351				(15.75)
Tennessee Technological University	WIA Dislocated Workers	17.260 / Non-Local				9,694.45
Subtotal Pass-Through Programs					$	73,099.26
Subtotal Department of Labor					$	54,769,633.89
Total WIA Cluster					$	54,769,633.89

Highway Planning and Construction Cluster

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number				
Direct Programs						
Environment and Conservation	Highway Planning and Construction	20.205	$	166,755.38		
Transportation	Highway Planning and Construction	20.205		919,229,009.16		
Transportation	ARRA-Highway Planning and Construction	20.205		72,133,731.06	$	991,529,495.60
Environment and Conservation	Recreational Trails Program	20.219				1,305,909.07
Subtotal Direct Programs					$	992,835,404.67

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through City of Memphis			
University of Memphis	Highway Planning and Construction	20.205 / 27727	$ 1,342.34
Passed Through University of Southern Mississippi			
University of Memphis	Highway Planning and Construction	20.205 / USM-GR04263-01	8,019.58
Subtotal Pass-Through Programs			$ 9,361.92
Subtotal Department of Transportation			$ 992,844,766.59
Total Highway Planning and Construction Cluster			$ 992,844,766.59

Federal Transit Cluster

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Direct Programs			
Transportation	Federal Transit_Capital Investment Grants	20.500	$ 1,823,452.43
Subtotal Department of Transportation			$ 1,823,452.43
Total Federal Transit Cluster			$ 1,823,452.43

Transit Services Programs Cluster

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Direct Programs			
Transportation	Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	$ 1,659,407.94
Transportation	Job Access_Reverse Commute	20.516	1,060,302.66
Transportation	New Freedom Program	20.521	357,031.70
Subtotal Department of Transportation			$ 3,076,742.30
Total Transit Services Programs Cluster			$ 3,076,742.30

Highway Safety Cluster

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Direct Programs			
Transportation	State and Community Highway Safety	20.600	$ 3,321,892.22
Transportation	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	2,356,715.86
Transportation	Safety Belt Performance Grants	20.609	35,232.99
Transportation	State Traffic Safety Information System Improvement Grants	20.610	575,849.86
Transportation	Incentive Grant Program to Increase Motorcyclist Safety	20.612	25,500.73
Transportation	Child Safety and Child Booster Seats Incentive Grants	20.613	517,204.54

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Department of Transportation				$ 6,832,396.20
Total Highway Safety Cluster				$ 6,832,396.20
Title I, Part A Cluster				
Department of Education				
Direct Programs				
Education	Title I Grants to Local Educational Agencies	84.010		$ 285,374,478.61
Education	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389		21,377,151.01
Subtotal Direct Programs				$ 306,751,629.62
Passed Through Alabama Department of Education				
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / CIU0431		$ 15,668.19
Passed Through Hamilton County Department of Education				
Chattanooga State Community College	Title I Grants to Local Educational Agencies	84.010 / P32295		66,919.03
Chattanooga State Community College	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389 / S389A090042		50,000.00
Passed Through Illinois Board of Education				
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / MY10624		68,706.75
Passed Through Virginia Department of Education				
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / 780-86600-S010A090046	$ 27,360.00	
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / 780-86600-S010A100046	56,443.39	
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / S010A110046	2,309.60	86,112.99
Subtotal Pass-Through Programs				$ 287,406.96
Subtotal Department of Education				$ 307,039,036.58
Total Title I, Part A Cluster				$ 307,039,036.58
Special Education Cluster (IDEA)				
Department of Education				
Direct Programs				
Education	Special Education_Grants to States	84.027		$ 239,222,724.07
Education	Special Education_Preschool Grants	84.173		6,766,958.13
Education	ARRA-Special Education Grants to States, Recovery Act	84.391		30,703,763.19
Education	ARRA-Special Education - Preschool Grants, Recovery Act	84.392		1,347,380.88

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Department of Education				$ 278,040,826.27
Total Special Education Cluster (IDEA)				$ 278,040,826.27

TRIO Cluster

Department of Education

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Austin Peay State University	TRIO_Student Support Services	84.042	$ 256,081.56	
Columbia State Community College	TRIO_Student Support Services	84.042	224,057.26	
East Tennessee State University	TRIO_Student Support Services	84.042	287,960.71	
Middle Tennessee State University	TRIO_Student Support Services	84.042	248,969.15	
Northeast State Community College	TRIO_Student Support Services	84.042	277,206.19	
Pellissippi State Community College	TRIO_Student Support Services	84.042	254,954.99	
Tennessee State University	TRIO_Student Support Services	84.042	594.00	
University of Memphis	TRIO_Student Support Services	84.042	485,337.17	
University of Tennessee	TRIO_Student Support Services	84.042	487,393.52	
Volunteer State Community College	TRIO_Student Support Services	84.042	221,392.71	$ 2,743,947.26
East Tennessee State University	TRIO_Talent Search	84.044	$ 241,075.96	
Middle Tennessee State University	TRIO_Talent Search	84.044	230,488.48	
Tennessee State University	TRIO_Talent Search	84.044	341,438.70	
University of Tennessee	TRIO_Talent Search	84.044	230,894.10	1,043,897.24
Austin Peay State University	TRIO_Upward Bound	84.047	$ 896,118.01	
Dyersburg State Community College	TRIO_Upward Bound	84.047	283,051.94	
East Tennessee State University	TRIO_Upward Bound	84.047	1,201,866.71	
Southwest Tennessee Community College	TRIO_Upward Bound	84.047	245,193.84	
Tennessee State University	TRIO_Upward Bound	84.047	175,606.97	
University of Tennessee	TRIO_Upward Bound	84.047	1,716,518.13	4,518,355.60
Austin Peay State University	TRIO_Educational Opportunity Centers	84.066	$ 367,481.71	
East Tennessee State University	TRIO_Educational Opportunity Centers	84.066	232,824.01	
University of Tennessee	TRIO_Educational Opportunity Centers	84.066	715,821.03	1,316,126.75
East Tennessee State University	TRIO_McNair Post-Baccalaureate Achievement	84.217	$ 240,302.50	
Middle Tennessee State University	TRIO_McNair Post-Baccalaureate Achievement	84.217	230,363.44	470,665.94
Subtotal Department of Education				$ 10,092,992.79
Total TRIO Cluster				$ 10,092,992.79

Vocational Rehabilitation Cluster

Department of Education

Direct Programs

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Human Services	Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126		$ 59,536,586.36
Subtotal Department of Education				$ 59,536,586.36
Total Vocational Rehabilitation Cluster				$ 59,536,586.36

Early Intervention Services (IDEA) Cluster

Department of Education

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Education	Special Education-Grants for Infants and Families	84.181		$ 12,633,445.66
Education	ARRA-Special Education - Grants for Infants and Families, Recovery Act	84.393		1,898,110.88
Subtotal Department of Education				$ 14,531,556.54
Total Early Intervention Services (IDEA) Cluster				$ 14,531,556.54

Educational Technology State Grants Cluster

Department of Education

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Education	Educational Technology State Grants	84.318		$ 1,176,273.14
Education	ARRA-Education Technology State Grants, Recovery Act	84.386		2,534,566.99
Subtotal Department of Education				$ 3,710,840.13
Total Educational Technology State Grants Cluster				$ 3,710,840.13

School Improvement Grants Cluster

Department of Education

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Education	School Improvement Grants	84.377		$ 3,526,763.85
Education	ARRA-School Improvement Grants, Recovery Act	84.388		6,560,576.14
Subtotal Department of Education				$ 10,087,339.99
Total School Improvement Grants Cluster				$ 10,087,339.99

State Fiscal Stabilization Fund Cluster

Department of Education

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	$ 817,658.00	

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues		
Finance and Administration	ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	13,099,917.14	$	13,917,575.14
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	$ 20,009,823.38		
Health	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	452,284.53		20,462,107.91
Subtotal Direct Programs				$	34,379,683.05
Passed Through United Way of Chattanooga					
University of Tennessee	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397 / ARRA PROJECT DIAB.		$	1,304.23
Subtotal Pass-Through Programs				$	1,304.23
Subtotal Department of Education				$	34,380,987.28
Total State Fiscal Stabilization Fund Cluster				$	34,380,987.28

Aging Cluster

Department of Health and Human Services

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues		
Direct Programs					
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044		$	8,351,718.34
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045			13,045,095.27
Commission on Aging and Disability	Nutrition Services Incentive Program	93.053			1,721,795.00
Subtotal Department of Health and Human Services				$	23,118,608.61
Total Aging Cluster				$	23,118,608.61

Health Centers Cluster

Department of Health and Human Services

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues		
Direct Programs					
East Tennessee State University	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	$ 1,193,068.51		
Health	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	2,910,119.37	$	4,103,187.88

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Department of Health and Human Services				$ 4,103,187.88
Total Health Centers Cluster				$ 4,103,187.88
Immunization Cluster				
Department of Health and Human Services				
Direct Programs				
Health	Immunization Cooperative Agreements	93.268	$ 4,389,908.47	
Health	Immunization Cooperative Agreements (Noncash Award)	93.268	69,299,579.00	$ 73,689,487.47
Health	ARRA-Immunization	93.712		62,915.94
Subtotal Department of Health and Human Services				$ 73,752,403.41
Total Immunization Cluster				$ 73,752,403.41
TANF Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Temporary Assistance for Needy Families	93.558		$ 200,306,113.73
Subtotal Department of Health and Human Services				$ 200,306,113.73
Total TANF Cluster				$ 200,306,113.73
CSBG Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Community Services Block Grant	93.569		$ 12,872,547.25
Subtotal Department of Health and Human Services				$ 12,872,547.25
Total CSBG Cluster				$ 12,872,547.25
CCDF Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Child Care and Development Block Grant	93.575	$ 68,506,167.26	
University of Tennessee	Child Care and Development Block Grant	93.575	13,334.33	$ 68,519,501.59
Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		94,439,516.62

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Direct Programs				$ 162,959,018.21
Passed Through Signal Centers, Incorporated				
University of Tennessee	Child Care and Development Block Grant	93.575 / GR-11-31681	$ (1,239.24)	
University of Tennessee	Child Care and Development Block Grant	93.575 / GR-12-35623	152,943.93	$ 151,704.69
Subtotal Pass-Through Programs				$ 151,704.69
Subtotal Department of Health and Human Services				$ 163,110,722.90
Total CCDF Cluster				$ 163,110,722.90
		Head Start Cluster		
		Department of Health and Human Services		
Direct Programs				
Education	Head Start	93.600	$ 158,889.21	
Tennessee State University	Head Start	93.600	1,848,130.89	$ 2,007,020.10
Education	ARRA-Head Start	93.708		83,171.85
Tennessee State University	ARRA-Early Head Start	93.709		1,007,983.67
Subtotal Direct Programs				$ 3,098,175.62
Passed Through American Alliance for Health				
University of Memphis	Head Start	93.600 / US DHHS VIA AAHPERD		$ 15,232.27
Passed Through Shelby County Government				
Southwest Tennessee Community College	Head Start	93.600 / CA128778	$ 276,155.51	
University of Memphis	Head Start	93.600 / CA084475	128.40	
University of Memphis	Head Start	93.600 / CA114475	(3,556.14)	
University of Memphis	Head Start	93.600 / CA114475A	15.09	272,742.86
Subtotal Pass-Through Programs				$ 287,975.13
Subtotal Department of Health and Human Services				$ 3,386,150.75
Total Head Start Cluster				$ 3,386,150.75
		Medicaid Cluster		
		Department of Health and Human Services		
Direct Programs				
Tennessee Bureau of Investigation	State Medicaid Fraud Control Units	93.775		$ 2,811,697.86
Health	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		7,460,423.29
Finance and Administration	Medical Assistance Program	93.778	$ 5,961,230,112.57	
Finance and Administration	ARRA-Medical Assistance Program	93.778	81,752,961.08	$ 6,042,983,073.65
Subtotal Direct Programs				$ 6,053,255,194.80

