STATE OF TENNESSEE

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2014

BILL HASLAM, Governor

DEPARTMENT OF AUDIT
JUSTIN P. WILSON, Comptroller of the Treasury
Division of State Audit
DEBORAH V. LOVELESS, Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
LARRY B. MARTIN, Commissioner
Division of Accounts
JAN I. SYLVIS, CHIEF OF ACCOUNTS

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Tennessee Department of Finance and Administration, Authorization No. 317332, Jan 2015. 100 copies. This public document was promulgated at a cost of $17.15 per copy.

STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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INTRODUCTORY SECTION

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

LARRY B. MARTIN
COMMISSIONER

December 19, 2014

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, 2014. 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, presented in three sections – Introductory, Financial and Statistical, is the primary means of reporting the state of Tennessee's financial activities. Its objectives are to provide a clear picture of the government as a single, unified entity and to provide traditional fund based statements. The CAFR consists of management's representations concerning the state of Tennessee's finances, and management assumes full responsibility for the completeness and reliability of the information presented. This report reflects our commitment to you, the citizens of the state, and to the financial community to maintain our financial statements in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board. Information presented in the report is believed to be accurate in all material respects, and all disclosures have been included that are necessary to enable the reader to obtain a thorough understanding of the state's financial activities.

The state's management is responsible for the establishment and maintenance of internal controls which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and financial transactions are properly recorded and adequately documented, and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from such control and that the evaluation of those costs and benefits requires estimates and judgments by the state's management.

State statute requires an annual audit by The Office of the Comptroller of the Treasury, Department of Audit. The Department of Audit is considered by federal and state government to be independent auditors. They have examined the accompanying financial statements, and issued an unmodified 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.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

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 shares a border with eight states and divides naturally into three "grand divisions", upland, often mountainous, East Tennessee, Middle Tennessee with its foothills and basin, and the low plain of West Tennessee. These geographical divisions correspond to the distinctive political and economic cultures of the state's three regions.

Providing natural beauty, a mild climate, urban conveniences and rural peacefulness, the U.S. Census Bureau, as of 2013, estimates Tennessee's population at 6.5 million, making it the 17th most populous of the 50 United States. In recent years, Tennessee has received an influx of people relocating from California, Florida, and several northern states, for the low cost of living, and the booming healthcare and automobile industries. Metropolitan Nashville is one of the fastest-growing areas in the country due in part to these factors.

State government powers are by state constitution divided into three distinct branches, the legislative, the executive and the judicial. Tennessee's legislative branch of government consists of a bicameral General Assembly with a Senate and House of Representatives. Members of the General Assembly, or Legislature, are elected by popular vote from districts across the state. Legislators are part-time lawmakers who live in their district and know the local issues. The Constitution specifies the size of the legislature, requiring 99 members in the House and prohibiting the Senate membership from exceeding one-third of the House membership. Thus, the Senate has 33 members. The primary function of