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursement/Issues		
Passed Through Shelby County Office of Early Childhood and Youth						
University of Memphis	Medical Assistance Program	93.778 / CA1211350	$	54,750.60		
University of Memphis	Medical Assistance Program	93.778 / USDHHS-STATE OF TN-COUNTY		3,664.87	$	58,415.47
Passed Through University Health System, Incorporated						
University of Tennessee	Medical Assistance Program	93.778 / GMEP				32,834,233.67
Subtotal Pass-Through Programs					$	32,892,649.14
Subtotal Department of Health and Human Services					$	6,086,147,843.94
Total Medicaid Cluster					$	6,086,147,843.94
Disability Insurance/SSI Cluster						
Social Security Administration						
Direct Programs						
Human Services	Social Security_Disability Insurance	96.001			$	62,991,636.11
Subtotal Social Security Administration					$	62,991,636.11
Total Disability Insurance/SSI Cluster					$	62,991,636.11
Independent Living State Grants Cluster						
Department of Education						
Direct Programs						
Human Services	Independent Living_State Grants	84.169			$	132,611.63
Human Services	ARRA-Independent Living State Grants, Recovery Act	84.398				29,862.33
Subtotal Department of Education					$	162,473.96
Total Independent Living State Grants Cluster					$	162,473.96
Independent Living Services for Older Individuals Who Are Blind Cluster						
Department of Education						
Direct Programs						
Human Services	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177			$	613,359.52
Human Services	ARRA-Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399				34,569.91
Subtotal Department of Education					$	647,929.43
Total Independent Living Services for Older Individuals Who Are Blind Cluster					$	647,929.43

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Education of Homeless Children and Youth Cluster			
Department of Education			
Direct Programs			
Education	Education for Homeless Children and Youth	84.196	$ 1,195,776.04
Education	ARRA-Education for Homeless Children and Youth, Recovery Act	84.387	386,075.20
Subtotal Department of Education			$ 1,581,851.24
Total Education of Homeless Children and Youth Cluster			$ 1,581,851.24
Teacher Incentive Fund Cluster			
Department of Education			
Direct Programs			
Education	Teacher Incentive Fund	84.374	$ 1,971,433.85
Subtotal Department of Education			$ 1,971,433.85
Total Teacher Incentive Fund Cluster			$ 1,971,433.85
Grand Total Federal Assistance			$ 15,910,625,963.86

The accompanying notes are an integral part of this schedule.

State of Tennessee
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2012

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 2012, was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires a disclosure of the financial activities of all federally funded programs. To comply with the circular, the Department of Finance and Administration required each department, agency, and institution that expended direct or pass-through federal funding during the year to prepare a schedule of expenditures of federal awards and reconciliations with both the state's accounting system and grantor financial reports. The schedules for the departments, agencies, and institutions were combined to form the Schedule of Expenditures of Federal Awards for the State of Tennessee. The schedules for the technology centers have been combined with the schedules for the community colleges designated as their lead institutions.

NOTE 2. BASIS OF ACCOUNTING FOR PRESENTATION OF SCHEDULE

The Schedule of Expenditures of Federal Awards is reported on the accrual basis of accounting.

NOTE 3. UNEMPLOYMENT INSURANCE

State unemployment tax revenues and other payments and revenues are combined with federal funds and used to pay benefits under the Unemployment Insurance (CFDA 17.225) program. The state and federal portions of the total expenditures reported in the Schedule of Expenditures of Federal Awards were $562,180,022.96 and $713,262,973.50, respectively.

NOTE 4. LOAN AND LOAN GUARANTEE PROGRAMS

Federal Perkins Loan Program_Federal Capital Contributions (CFDA 84.038); Nurse Faculty Loan Program (NFLP) (CFDA 93.264); Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342); and Nursing Student Loans (CFDA 93.364): Institutions of higher education within the state reporting entity administer these federal student loan programs. Expenditures of federal awards in the accompanying Schedule of Expenditures of Federal Awards include the value of new loans made during the year, the balance of loans from previous years due to federal continuing compliance requirements, and administrative cost allowances.

Loan balances outstanding at year-end:

Program	CFDA #	Amount Outstanding
Federal Perkins Loan Program_Federal Capital Contributions	84.038	$47,560,510.52
Nurse Faculty Loan Program (NFLP)	93.264	$107,268.49
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	$1,367,663.54
Nursing Student Loans	93.364	$376,969.77

Federal Family Education Loans (CFDA 84.032) and Federal Direct Student Loans (CFDA 84.268): The loans under these programs are made by outside lenders to students at institutions of higher education within the state reporting entity. The institutions are responsible for certain administrative requirements for new loans. As a result, the value of loans made during the year and administrative cost allowances are recognized as expenditures of federal awards in the accompanying Schedule of Expenditures of Federal Awards. The balance of loans for previous years is not included because the lender accounts for the prior balances.

The Federal Family Education Loans are insured by the Tennessee Student Assistance Corporation (TSAC), a component unit. At June 30, 2012, the insured loans outstanding totaled $3,383,276,353.52. Expenditures of the federal award to TSAC for administrative cost allowances and payments on defaulted loans are reported in the unclustered section of the accompanying Schedule of Expenditures of Federal Awards.

NOTE 5. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level.

Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

NOTE 6. STATE ENERGY PROGRAM

The expenditures for State Energy Program (CFDA 81.041) reported in this Schedule of Expenditures of Federal Awards are the amounts paid by the University of Tennessee (UT) to non-state entities plus expenditures paid by the Department of Economic and Community Development (ECD) directly to non-state entities. These expenditures do not agree to the expenditures reported on federal reports under the American Recovery and Reinvestment Act (ARRA).

ECD received ARRA funds from the United States Department of Energy (DOE) for the State Energy Program. ECD transferred the majority of the funds to UT to administer the program, in accordance with the grant agreement. Based on advice from DOE, ECD reported the transfer to UT as expenditures to a subrecipient on Federal reports as allowed under ARRA. UT is a part of the state reporting entity and, therefore, not defined by the state as a subrecipient of ECD. Therefore, the transfers to UT do not become expenditures of ECD until UT pays the funds to a non-state entity.

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2011 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Department of Children's Services	06-DCS-02	93.659	Adoption Assistance	0201TN1407 through 0601TN1407	Since 2002, Adoption Assistance files have not contained adequate documentation to support the subsidies paid to adoptive parents, thus increasing the risk of inappropriate payments.	x			
Department of Children's Services	07-DCS-01	93.659	Adoption Assistance	0401TN1407 through 0701TN1407	The department has not adequately mitigated the risks to prevent Adoption Assistance overpayments, the adopted children's files have not always contained adequate documentation to support the subsidies paid to adoptive parents, and payments that should have been made with state funds were sometimes made with federal funds.	x			
Department of Children's Services	08-DCS-01	93.659	Adoption Assistance	0501TN1407 through 0801TN1407	Since 2002, the department has not adequately mitigated the risks to prevent Adoption Assistance overpayments, the adopted children's files have not always contained adequate documentation to support the subsidies paid to adoptive parents, and payments that should have been made with state funds were sometimes made with federal funds	x			
Department of Children's Services	09-DCS-02	93.659	Adoption Assistance and ARRA-Adoption Assistance	0801TN1407; 0901TN1407; 0901TN1403	The department has continued to use federal Adoption Assistance funds in certain situations where only state funds should be used and has increased daily rates without any documented justification	x			
Department of Children's Services	10-DCS-01	93.659	Adoption Assistance	0901TN1407, 1001TN1407, 0901TN1403, and 1001TN1403	Similar to findings over the past eight years, the Department of Children's Services has made certain adoption assistance payments that were not justified by supporting documentation	x			
Department of Children's Services	11-DCS-01	93.658 and 93.659	Foster Care – Title IV-E, Adoption Assistance	1101TN1403, 1101TN1405, 1001TN1407, 1101TN1407, 1101TN1402, 1101TN1404, 0901TN1401, 1001TN1401, 1101TN1401	The Tennessee Family and Child Tracking System used by the Department of Children's Services does not function as intended, and as a result, the department has not paid providers correctly and has not ensured that payments were funded by the correct source, resulting in federal questioned costs of $25,501	x			
Department of Children's Services	11-DCS-02	93.659	Adoption Assistance	1001TN1403, 1101TN1403, 1101TN1405, 0901TN1407, 1001TN1407, 1101TN1407	Similar to findings over the past nine years, the Department of Children's Services has made certain adoption assistance payments that were not justified by supporting documentation		1		

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2011 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Department of Education	11-DOE-01	84.010, 84.389, 84.027, 84.173, 84.391, 84.392, 84.394, 84.397, 84.367, 84.395, and 84.410	Title I Part A Cluster, Special Education Cluster (IDEA), State Fiscal Stabilization Fund Cluster, Improving Teacher Quality State Grants, ARRA-State Fiscal Stabilization Fund (SFSF)-Race-to-the-Top, Incentive Grants, ARRA-Education Jobs Fund	S010A080042, S010A090042, S010A100042, S389A090042, H027A070052, H027A080052, H027A090052, H027A100052, H173A080095, H173A090095, H173A100095, H391A090052A, H392A090095A, S394A090043, S397A090043, S367A080040, S367A090040, S367A100040, S395A100032, S410A100043	The department and local educational agencies did not always maintain proper information systems security		2		
Department of Environment and Conservation	10-TDEC-01	66.458 and 66.468	Capitalization Grants for Clean Water State Revolving Fund and Capitalization Grants for Drinking Water State Revolving Fund	N/A	The management and staff of the Department of Environment and Conservation did not familiarize themselves with federal requirements in OMB Circular A-133, Section 400(d), which resulted in noncompliance and $10,506,832 in related federal questioned costs	x			
Department of Environment and Conservation	11-TDEC-01	66.458 and 66.468	Capitalization Grants for Clean Water State Revolving Fund, Capitalization Grants for Drinking Water State Revolving Fund	N/A	The management and staff of the Department of Environment and Conservation again did not comply with federal requirements of OMB Circular A-133, Section 400(d)	x			
Department of Finance and Administration	09-DFA-02	93.778	Medicaid Cluster	05-0805TN5028, 05-0905TN5028, 05-0905TNARRA	TennCare did not redetermine eligibility for some enrollees or terminate some ineligible enrollees, resulting in questioned costs of $12,912	x			
Department of Finance and Administration	10-DFA-01	93.778	Medicaid Cluster	05-0905TN5028, 05-1005TN5028, 05-0905TNARRA 05-1005TNARRA	As reported in the previous audit, TennCare did not redetermine eligibility for some enrollees, or have controls in place to appropriately terminate ineligible enrollees; in addition, certain TennCare Standard enrollees are not listed in ACCENT, and an undocumented alien was improperly enrolled during the audit period, all of which resulted in total questioned costs of $22,615	x			

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2011 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Department of Finance and Administration	10-DFA-02	93.778	Medicaid Cluster	05-0905TN5028, 05-1005TN5028, 05-0905TNARRA 05-1005TNARRA	Management did not maintain proper controls over TennCare's management information system to mitigate the risks of unauthorized system access and data being compromised	x			
Department of Finance and Administration	11-DFA-01	93.778	Medicaid Cluster	05-1105TN5MAP, 05-1005TN5MAP, 05-1105TNARRA, 05-1005TNARRA	As reported in the previous audit, TennCare did not appropriately terminate ineligible enrollees, certain TennCare Standard enrollees were not listed in ACCENT, and two undocumented aliens were improperly enrolled during the audit period, all of which resulted in total questioned costs of $23,636	x			
Department of Finance and Administration	11-DFA-02	93.778	Medicaid Cluster	05-1105TN5MAP, 05-1005TN5MAP, 05-1105TNARRA, 05-1005TNARRA	As noted in the previous audit, management did not maintain proper controls over TennCare's management information system to mitigate the risks of unauthorized system access and data being compromised	x			
Department of Finance and Administration	11-DFA-03	93.778	Medicaid Cluster	05-1105TN5MAP, 05-1005TN5MAP, 05-1105TNARRA, 05-1005TNARRA	TennCare paid a medical claim for services that the provider did not render, resulting in federal questioned costs of $58 and state questioned costs of $19	x			
Department of Finance and Administration	11-DFA-04	93.767	Children's Health Insurance Program	05-1005TN5021	CoverKids did not implement post-eligibility audits and two enrollees were not terminated timely, increasing the risk that inappropriate claims could be paid		3		
Department of Finance and Administration	11-DFA-05	84.394	State Fiscal Stabilization Fund Cluster	S394A090043	Department of Finance and Administration staff understated federal funds expended on the Section 1512 report for the American Recovery and Reinvestment Act of 2009	x			
Department of Human Services	10-DHS-01	81.042	Weatherization Assistance for Low-Income Persons	DE-FG26-07NT43135 DE-EE0000114	The Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs totaling $92,448 and increased risk of fraud, waste, abuse, and additional noncompliance		4		
Department of Human Services	10-DHS-02	81.042	Weatherization Assistance for Low-Income Persons	DE-FG26-07NT43135 DE-EE0000114	The Department of Human Services did not ensure that the subrecipients accurately determined eligibility and maintained adequate eligibility documentation for the Weatherization Assistance for Low-Income Persons program, which resulted in federal questioned costs of $93,913		4		
Department of Human Services	10-DHS-03	93.558 and 93.714	TANF Cluster	G0802TNTANF, G0902TNTANF, and G1002TNTANF	The Department of Human Services failed to deny Temporary Assistance for Needy Families benefits for participants who failed to cooperate with child support requirements, resulting in federal questioned costs of $23,819	x			

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2011 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Department of Human Services	10-DHS-04	93.569, 93.710, 93.575, 93.596, 93.713, and 96.001	CSBG Cluster, CCDF Cluster, Disability Insurance/SSI Cluster	G08B1TNCOSR, G09B1TNCOSR, G10B1TNCOSR, G0901TNCOSR09S, G0801TNCCDF, G0901TNCCDF, G1001TNCCDF, G0901TNCCD7, 04-08-04TNDI00, 04-09-04TNDI00, and 04-10-04TNDI00	The department failed to submit federally required financial reports and did not submit seven federally required reports to federal agencies timely		5		
Department of Human Services	11-DHS-01	81.042	Weatherization Assistance for Low-Income Persons	DE-FG26-07NT43135, DE-EE0000114	As noted in the prior audit, the Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs for fiscal year 2011 totaling $41,165 and an increased risk of fraud, waste, abuse, and additional noncompliance		4		
Department of Human Services	11-DHS-02	81.042	Weatherization Assistance for Low-Income Persons	DE-FG26-07NT43135, DE-EE0000114	As noted in the prior audit, the Department of Human Services did not ensure that the subrecipients accurately determined eligibility and maintained adequate eligibility documentation for the Weatherization Assistance for Low-Income Persons program, which resulted in federal questioned costs of $60,975 for the fiscal year ended June 30, 2011		4		
Department of Human Services	11-DHS-03	10.558, 10.559, 81.042, 93.558, 93.714, 93.716, and 93.563	Child and Adult Care Food Program, Child Nutrition Cluster, Weatherization Assistance for Low-Income Persons, Temporary Assistance for Needy Families Cluster, Child Support Enforcement	2008IN109945, 2009IN109945, 2010IN109945, 2011IN109945, DE-FG26-07NT43135, DE-EE0000114, G0802TNTANF, G0902TNTANF, G1002TNTANF, G1102TNTANF, G1001TNTAN2, G1002TNTAN2, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1104TN4002	The department did not prepare, review, and submit financial reports and financial information in accordance with federal reporting requirements, increasing the risk that the federal grantors will not have complete and accurate information to make financial decisions relating to their programs		12		

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2011 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Department of Human Services	11-DHS-04	93.563	Child Support Enforcement	G0804TN400, G0904TN4004, G1004TN4004, G1104TN4004, G1104TN4002	The Department of Human Services did not comply with federal child support regulations, increasing the risk that caretakers and dependent children may not receive needed financial support	x			
Department of Human Services	11-DHS-05	10.558, 10.559, 93.558, 93.714, 93.716, 93.563; 93.575, 93.596, 93.713, 93.667, and 96.001	Child and Adult Care Food Program, Child Nutrition Cluster, Temporary Assistance for Needy Families Cluster, Child Support Enforcement, Child Care and Development Fund Cluster, Social Services Block Grant, Disability Insurance/SSI Cluster	2008IN109945, 2010IN109945, 2011IN109945, G0802TNTANF, G0902TNTANF, G1002TNTANF, G1102TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1104TN4002, G0901TNCCDF, G1001TNCCDF, G1101TNCCDF, G0901TNCCD7, G0901TNSOSR, G1001TNSOSR, G1101TNSOSR, G0901TNDOD2, 04-08-04TNDI00, 04-09-04TNDI00, 04-10-04TNDI00, 04-11-04TNDI00, 90FD017101	The Department of Human Services did not follow two areas of the state information system security policies, resulting in the increased risk of fraudulent activity or loss of data		6		
Department of Human Services	11-DHS-06	93.558, 93.714, and 93.716	Temporary Assistance for Needy Families Cluster	G0802TNTANF, G0902TNTANF, G1002TNTANF, G1102TNTANF, G1001TNTAN2, G1002TNTAN2	The department failed to document certifications attesting to Temporary Assistance for Needy Families recipients' lack of state or federal criminal convictions when they renewed their eligibility, increasing the risk that funds will be disbursed to ineligible recipients		14		
Department of Human Services	11-DHS-07	93.558, 93.714, and 93.716	Temporary Assistance for Needy Families Cluster	G0802TNTANF, G0902TNTANF, G1002TNTANF, G1102TNTANF, G1001TNTAN2, G1002TNTAN2	The Department of Human Services once again failed to deny Temporary Assistance for Needy Families benefits for participants who failed to cooperate with child support requirements, resulting in federal questioned costs of $1,437	x			
Department of Human Services	11-DHS-08	93.575, 93.596, and 93.713	Child Care and Development Fund Cluster	G0901TNCCDF, G1001TNCCDF, G1101TNCCDF, G0901TNCCD7	The department's licensing staff did not follow the procedures in place to communicate adjusted licensing information to fiscal staff, which resulted in unrecovered overpayments to a child care provider and questioned costs of $14,834		7		

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2011 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Department of Human Services	11-DHS-09	10.558, 10.559, 81.042, 93.568, 93.569, 93.710, and 93.667	Child and Adult Care Food Program, Child Nutrition Cluster, Weatherization Assistance for Low-Income Persons, Low-Income Home Energy Assistance Program, Community Services Block Grant Cluster, Social Services Block Grant	2008IN109945, 2009IN109945, 2010IN109945, 2011IN253345, DE-FG26-07NT43135, DE-EE0000114, G09B1TNLIEA, G10B1TNLIEA, G11B1TNLIEA, G09B1TNCOSR, G10B1TNCOSR, G11B1TNCOSR, G0901TNCOSR09S, G0901TNSOSR, G1001TNSOSR, G1101TNSOSR, G0901TNSOS2	The Department of Human Services does not comply with the OMB Circular A-133 Subpart D regarding subrecipient audit requirements, thereby increasing the risk of not detecting fraud, waste, abuse, and noncompliance by subrecipients	x			
Department of Human Services	11-DHS-10	93.568	Low-Income Home Energy Assistance	G09B1TNLIEA, G10B1TNLIEA, G11B1TNLIEA	The Department of Human Services did not ensure the subrecipients followed the federal laws and regulations and the department's state plan for the Low-Income Home Energy Assistance Program, resulting in federal questioned costs totaling $1,150,550 and increased risk of fraud, waste, abuse, and additional noncompliance		15		
Department of Labor and Workforce Development	11-LWD-01	17.258, 17.259, and 17.260	Workforce Investment Act Cluster	AA-17149-08-55-A-47, AA-18669-09-55-A-47, AA-20221-10-55-A-47, EM-20449-10-60-A-	The Department of Labor and Workforce Development did not adequately monitor its subrecipients' procurement of equipment and services, which resulted in the improper use of over $280,000 of federal funds		8		
Department of Transportation	10-DOT-03	20.509	Formula Grants for Other Than Urbanized Areas	N/A	Controls over the vehicle inventory for the Formula Grants for Other Than Urbanized Areas program were inadequate, increasing the risk of misuse of grant program assets	x			
Department of Transportation	10-DOT-05	20.509	Formula Grants for Other Than Urbanized Areas	TN-86-X001	Department staff did not review construction contracts to verify that program subrecipients had ensured compliance with the Davis-Bacon Act, increasing the risk of workers not receiving the prevailing wage rates	x			
Department of Transportation	10-DOT-08	20.205, 20.509	Highway Planning and Construction, Formula Grants for Other Than Urbanized Areas	N/A	In some instances, the department did not comply with the Department of Finance and Administration's subrecipient monitoring requirements, thereby increasing the risk of not detecting fraud, waste, abuse, and noncompliance by subrecipients	x			

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Department of Transportation	10-DOT-09	20.205, 20.509	Highway Planning and Construction, Formula Grants for Other Than Urbanized Areas	Various	The Department of Transportation did not reconcile the Schedule of Expenditures of Federal Awards to federal reports and the accounting records	x			
Department of Transportation	10-DOT-10	20.509	Formula Grants for Other Than Urbanized Areas	TN-18-X025, TN-18-X026, TN-18-X027	The Tennessee Department of Transportation did not establish and maintain internal controls over the Formula Grants for Other Than Urbanized Areas program, which created an atmosphere for fraud, waste, and abuse to occur and resulted in material noncompliance with federal questioned costs of $452,369.72 and state questioned costs of $46,135.88	x			
Department of Transportation	11-DOT-01	20.205 and 20.509	Highway Planning and Construction Cluster, Formula Grants for Other Than Urbanized Areas	Various	The department did not assess and mitigate the risks associated with information systems security, increasing the risk of fraudulent activity	x			
Department of Transportation	11-DOT-02	20.509	Formula Grants for Other Than Urbanized Areas	Various	Controls over the vehicle inventory for the Formula Grants for Other Than Urbanized Areas program were inadequate, increasing the risk of misuse of grant program assets		13		
Department of Transportation	11-DOT-03	20.205	Highway Planning and Construction Cluster	ARRA/STP-M-4967(3), ARRA-STP-M-9411(006), ARRA-STP-M-9312(97), ARRA-STP-EN-6800(22), ARRA/HPP-9101(011)	Department of Transportation staff inappropriately charged expenditures to the Highway Planning and Construction program, resulting in federal questioned costs of $12,540.79	x			
Department of Transportation	11-DOT-04	20.509	Formula Grants for Other Than Urbanized Areas	TN-86-X001	Department of Transportation staff understated federal funds expended on the Section 1512 report for the American Recovery and Reinvestment Act of 2009	x			
Department of Transportation	11-DOT-05	20.509	Formula Grants for Other Than Urbanized Areas	TN-18-X028, TN-18-X029	Department of Transportation staff inappropriately charged expenditures to the Formula Grants for Other Than Urbanized Areas program, resulting in federal questioned costs of $17,867.10 and state questioned costs of $169,481.05	x			
Department of Transportation	11-DOT-06	20.205 and 20.509	Highway Planning and Construction Cluster, Formula Grants for Other Than Urbanized Areas	Various	As stated in the prior audit, the department did not always comply with the Department of Finance and Administration's subrecipient monitoring requirements, thereby increasing the risk of not detecting fraud, waste, abuse, and noncompliance by subrecipients		9		
Department of Transportation	11-DOT-07	20.205	Highway Planning and Construction Cluster	Various	As stated in the prior audit, the Department of Transportation did not reconcile the Schedule of Expenditures of Federal Awards to the accounting records	x			

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STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Tennessee Student Assistance Corporation	09-TSAC-01	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	The Tennessee Student Assistance Corporation Did Not Comply With Certain Special Tests and Provisions Regarding the Collection of Delinquent Accounts and the Recovery of Indirect Costs	x			
Tennessee Student Assistance Corporation	09-TSAC-02	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	Incorrect accounting entries for the Federal Family Education Loan Program resulted in an overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund	x			
Tennessee Student Assistance Corporation	10-TSAC-01	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	The Tennessee Student Assistance Corporation Did Not Comply With a Special Test and Provision Regarding a Conflict of Interest	x			
Tennessee Student Assistance Corporation	10-TSAC-02	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	Incorrect accounting entries for the Federal Family Education Loan Program resulted in an overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund	x			
Tennessee Student Assistance Corporation	11-TSAC-01	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	The Tennessee Student Assistance Corporation did not comply with a special test and provision regarding a conflict of interest	x			
Tennessee Student Assistance Corporation	11-TSAC-02	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	Security over a computer system needs improvement	x			
Tennessee Student Assistance Corporation	11-TSAC-03	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	Incorrect accounting entries for the Federal Family Education Loan Program resulted in an overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund	x			
COLLEGES, UNIVERSITIES, AND TECHNOLOGY CENTERS									
East Tennessee State University	11-ETSU-01	84.038	Student Financial Assistance Cluster	N/A	Notifications required by federal regulations were not performed for Perkins Loans in default status		10		
East Tennessee State University	11-ETSU-02	84.268	Student Financial Assistance Cluster	P268K112226	The reconciliations of the university's Direct Loan records to the Direct Loan Servicing System's records, as required by federal regulations, were not documented	x			
Tennessee State University	11-TSU-01	84.268	Student Financial Assistance Cluster	P268K110381	The Financial Aid Office did not comply with federal guidelines to perform required reconciliations and notify the Direct Loan Servicing System of loan disbursements within 30 days of the disbursement	x			
University of Tennessee	11-UT-01	12.800 and 93.847	Research and Development Cluster	FA9550-09-1-0624, R01DK067269	Principal investigators at the University of Tennessee Health Science Center and the University of Tennessee at Knoxville did not ensure that obligations charged to federal awards were allowable under federal research and development grants, resulting in federal questioned costs of $18,096.03	x			

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
University of Tennessee	11-UT-02	84.007, 84.063, 84.268, and 84.375	Student Financial Assistance Cluster	P007A103937, P268K102250, P268K102250, P375A102250	Financial aid staff did not properly perform Title IV return-of-funds calculations, resulting in federal questioned costs of $13,344.38	x			
University of Tennessee	11-UT-03	84.268	Student Financial Assistance Cluster	P268K102842	The Registrar's Office at the Health Science Center did not properly report enrollment data, increasing the risk of not initiating the student loan repayment process		11		
University of Tennessee	11-UT-04	84.268	Student Financial Assistance	P268K102250 (UTK); P268K102251 (Martin); P268K102842 (Memphis)	Directors of Financial Aid did not properly perform Direct Loan reconciliations	x			

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
1	Management's corrective action included: 1) the Department of Children's Services (DCS) fiscal and program staff initiating a IV-E validation project effective April 1, 2012, to ensure that eligibility information contained in the IV-E historical database is consistent with eligibility information captured in the adoption assistance case files and in the TFACTS record. The project/activity includes both a DCS Fiscal staff review of data to assure that Federal IV-E claims are accurate and the program staff reviewing adoption assistance records for the following groups: 1)Phase 1- Subsidies paid on behalf of youth between the ages of 18 and 21 and 2) Phase 2-IV-E subsidies that were approved prior to 3/01/08 when the requirement to include proof of IV-E eligibility in all subsidy records was implemented; this population includes approximately 4,100 files 3) Phase 3-Special rates and 4) Phase 4-Extraordinary rates. The project has been underway since April 2012. Phase 1 has been completed and DCS is currently working on Phase 2.
1 continued	Management's corrective action also included the Office of Child Permanency using the Lean Process, or similar process, to develop a corrective action plan. The action step was actually to use the LEAN process or a similar business process mapping tasks related to subsidy determination and approval. At this point, staff have been identified as LEAN sponsors to support moving the work forward. The LEAN event has been scheduled for early September, 2012.
2	All planned corrective action was completed by June 30, except confirmation/verification of users for eReporting, Attendance Funding , and FACTS web applications. This has been completed for 129 of 136 school districts (95%). Target date for completing the confirmation/verification for remaining 7 (5%) school districts is September 30, 2012.
3	On March 13, 2012, CoverKids Director implemented the Post Eligibility Audit by training staff on the first 10 Post Eligibility Audits. CoverKids has audited over 100 cases. 2) Policy Studies Inc. (PSI) performs a weekly system verification of CoverKids enrollees listed in Children's Health Administrative System (CHAS) against Medicaid and TennCare Standard enrollees to ensure that no enrollee receives overlapping coverage. However, if the enrollee's social security number, name, or birth date does not match exactly between the systems, PSI's weekly system verification may not discover the overlapping coverage. The controls in place are working when the correct demographic information from the member/beneficiary is submitted on the application. In 2014, CoverKids and the Bureau of TennCare will be utilizing one eligibility system where there will be a master enrollee database thus eliminating the overlap of coverage. In the interim, TennCare is researching the possibility of creating a report that will identify possible overlap of coverage based on social security number and birth date. The controls in place are working to ensure no pregnant woman is still enrolled in the CoverKids program 60 days past their estimated/provided due date.
4	The Department of Human Services states that the problems noted in the finding have been resolved and all questioned costs has been recouped. As a result of items noted during the monitoring visits, it is noted that the Department is continuing to vigorously monitor the Weatherization Program. Any problem noted will be corrected as it is found. If the problem warrants question costs, it will be assessed and recouped.
5	Thus far in FY2012, most of the Federal reports have been submitted timely, except for the April reports which were three (3) days late.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
6	The Department of Human Services/Security Administration is in the process of assembling all of the necessary personnel/groups to plan a meeting to discuss roles and duties for the corrective action plan. The assembled team will create an audit spreadsheet to document the findings and track progress toward completion.
7	Child & Adult Care Licensing included the following procedure in the revised Policy and Procedures Manual: If the agency is receiving bonus payments and there is a change to the score, the Supervisor must immediately upon encoding the new score, email the designated contact in the Department's Fiscal Services Division so that an adjustment to the agency's bonus payments can be made. The following Work Outcome is included in the Program Supervisor's Job Plan: To ensure that staff are completing job tasks and encoding required information and data in RACCS within the time frames established, Program Supervisors will review reports related to case management on the first business day of each month: One of the Behavioral Action Steps requires the Program Supervisor to Review Star Rating reports -- to ensure star rating is encoded prior to expiration of license unless due to late fire/health/assessment.
8	The department is in communication with the United States Department of Labor (USDOL) to resolve this finding. They emailed their response, along with supporting documentation, to them on June 21, 2012. A response was received from USDOL on November 19, 2012. The USDOL notified the department that the matter had been docketed for a hearing (Case No. 2013-WIA-00002). The department is revising the process for approving equipment purchases by the Local Workforce Investment Act (LWIA) contractors. The revised process includes an examination by the department's fiscal and program staff, who will ensure that the equipment purchases are reasonable, necessary and allowable. The department has been communicating with the specifically mentioned LWIA contractors in relation to the computers, vehicles, and unallowable reimbursements discussed in the finding. The Department of General Services has been contacted to approve adding the van from Memphis to the department's fleet.
8 continued	The equipment inventory is being compared quarterly. Audit requirements, including resolution and debt collection, are addressed in Provisions 8 and 9 of the *WIA Supplemental Financial Guide*. The contract Coordinator in Fiscal Services is responsible for resolving audit issues by adhering to the guidelines set forth in Provisions 8 and 9 of the *WIA Supplemental Financial Guide* .
9	As of March 31, 2012, Local Programs (LP) has developed and is using a Risk Assessment form for all LP projects. LP has coordinated with the Tennessee Department of Transportation (TDOT) External Audit Director and compiled a subrecipient monitoring list for 2012. A monitoring report template is in use to document monitoring findings. All corrective actions identified for Local Programs are complete. Also, as of March 31, 2012, the Division of Multimodal Transportation Resources has contracted with a consultant to develop a Compliance Monitoring program for subrecipients. Development of a Subrecipient Monitoring Manual is complete and subrecipient training has been done. On-site reviews are being scheduled and will be on-going through 2012.
10	The Bursar reviewed the Perkins Loan servicing agreement and modified the terms to include the required due diligence for loans in default status. The loan servicing agreement, as amended, includes the thirty-day preacceleration letter and required telephone call before referral to collections. A staff member was assigned the responsibility to review compliance and monitor loan servicing by the contractor.
11	The University of Tennessee Health Science Center has designed a comprehensive action plan to ensure timely enrollment reporting. The Health Science Center joined the National Student Clearinghouse in October 2012, which should help facilitate timely reporting. The registrar has assigned duties and responsibilities within that office to ensure the accuracy and timeliness of the reporting.
12	By June 30, 2012 the Department of Human Services (DHS) started submitting the Federal Funding Accountability and Transparency Act (FFATA) report as required and started reviewing the Weatherization Assistance Program (WAP) report; and the discrepancy identified was corrected in the June 30, 2012 FFATA report. In October 2012, DHS put a federal reporting process in place and trained all staff on the process capturing the entire reporting process for all federal reports that the department prepares.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
13	The Division of Multimodal Transportation Resources reassigned the responsibilities for Asset Management from the Transportation Specialists to a Planner 3. The Capital Asset Inventory Forms were amended to address all the required elements. Corrective Action was addressed in the State Management Plan, which was approved by the Federal Transportation Administration (FTA) on December 1, 2011. Subrecipients of FTA funding received training on the new procedures beginning January 19, 2012 and continuing through February 2012.
14	Beginning in April 2012, management updated the template for ACCENT's CLRC (running records) guide to ensure that the required certifications related to these findings are documented. Also, following last year's audit, the department added the certification questions to the supervisor's "case reading" document to ensure they take note of whether or not the questions were addressed. The "case reading" is a part of the information gathered to determine staff performance so staff is aware of the required information that defines a correct case. The department stated that they also plan to take a look at the certification document within the next couple of weeks to insure that the necessary language is clearly stated. In addition, the department plans to contact computer systems personnel to determine what would be necessary to include yes/no questions regarding these certifications within ACCENT. They will not know a target date until the system staff tell them if it is possible to add question into ACCENT.
15	During the current audit of ending June 30, 2012, it was determined subrecipients maintained support for social security numbers, ensured adequate documentation of payments, provided Crises Assistance within 48 hours, and paid energy providers correctly. However, there were uncorrected items noted. The subrecipients did not document supervisory review of potential client applications, did not calculate priority points correctly and did not have internal controls to ensure energy providers were not suspended or debarred. As part of our continued effort to resolve the finding we are updating our FY 2014 LIHEAP Operational Plan, which will be completed during March 2013 and effective (issued) July 2013, and issuing memorandums, specifically addressing these items during State fiscal year 13.

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
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Basis of Presentation	Any unresolved items listed on the State of Tennessee's 2011 Summary Schedule of Prior Audit Findings and the audit findings from the 2011 Single Audit Report was used to compile the 201 Summary Schedule of Prior Audit Findings, required by OMB Circular No. A-133 Section___.315(b).
Report Legend	
State Agency:	The title refers to the state agency or institution in which a finding was taken in the Single Audit Report.
Finding Number:	Finding Number is the number assigned the finding in its respective Single Audit Report. The first two digits indicate the fiscal year of the Single Audit Report in which the finding was published.
CFDA Number:	Catalog of Federal Domestic Assistance Number is the number assigned to a federal program.
Program Name:	The identification of the program in which the finding is related.
Grant/Contract Number:	The number that is used to identify the particular grant or contract.
Finding:	A synopsis of the actual finding cited in the Single Audit Report for the fiscal year shown.
Corrective Action Taken:	This is to indicate whether steps implemented by management have corrected, partially corrected, or not corrected the finding noted.
Finding Does Not Warrant Further Action:	Circular A-133 states that a valid reason for considering an audit finding as not warranting further action is that *all* of the following have occurred: Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse. The federal agency or pass-through entity is not currently following up with the auditee on the audit finding. A management decision was not issued.

STATE OF TENNESSEE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDING 6/30/2012

FINDING NUMBER	FINDING	STATE AGENCY	CONTACT PERSON	ANTICIPATED CORRECTIVE ACTION AND COMPLETION DATE
12-APSU-01	The Student Financial Aid Office did not always perform Title IV return-of-funds calculations, did not always properly verify documents, incorrectly awarded Title IV funds, and did not always comply with satisfactory academic progress policies, resulting in federal questioned costs of $4,486.50	Austin Peay State University	Dr. Timothy L. Hall	**Return of Title IV Funds Not Properly Calculated** -The institution concurred in part with this finding. They agreed that there was an error; however, they did not agree with the method used to classify as a finding for the one error from the sample. The Student Financial Aid Office receives electronic notification from the Registrar on a daily basis. They have met with the Registrar to identify why there was a delay in processing this withdrawal. A procedure has been established to pick up withdrawals not included in the electronic notification that is already in place. They will do whatever is possible to ensure errors will not occur in the future. The institution stated that the error based on the sample population is within the allowable margin of error as determined by the Department of Education. **Verification Not Completed and Overaward Made** - The process to monitor subsequent Institutional Student Information Records (ISIR's) has been expanded through the development of a flow chart and quality control reports. They will do whatever is possible to ensure errors will not occur in the future. **Satisfactory Academic Progress (SAP) Not Always Calculated and Appeals Not Granted When Required** -The institution took immediate action to correct this issue, as well as review all Spring I calculations. All students were making satisfactory academic progress (SAP). Spring I, as well as other part of term calculations will be included by manually calculating. As an ongoing process of risk assessment by the university, a detailed risk assessment will consider risks that are applicable to the Office of Student Financial Aid and mitigating controls. This assessment will assign all controls to specific managers that will be required to monitor those controls. The Director of Financial Aid will review the controls to ensure that proper monitoring has occurred. In instances of improper monitoring, progressive discipline will apply.
12-DCS-01	The department has not ensured adoption assistance maintenance payments beyond individuals' 18 birthday are qualified to receive federal Title IV-E finding, resulting in questioned costs of $2,893	Department of Children's Services	Commissioner Jim Henry	In April 2012, the staff associated with Division of Foster Care and Adoption Services and the Child Welfare Benefits Division initiated the validation of funding source of all 1407 cases that met the criteria of being over age 18 and continuing to receive a subsidy. The review was completed in July 2012 and now they have worked with the Office of Information (OIS) to correct all cases that were identified to have the incorrect funding source. In addition, they have, prior to the audit report, established a new process to review all of the subsidy cases with children that turn age 18, 19, or 20 to ensure that eligibility and funding source are correct in the Tennessee Family and Child Tracking System (TFACTS). All errors identified are reported to the OIS division for correction. On December 20, 2012, a process (FM12h) was released to end the subsidy on the 18th birthday except special needs cases Finally, all question costs were processed for refund on August 9, 2012 and December 14, 2012.
12-DCS-02	Security over computer systems needs improvement	Department of Children's Services	Commissioner Jim Henry	Edison is the statewide accounting system used to issue payments to program providers and account for program expenditures. The Edison system also serves as the state's payroll system and captures time and attendance. Management states that staff was retrained in November 2012 on the proper system termination procedures for all separations, including those with a "no rehire" status. Additionally, the department is requiring all resignation notices to go directly to Human Resources as well as the immediate supervisor. Concurrently, DCS completed an automated solution process through the Office of Information Systems in December 2012 which will assist in ensuring the closure of all previous access. The implementation date of this process is still to be determined but possibly by the summer of 2013. Until the automated solution is complete, the department will conduct regular cross checks of each of the systems to ensure all access has been terminated. Exceptions found will be reported to upper management for all appropriate inquiry and review.
12-DFA-01	The Tennessee Board of Regents and some of its institutions did not obtain and review certified payrolls, as required by the Davis-Bacon Act for federally funded construction contractors' compliance, increasing the risk of workers not being paid the prevailing wage rates	Department of Finance and Administration	Commissioner Mark Emkes	The Department of Finance and Administration stated that currently there is language in the Designer Manual that requires the project management team and the contractor to consider prevailing wage rate requirements at the pre-construction conference and the contractor to submit a copy of the payroll transmittal letter(s) to the Department of Labor and Workforce Development with each pay request. The State Architect's Office will have a meeting on March 19, 2013 to review current standards and hear a presentation regarding correct procedures. The revised language for the Designer Manual is expected to be in place by April 1, 2013.
12-DFA-02	TennCare did not appropriately terminate two ineligible enrollees, which resulted in total questioned costs of $1,448	Department of Finance and Administration	Commissioner Mark Emkes	In October 2011, TennCare discovered a problem in the reconciliation process. The matching process was not looking at a narrow data set for certain categories, including the category of the recipient in question in the first case. A Systems Change Request was written to correct the problem, was immediately prioritized in the Eligibility Workshop, and that correction was moved into production on January 25, 2013. The case at hand was corrected earlier through a system file fix that was run in November 2011, thereby sending the enrollee a November 2011 redetermination packet. The second case identified was not closed timely because there was old data from Department of Human Services(DHS) on the Ridmatch file which indicated that the case should remain open pending review of a TennCare Standard application. This particular data element remains in ACCENT unless removed manually by a DHS caseworker. TennCare now produces a report that identifies any who received redetermination papers but has been pending in the system for more than 90 days. This recipient was listed on the report. Once identified, a termination notice was mailed on October 17, 2012, which populated a termination date of November 6, 2012.

				The deficiencies noted in the findings will also be addressed as TennCare designs a new eligibility system in response to Medicaid changes mandated by the Federal government. The Centers for Medicare and Medicaid Services have also promulgated regulations which will change the redetermination process and make application and redetermination processes quicker and more reliant on interface data rather than paper documents supplied by the applicant. This new system will be available on January 1, 2014, and will replace the ACCENT system for any Medicaid applications received on or after that date.
12-DFA-03	CoverKids did not terminate an enrollee timely and paid another enrollee's dental benefits at the incorrect rate, resulting in total federal questioned costs of $700	Department of Finance and Administration	Commissioner Mark Emkes	**Enrollee's Benefits Not Terminated Properly** - The problem noted with the incorrect birthdate of an enrollee was corrected February 15, 2012. To further ensure that the retrospective 90-day cancellation is processed through the Eligibility Contractor's Information Technology (IT) Division, CoverKids has had the following three processes put in place by the Eligibility Contractor: 1) On October 9, 2012, the Eligibility Contractor implemented a monthly query to proactively identify potential accounts that fall into a 90-day manual cancellation process 2) On October 10, 2012, the Eligibility Contractor implemented a process to remind Customer Service Representatives to submit the request to the IT staff person and 3) on October 31, 2012, the Eligibility Contractor implemented a process to automate the eligibility system to handle a larger volume of these situations without Customer Service Representative involvement. In addition, effective November 2012 CoverKids implemented a monthly Suspect Report. Effective January 1, 2014, there will be a master enrollee database to handle eligibility for TennCare Medicaid and CoverKids (CHIP) Programs which will eliminate the need for the additional backend processes to address demographic discrepancies the programs occasionally experience between the two current systems. **Dental Premium Payments Incorrect** - This incorrect payment was made when the CoverKids dental contractor (DentaQuest) incorrectly billed CoverKids the wrong premium rate on a member. The Dental Contractor implemented a Quality Assurance and reconciliation process effective November 19, 2012 to ensure these types of errors do not occur moving forward. In addition, CoverKids will expand the 2013 post-eligibility audit to ensure the dental contractor (DentaQuest) is billing the program the correct monthly premium amount, by enrollee. Also, CoverKids has updated the Division of Health Care Finance and Administration's (HCFA) risk assessment for 2013 to adequately identify and assess the risks associated with this finding.
12-DFA-04	The Division of Health Care Finance and Administration did not update its cost allocation plan and properly allocate some indirect costs, resulting in higher costs to the Medical Assistance Program and fewer costs to other federal programs	Department of Finance and Administration	Commissioner Mark Emkes	Management is currently in the process of revising the Cost Allocation Plan (CAP) and allocation methodology. The projected date of the revised CAP to be submitted to the Division of Cost Allocation of Health and Human Services (HHS) is April 30, 2013. Management will await notice of approval with the hope that approval will come before the State books for June 30, 2013, are closed so that allocations for 2013 fiscal year can be recorded. Under the new Division of Health Care Finance and Administration reporting structure, there are five federal grants under the administration. The Medicaid grant constitutes 96.7 percent of the Division's federal dollars. The other four federal grants are vastly immaterial in relation to this grant and therefore it is believed that the administrative costs to be allocated to the other programs are immaterial to both the Medicaid program and to the other grant programs. The Division does understand the importance of performing these allocations and will do so once an approved plan is in place. The administrative structure is changing rapidly due to changes at the Federal level. As a result, the division will likely submit an amended CAP to HHS for the 2014 fiscal year. In addition, they will make necessary updates to the 2013 Risk Assessment pertinent to the CAP preparation and updates.
12-DHS-01	As noted in the prior audit, the department did not report financial information in accordance with the Federal Funding Accountability and Transparency Act (FFATA), which may result in the loss of federal funds and may be considered grounds for the suspension or termination of grants	Department of Human Services	Commissioner Raquel Hatter	The preparation of the Federal Funding Accountability and Transparency Act (FFATA) report for Low-Income Home Energy Assistance Program (LIHEAP), Child and Adult Care Food Program (CACFP), Summer Food Program, Child Care Development Fund (CCDF), Temporary Assistance for Needy Families (TANF) and Child Support Enforcement (CSE) has been centralized across the Fiscal Unit as of October 2012 with the appropriate Fiscal Staff, to ensure timely completion on a monthly basis.
12-DHS-02	As noted in the prior audit, the Department of Human Services did not follow departmental and state information system security policies, resulting in the increased risk of fraudulent activity or loss of data	Department of Human Services	Commissioner Raquel Hatter	**Failure to Follow State Policy for Access Removal** - Department of Human Services (DHS) Information Technology (IT) Security department has created and implemented a process as of October 31, 2012, to deactivate user accounts on the State network immediately upon notification, no later than on business day after employee's departure date. **Failure to Follow Edison Access Termination Procedures** - DHS Human Resources (HR) created and implemented a plan on March 1, 2013 that staff will need to submit forms (Job Change Request form or Agency User Separation form) up to 30 days in advance so auditor deadlines can be met by DHS Human Resources (HR) department. **Failure to Follow Sharing Access Policy** - All Tennessee Food Programs (TFP) users have been notified that claims will only be accepted by authorized users. A change is in progress in the TFP that will validate the preparer of the claim is an authorized TFP user and only authorized users may submit claims. This electronic validation will enforce validation of electronically submitted claims. This change will be put in production April 15, 2013.
12-DHS--03	The Department of Human Services could not provide documentation to support Child Care and Development Fund ACF-696 financial reports	Department of Human Services	Commissioner Raquel Hatter	Management states that the department's ACF 696 report (DHHS Administration for Children and Families/Child Care and Development Fund Financial Report) was revised to agree with supporting documentation. The Department's Fiscal Unit has revised the Federal Financial Report preparation process to include supporting documentation and central repository of the reports. The process was revised and training held on October 25, 2012 for implementation for November 2012 and future federal reports.

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12-DHS-04	As noted in the prior audit, the Department of Human Services did not ensure the subrecipients followed the federal laws and regulations and the department's State Plan for the Low-Income Home Energy Assistance Program, resulting in federal questioned costs totaling $150 and increased risk of fraud, waste, abuse, and additional noncompliance.	Department of Human Services	Commissioner Raquel Hatter	**Supervisory Review of Applications Not Documented** - Low-Income Home Energy Assistance Program (LIHEAP) applications for benefits were updated with the beginning of FY13. Supervisor review is intended to provide periodic internal monitoring and the sub grantees will continue to review a sample of applications. The department concurs that any supervisory review of client applications should be documented. Contract agencies will be reminded about the need to properly document all review of LIHEAP client applications. Additionally, this topic will be added to the FY 2014 LIHEAP Operational Plan-Standard Operation Procedures. The Department notes that none of the clients were ineligible for benefits. **Client Energy Burden Not Calculated Consistently -** Currently, a draft memorandum to address the treatment of past due amounts is open for agency comment period. Once the comment period closes, all the details are finalized, and the memorandum is issued. The State will have consistent policy on treatment of past due amounts and all sub-grantees will be using the same method. LIHEAP FY2014 Operational Plan will contain this information as well. **Client Priority Points Not Calculated Correctly-** The rounding of energy burden percentages has been discussed in detail with the sub-grantees, and the Department of Human Services (DHS) Community Services Unit has since issued LIHEAP Memo 12-01 on February 27, 2012, to address this inconsistency. Currently, all LIHEAP sub-grantees are using the same method, which is rounding the energy burden percentage to the nearest whole number. Additionally, the unit has issued two numbered memorandums (LIHEAP Memo 13-02 dated September 27, 2012 and LIHEAP Memo 13-03 dated December 14, 2012). Memo 13-02 addresses the definition of income, calculation of unemployment income, acceptable forms of income verification and zero income. The later memo provides additional details on these topics. The income section within the LIHEAP Operational Plan will be expanded for FY2014 and the DHS Community Service Unit will continue to have discussions on this topic with the sub-grantees. **DHS and the Subrecipients did Not Have Suspension and Debarment Controls in Place**- On June 6, 2012, Community Service (CS) Memorandum 12-01 was issued instructing the sub-grantees to include the Debarment and Suspension language in all of their lower tier contracts. In addition, the LIHEAP Vendor Agreement for FY2013 was updated to include this language. This requirement of suspension and debarment controls will also be made part of the LIHEAP Operational Plan for FY2014 and onward. It is important to note that none of the vendors were suspended and debarred by the federal government, and all were eligible to receive LIHEAP funds.
12-DHS-05	For the second year, the department failed to document certifications attesting to Temporary Assistance for Needy Families recipients' disclosure of state or federal criminal convictions when caseworkers renewed recipients' eligibility, increasing the risk that funds will be disbursed to ineligible recipients	Department of Human Services	Commissioner Raquel Hatter	Beginning in April 2012, management updated the template for the department's Automated Client Certification and Eligibility Network for Tennessee's (ACCENT's) CLRC (case management running records) guide to ensure that the required certifications relating to these findings are documented. The Department is currently in the process of reviewing CLRC documentation needs and they will be sure to include this issue. In addition, the certification questions were added to the supervisor's case reading document in June 2012 to ensure that they take note of whether or not the questions were addressed. The department will review this document again to ensure that the necessary language is clearly stated. In addition, a meeting has been scheduled for March 2013 to determine what would be necessary to include required yes/no questions regarding the certifications in ACCENT.
12-DHS-06	Management's lack of review and errors in the cost allocation spreadsheets resulted in the department undercharging and overcharging federal programs for administrative costs	Department of Human Services	Commissioner Raquel Hatter	It was identified that the Cost Allocation Table (CAT) was not calculating correctly during the October-December 2011 quarter and affected 3 of 30 tables. Not all programs were impacted by the incorrect CAT calculation. The Random Moment Sample (RMS) Administrator rectified the error. The Department has since revised the cost allocation process to require the Budget Coordinator to review and approve the RMS Administrator's work each month. The Budget Coordinator will review all 30 CATs before the RMS Administrator provides the information to Fiscal Services. The department stated that select tables were reviewed in January 2013 and moving forward all tables will be reviewed.
12-DHS-07	The department failed to properly verify Families First clients' work activity in accordance with the approved Work Verification Plan	Department of Human Services	Commissioner Raquel Hatter	Since the audit, case reviewers have reviewed the error cases (11) and have secured the paper documentation on 5 of them. The department states that these are now correct cases. In addition, effective December 2012 the case reviewers have started requesting all work activity hours verification and understand that they are to do this even if there are other case errors found or if the contractors have not been provided with the prior quarter's feedback.
12-DHS-08	A Subrecipient of the Department of Human Services did not maintain applications, approve applications, or determine eligibility for individuals participating in the Child and Adult Care Food Program, resulting in federal questioned costs of $27,011	Department of Human Services	Commissioner Raquel Hatter	The Directors of External Program Review and the Child and Adult Care Food Program (CACFP) will reassess the review process to identify improvements in the identification and correction of deficiencies related to the determination, documentation and reporting of participant eligibility. The Director of CACFP will also ensure that additional training and technical assistance are provided to sponsor personnel. A statewide memorandum was issued on February 28, 2013 to all institutions that have to maintain income eligibility applications. Also, this issue will be addressed again during the CACFP training for July 2013.
12-DHS-09	The Department of Human Services did not ensure Child and Adult Care Food Program sponsoring organizations followed proper claim reimbursement and payment procedures, resulting in federal questioned costs of $724	Department of Human Services	Commissioner Raquel Hatter	The Director of External Program Review will reassess monitoring operations and take all necessary steps to ensure the timely identification of sponsor deficiencies. The Director of CACFP will also ensure that additional training and technical assistance are provided to sponsor personnel. The additional training is scheduled for July 2013 and the department plans to have all questioned cost resolved during March 2013.
12-DHS-10	As noted in the two prior audits, the Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs for fiscal year 2012 totaling $1,839 and an increased risk of fraud, waste, abuse, and additional noncompliance	Department of Human Services	Commissioner Raquel Hatter	The department noted that the questioned costs identified in this audit (0.07 percent of the jobs reviewed) have decreased by almost 95 percent, as compared to the last audit. The department states that they strive towards zero questioned costs, but believe procedures in place have made considerable improvements. All questioned costs will be resolved during March 2013. The Department of Human Services no longer administers the Weatherization Program. The information contained in this audit, as well as the risk assessment, has been shared with the Tennessee Housing Development Agency, who administers the program effective July 1, 2012.

12-DHS-11	As noted in the two prior audits, the Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs for fiscal year 2012 totaling $6,700 and an increased risk of fraud, waste and abuse	Department of Human Services	Commissioner Raquel Hatter	The department stated that they did not have a policy that would allow Low Income Home Energy Assistance Program (LIHEAP) eligible clients to be automatically eligible for the Weatherization Assistance for Low-Income Persons (WAP) program. Subsequently, WAP funds were not used to pay for the job noted in the finding. The questioned cost for this finding will be resolved during March 2013. The Department of Human Services no longer administers the Weatherization program. This finding, and the risk associated with it, was shared with the Tennessee Housing Development Agency, who now (effective July 1, 2012) administers the WAP program.
12-DHS-12	The Department of Human Services paid unlicensed Child and Adult Care providers resulting in $124,378 of federal questioned costs	Department of Human Services	Commissioner Raquel Hatter	The July 2012 Child and Adult Care Licensing Policy and Procedures Manual now requires the application and fee to be submitted at the beginning of the renewal process. The department has stated that questioned costs will be resolved during March 2013.
12-DHS-13	The department did not properly review and approve federal cash drawdowns or ensure that cash management duties were properly segregated prior to requesting funds from the federal awarding agencies; in addition, the department's Edison review process did not detect a miscoded transaction that affected federal cash drawdowns, increasing the risk of overdrawn federal funds	Department of Human Services	Commissioner Raquel Hatter	The Department has revised the federal revenue draw down process to require documented pre-approval by another staff before drawing federal revenue. The newly revised process was started on December 15, 2012. The Department is also in the process of adding another staff member to assist with the federal revenue draw. The anticipated date of the new hire will be April 2013.
12-DOE-01	As noted in the prior audit, the department and local education agencies did not always maintain proper information systems security controls, increasing the risk of fraudulent activity	Department of Education	Kristen McKeever	Corrective Action which is anticipated to be completed by June 30, 2013 includes: 1) The Tennessee Department of Education (TDOE) will contact local education agencies (LEAs) and other state agencies and verify users. Users no longer employed or who no longer need access to the application will be removed. 2) The TDOE will send a notice to Directors of Schools in the weekly Director Update to remind LEAs of the importance of notifying the TDOE when users need to be removed. 3) All access request forms will be inspected and any passwords found written on the forms will be removed. During the inspection, any forms not signed by a supervisor will be identified and follow-up will be conducted to obtain supervisor signature. 4) In the quarterly Special Ed newsletter, the TDOE will remind local Special Education administrators of the importance of removing access to EasyIEP when staff terminate or no longer need access. In addition, the Department has completed the following corrective action: 1) Human Resources staff has developed a process and is now stapling to personnel folders the email notices sent to the Office of Technology regarding employees who have terminated employment and 2) Human Resources staff has developed a process and is now scanning and emailing the Edison User Separation form to User Rights on the last day an employee works. A copy is attached to the personnel folder. Lastly, in order to remedy conditions that encompass all aspects of effective access controls the Department has completed the task of adding the appropriate risks to the Department's risk assessment. Over the next few years, the Department will rebuild all of its key internally developed applications and will leverage a common identity platform with the needed auditing controls built in; as well as, develop common procedures and forms to the extent possible to improve security controls.
12-DOE-02	The department did not report financial information for the Child Nutrition Cluster in accordance with Federal Funding Accountability and Transparency Act reporting requirements, increasing the risk the public will not have access to transparent, accurate information regarding expenditures of federal awards	Department of Education	Sarah White	The Department has completed the following corrective action: 1) Information Systems Manager has made great strides in recent months in learning reporting requirements and has become more adept at using the reporting system. 2) Information Systems Manager has been informed (and provided a copy of the draft audit finding) that FFATA Subaward Reporting System (FSRS) or other technical support personnel should be contacted when technical assistance is needed and information obtained should be documented and retained. 3) Risk items related to FFATA reporting have been added to the Department's risk assessment. **In addition,** the Department states that by June 30, 2013 the Department's Internal Audit Section will conduct spot checks to ensure FFATA data for Child Nutrition Programs is being entered timely and accurately.
12-DOE-03	The former Fiscal Director did not comply with earmarking requirements applicable to the Improving Teacher Quality program, resulting in federal questioned costs of $50,828	Department of Education	Anna Sparks	The Department has completed the following corrective action: 1) It has changed its processes and now requires written program leadership approval prior to making any adjustments to funding source for payments and 2) Fiscal and program personnel are monitoring the status of funds.
12-DOE-04	The Tennessee Department of Education did not ensure that personnel expenditures charged to federal awards were supported by adequate, timely documentation and did not ensure that Improving Teacher Quality and Title I, Part A funds were used for allowable activities, resulting in federal questioned costs of $451,699	Department of Education	Eve Carney	To ensure that personnel expenditure charged by staff to federal awards are supported by timely, adequate documentation prepared in accordance with federal requirements the department states that a procedural change has been made in the methodology and forms as well as the submission and review process to ensure supervisors are aware of how their employees' efforts align with their budgeted amounts. As of July 1, 2012, the substitute system for time and effort reporting, approved by the United States Department of Education, is no longer used in regional offices and as of January 1, 2013 Personnel Activity Reports (PARs) are used to document time and effort. In addition, the department's PAR and semi-annual certification forms have been revised as of January 22, 2013 to address the deficiencies noted in the report, including annual/sick leave and the inclusion of specific cost objectives. To ensure that program and fiscal staff are adequately trained with respect to federal time and effort requirements, the department will provide training to 100% of employees paid with federal or state match funds and to subgrantees to ensure compliance with federal requirements. For state employees, training sessions were held in January and February and no later than April 15, 2013, 100% of employees will be trained. Training sessions for district personnel administering federal grant funds was completed February 12, 2013 and additional sessions are scheduled for April and May 2013. To ensure that supervisors and program directors periodically compare funding sources with employees' job duties to ensure appropriate funding sources, quarterly reports on personnel and budget detail will be submitted beginning the quarter ending March 31, 2013 by email to supervisors and program directors by the 5th working day of the following month. Lastly, the time and effort issues were added to the risk assessment on December 28, 2012.

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12-DOT-01	The Division of Multimodal Transportation Resources did not have adequate controls in place to ensure that subrecipients properly calculated and deducted fare revenue on the reimbursement requests they submitted to the department	Department of Transportation	Commissioner John Schroer	The Division of Multimodal Transportation Resources (DMTR) will correct prior overpayments/underpayments by reviewing prior invoices with subrecipients. DMTR will address the finding with the following corrective actions: 1)DMTR will define the information that subrecipients must report with each invoice to enable staff to evaluate the proper treatment of fare box revenue. 2) An Invoice Approval Checklist will be developed that program managers will use as a guide to check for compliance issues. The checklist will be emailed to subrecipients and a conference call will be scheduled to discuss the requirements and answer questions. The estimated completion date for the above items is February 28, 2013. 3)DMTR will create a task-level Procedures Manual for staff that includes the invoice payment process. The anticipated completion date is June 30, 2013. With the assistance of the Department's Internal Audit, DMTR will monitor the efficiency of internal control measures by reviewing a sample of transactions to ensure the corrective action is adequately designed and functioning as intended.
12-DOT-02	As noted in the prior two audits, staff in the Division of Multimodal Transportation Resources failed to adequately review subrecipients' reimbursement requests and paid subrecipients for unallowable costs with funds from the Formula Grants for Other Than Urbanized Areas program, resulting in federal questioned costs of $2,130.02 and state questioned costs of $996.81	Department of Transportation	Commissioner John Schroer	The Division of Multimodal Transportation Resources (DMTR) will address the finding with the following corrective actions. 1) Subrecipients and staff will be directed to review the Federal Transit Administration (FTA) requirements for eligible grant expenditures. 2) The DMTR will clarify the information that subrecipients must report with each invoice and will require that agencies itemize expenses included in the "other costs" category. Grantees will be provided with clear instructions on the required documentation. 3) The Invoice Approval Checklist will include a step to review of "other costs" to verify sufficient detail is supplied to make a determination as to eligibility of costs. Full documentation will be requested for any suspect charges. The anticipated completion date for items 1) through 3) is February 28, 2013. 4)The task-level Procedures Manual, described above, will also be of assistance when reviewing invoices for allowable cost. 5) DMTR will develop a Handbook for Grantees. The Grantee Handbook will be an allowable expense guide for subrecipients use when preparing requests for reimbursement of program expenses. The anticipated completion date for items 4) and 5) is June 30, 2013. With the assistance of the Department's Internal Audit, DMTR will monitor the efficiency of internal control measures by reviewing a sample of transactions to ensure the corrective action is adequately designed and functioning as intended.
12-DOT--03	As noted in the prior two audits, controls over the vehicle inventory for the Formula Grants for Other Than Urbanized Areas program were inadequate, increasing the risk of misuse of grant program assets; in addition, an equipment inventory list was not maintained	Department of Transportation	Commissioner John Schroer	The Division of Multimodal Transportation Resources (DMTR) will address the finding with the following corrective actions. (1) DMTR will verify existing assets for which oversight is provided. DMTR will use Federal Transit Administration (FTA) TEAM application forms, Tennessee Department of Transportation (TDOT) financial information and subrecipient records to compile the list of vehicles and other assets for which "satisfactory continuing control" is required. The anticipated completion date is June 30, 2013. (2) The previously mentioned Invoice Approval Checklist (12-DOT-01) and definition of reporting requirements for subrecipients will also address vehicle inventory issues. Staff will note when capital assets are acquired and verify that required documentation accompanies the invoice. (3) DMTR will create an Administrative Manual for maintaining inventory, disposal , and inspection records. Included in this Manual will be policies and procedures to ensure that purchased equipment is properly maintained, that maintenance and inspections are documented, and that disposals are properly handled. The anticipated completion date is March 31, 2013. With the assistance of TDOT Internal Audit, DMTR will monitor the efficiency of internal control measures by reviewing a sample of transactions to ensure the corrective action is adequately designed and functioning as intended.
12-DOT-04	As noted in the prior two audits, the Division of Multimodal Transportation Resources did not always comply with the Department of Finance and Administration's subrecipient monitoring requirements, thereby increasing the risk of not detecting fraud, waste, abuse and noncompliance by subrecipients	Department of Transportation	Commissioner John Schroer	The Division of Multimodal Transportation Resources (DMTR) will address the finding with the following corrective actions. (1) A substantive risk assessment will be developed and used. DMTR will compile information for each subrecipient from the following: Tennessee Department of Transportation (TDOT) audits and monitoring reviews, Comptroller audits, and substantive customer complaints. Based upon this assessment, each agency will be rated as high, medium or low risk. The level of risk will impact the level of documentation required from each subrecipient and the frequency of monitoring. (2) All subrecipients will be identified to ensure they are included in the annual Subrecipient Monitoring Plan and TDOT's specific expectations for compliance will be communicated through receipt of the Subrecipient Handbook. (3) The current method of using a consultant to monitor subrecipients will be continued. The monitoring responsibilities and roles of staff will be clearly delineated and communicated with the possibility of DMTR staff resuming monitoring in the future.
12-DOT-05	The department's right-of-way offices in regions 1, 3, and 4 did not follow established internal control procedures; in addition, the region 3 right-of-way office did not monitor consultants, which created an atmosphere for fraud to occur and resulted in federal questioned costs of $73,605.33 and state questioned costs of $18,401.34	Department of Transportation	Commissioner John Schroer	A review of right-of-way payments issued to consultants to perform closings has been completed by each applicable region and the issue of misappropriation of funds seems to be isolated to region 3. At present, the department is undergoing a reorganization which will affect the regional offices. Certain positions within the "right of way" office and other functional areas as well will be moved to a "Studio." As the "Studio" concept is implemented, adequate staff will be obtained and trained. The IT Division is working with the Right-of-Way Division and a consultant to develop a new comprehensive work flow data base. This new system, Integrated Right-of-Way Information System (IRIS), will enhance the region's ability to monitor consultant closings by IRIS' precise recordkeeping, robust reporting capabilities, and automated notification system. It is estimated that the data base will be fully operational by late 2014. In the interim, a program has been written to monitor the closing of tracts utilizing the information in the current data base. Each regional office implemented this program. The process for monitoring closing was discussed with the regional right-of-way managers at the statewide meeting held the first of October 2012, with a supporting memo explaining the process sent in late November 2012. The elimination of escrow accounts was implemented the first of October 2012, and a memo was sent to each regional Right-of-Way Manager instructing them to proceed accordingly. It is the goal of the department for each regional right-of-way office to perform closing with in-house staff. One or more regional right-of-way offices may still utilize title work/closing consultants until vacant positions are filled. Depending upon workload, the department may utilize acquisition/relocation consultants. Under these types of contracts, the consultant will perform the closing function. Current consultants have been notified of the elimination of escrow accounts and the proper procedures to follow.

12-DOT-06	Internal controls over the recording of overweight/overdimensional permit receipts remained inadequate, increasing the risk of material misstatements in the financial statements and the risk of permit fees being misappropriated	Department of Transportation	Commissioner John Schroer	The implementation of additional internal controls was completed in November 2012, subsequent to the audit period. These controls will be maintained and appear to mitigate the risk of misstatement and misappropriation. The $9,500 variance from the fiscal year 2011 audit will be investigated.
12-ETSU-01	Notifications required by federal regulations were not performed for Perkins Loans in default status	East Tennessee State University	Dr. Brian Noland	In the instances of the borrowers who were not mailed a final demand letter, the loan processing contractor had an error in its electronic loan system that removed 60-day letters from the automatic process for a small subset of schools. This was identified and corrected in September 2011. This was a one-time issue that has been corrected and has not recurred. In addition, the university determined the missing phone numbers for borrowers were the result of incomplete migration of data from the university to the loan processing contractor at the inception of the contract. The university will obtain a listing from the loan processing contractor of all borrowers in its system with no phone number and will review institutional records to identify a phone number. The review will be documented. Phone numbers that are identified will be forwarded to the loan processing contractor to update the borrower's record in the contractor's system.
				All phone calls to borrowers and the response received are logged on a report maintained by the loan processing contractor. The loan processing contractor requested the Department of Education review the contractor's interpretation of the letter of intent to accelerate. Based on the review, the loan processing contractor changed the system logic that triggered the letters. This logic was changed in March of 2012 and the pre-acceleration letters are now sent out at least 30 days prior to the acceleration date. The university will ensure risks of compliance with loan servicing are included in the university's risk assessment. A staff member in the Bursar's Office has been assigned the responsibility to review compliance and monitor loan servicing by the contractor. The Bursar will review the results of the monitoring on a periodic basis.
12-LWD-01	The Department of Labor and Workforce Development's management has threatened the integrity of the Unemployment Insurance Program by failing to provide sufficient internal controls and oversight	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Management states that within the next 90 days, a correction action plan with timelines will be developed by the Commissioner and key executive leadership that will put in place adequate internal controls. Additionally, the Commissioner will insure that knowledgeable leadership is in place to provide appropriate oversight.
12-LWD-02	The Department of Labor and Workforce Development's failure to comply with its procedures to determine claimants' eligibility for the Unemployment Insurance program and to implement proper controls over eligibility determination threatens the integrity of the Unemployment Insurance program and resulted in $73.4 million in overpayments due to fraud during the past six years and overpayments due to error for the past three years	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Management states that within the next 90 days, a plan with timelines for the development of a strong system of internal control over the claimant eligibility process will be put in place by the Commissioner and executive leadership.
12-LWD-03	The Department of Labor and Workforce Development's inability to address a backlog of employer requests to protest benefit charges and a backlog of new and pending claims, along with a limited implementation of the case management system, has threatened the integrity of the Unemployment Insurance program and resulted in $800,000 of questioned costs	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Management states that within the next 90 days, a plan with timelines will be developed by the Commissioner and executive leadership that will address the failed processes and systems.
12-LWD-04	One of the Employment Security Division's key controls for detecting fraudulent claims was ineffective and failed to identify ineligible payments of $138,856 to state employees and deceased individuals	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Management states that changes have been made (as of October 2012) to the cross-matching process to make sure that the programs are working as intended and unnecessary data is removed. A periodic review of the cross-matching process will be conducted by management to insure all processes are functioning properly.
12-LWD-05	The Department of Labor and Workforce Development failed to comply with state law and federal regulations when the Information Technology Division and Claims Center Management jointly failed to verify the identities of unemployment claimants	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Management states that the formatting error that caused the problems with the U. S. Social Security Administration (SSA) matching process has been corrected as of August 2012. The Commissioner will ensure that controls identified in the department's annual risk assessment are actually in place and working. Management will determine the appropriate frequency of review.
12-LWD-06	The Department of Labor and Workforce Development's staff improperly classified overpayments of unemployment claims with fraud indicators as overpayments due to errors rather than frauds, which increased the risk that claimants submitting fraudulent claims could remain in the system for possible future benefits	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	In the next 90 days, a plan will be in place to address staffing needs when claims dramatically increase. Local office training and compliance with the new policies will continue.
12-LWD-07	The Department of Labor and Workforce Development's lack of controls over its online automated approval process for unemployment claims increased the risk that payments were made to ineligible claimants	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Controls over the online automated approval process will be reviewed by executive management for adequacy. This will include the verification of audit trails and any information technology issues. The corrective action plan for this issue will be addressed in the corrective action plan referred to in 12-LWD-01.

12-LWD-08	The Department of Labor and Workforce Development's Employment Security Division did not obtain certifications from certain claimants, which increased the risk that ineligible individuals received unemployment benefits	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Over the next 90 days, the department will review the partial claims process for improvement. Additionally, all risks included in this finding will be included in the department's annual risk assessment.
12-LWD-09	Override of controls by one subrecipient's board resulted in the overexpenditure of $172,859.04 in Workforce Investment Act funds	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Management will communicate with WIA subrecipients the consequences of not following WIA program requirements, and the Commissioner will take the necessary steps to adequately resolve the questioned cost. The corrective action plan for this issue will be addressed in the corrective action plan referred to in 12-LWD-01.
12-LWD-10	Management at the Department of Labor and Workforce Development and management at its Local Workforce Investment Areas did not comply with the Workforce Investment Act program reporting requirement	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Appropriate action will be taken by the Commissioner to ensure that the local managers of the Workforce Investment Act (WIA) report accurate and up-to-date information. The corrective action plan for this issue will be addressed in the corrective action plan referred to in 12-LWD-01.
12-LWD-11	The Department of Labor and Workforce Development was unaware that one of its subrecipients failed to report revenue generated from Workforce Investment Act funds, resulting in $36,101.32 of federal questioned costs	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Appropriate action will be taken by the Commissioner to ensure that the local managers of the Workforce Investment Act (WIA) properly report program income. The corrective action plan for this issue will be addressed in the corrective action plan referred to in 12-LWD-01.
12-LWD-12	Subrecipients of the Department of Labor and Workforce Development did not follow proper procurement procedures when awarding service contracts funded by the Workforce Investment Act program and paid for unallowable costs, which resulted in $17,926.50 of federal questioned costs	Department of Labor and Workforce Development	Acting Commissioner Burns Phillips	Appropriate action will be taken by the Commissioner to ensure that Workforce Investment Act (WIA) funds are only expended for allowable costs under federal guidelines and program regulations. The corrective action plan for this issue will be addressed in the corrective action plan referred to in 12-LWD-01.
12-MHSAS-01	The Tennessee Department of Mental Health and Substance Abuse Services exceeded the federal funding limits for treatment services in penal or correctional institutions	Department of Mental Health and Substance Abuse Services	Commissioner Doug Varney	The Division of Substance Abuse Services communicated to Fiscal Services that these services could be paid from the Substance Abuse Prevention and Treatment (SAPT) Block Grant. As a result, The Edison program code was setup in Edison with the Purchase Order improperly charging these expenditure to the SAPT Block Grant instead of State dollars. Fiscal Services management will implement internal controls sufficient to ensure that program codes set up in Edison do not classify expenditures for treatment to incarcerated individuals as SAPT Block Grant expenditures. The remaining amount of $19,789 that was not reallocated at the beginning of the audit was reallocated by journal entry on November 20, 2012 while the auditors were still conducting their fieldwork. These charges were reallocated from SAPT Block Grant dollars to State dollars.
12-MHSAS-02	The Tennessee Department of Mental Health and Substance Abuse Services did not establish internal controls sufficient to prevent or detect noncompliance with federal cash management requirements	Department of Mental Health and Substance Abuse Services	Commissioner Doug Varney	Department of Mental Health and Substance Abuse Services (DMHSAS) - Management will establish written procedures for fiscal staff to follow to ensure that federal funds are drawn down and transferred as close as administratively feasible to the state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. The Director of Fiscal Services or the Assistant Director of Fiscal Services will monitor these procedures on a weekly basis to ensure they are followed. Management will also ensure that fiscal services staff are familiar with the cash management requirements as stated in the Edison Grants Accounting Manual and OMB's Circular A-133 Compliance Supplement, Part 3C. Fiscal Services Management will develop internal controls to ensure that the timing and amount of funds transferred are in agreement with the disbursement/payment terms.
				In collaboration with the Department of Finance and Administration, DMHSAS will establish procedures to ensure the frequency of draws to minimize the time between the state's actual cash outlay and the draw. Department of Finance and Administration - Finance and Administration is willing to assist and advise the department (DMHSAS) in understanding the draw process and related cash management issues.
12-MHSAS-03	The Department of Mental Health and Substance Abuse Services did not develop internal controls sufficient to ensure compliance with subrecipient monitoring requirements	Department of Mental Health and Substance Abuse Services	Commissioner Doug Varney	The Department is in the process of writing policies and procedures sufficient to comply with pass-thru-entity's subrecipient monitoring responsibilities. The written policies and procedures should be completed no later than April 1, 2013. A review of subrecipients was conducted January 22, 2013 and noncompliant agencies were notified of their noncompliance by email. All subrecipients except one have sent in their audit reports and are now in compliance with OMB Circular A-133's requirement. A tracking log was established on January 18, 2013 which tracks subrecipients that expend $500,000 or more in Federal awards during the subrecipient's fiscal year and are required to have an independent audit report.
				The log will be reviewed to ensure that (1) audit reports are submitted within nine months of the end of the subrecipient's audit period, (2) a management's response letter has been issued by the Department within six months after receipt of the subrecipient's audit report and (3) the subrecipient takes timely and appropriate corrective action on all audit findings. The Department began reviewing the Schedule of Expenditure of Federal Awards (SEFA) reports within the Independent Audit Report on February 19, 2013 to ensure grant funds provided through the Department are included in the SEFA and that audits were conducted in accordance with OMB A-133. The Commissioner will prepare and send his Management Responses to the Subrecipient noted in the Single Audit report no later than April 1, 2013.

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CORRECTIVE ACTION PLAN
FOR THE YEAR ENDING 6/30/2012

12-UT-01	As reported in the previous audit, the Registrar's Office at the Health Science Center did not properly report enrollment data, increasing the risk of not initiating the student loan repayment process	University of Tennessee	Dr. Joe DiPietro	The corrective action steps that the university has developed to prevent future errors like the one instance noted in the finding regarding the not reporting the withdrawal of a student include: 1) On January 18, 2013, an email was sent to all deans by the Vice Chancellor for Academic, Faculty and Student Affairs alerting them to the problem regarding reporting when students are no longer in attendance. The Academic Affairs and Student Affairs deans in each college were copied on the January 18 email. This general email was followed by a specific email to each dean. In addition, the Vice Chancellor provided a briefing to the Academic and Student Affairs deans at the January CASA meetings, emphasizing the need for cooperation and diligence. 2) In the Registrar's Office, student change forms will be entered immediately on the shared drive for the department and will be subject to pre-set reviews, real-time entry to National Student Loan Data System (NSLDS) and post-entry checking procedures. For the two instances noted where the graduation of students was not reported timely, the institution has implemented corrective action which includes: 1) a change in process which officially began in December, 2012 following the December graduation. The NSLDS report was cross checked with the institution's recent graduates. 2) In addition, the institution's contract with the National Student Clearinghouse service became fully operational in November 2012 and will provide a back-up reporting mechanism to NSLDS on the fifth day of each month. 3) Lastly, for students that graduate and then register for a "non-degree" class, the institution will report the graduation status to NSLDS before allowing non-degree program registration. This process will begin in May, 2013.
12-UT-02	The Registrar's Office in Knoxville did not properly report enrollment data, increasing the risk of not initiating the student loan repayment process.	University of Tennessee	Dr. Joe DiPietro	While adding College of Law graduates into the university's Banner student information system, an error was made resulting in the removal of all previously awarded degrees last June 2012. University staff were manually reentering all previously awarded degrees at the time the first report to the National Student Clearinghouse verifying spring 2012 degrees were submitted. Accordingly, the initial report did not include all spring 2012 student degree information because of the data entry in progress. A second degree verification report submission was made in July 2012, and all those previously unreported graduates were reported. Retraining of personnel took place on June 18-19, 2012 and in addition, this issue was revisited in January 19, 2013. Management does not expect this to be a future problem. Also, a student was not added to the December 2011 graduate list in a timely manner because of the late completion of a degree requirement. The student was added in January 2012 after the National Student Clearinghouse report was submitted. The Clearinghouse recently added a new process (as of June 4, 2012) that allows the Registrar's Office to update individual student records, mitigating the risk for future timing errors.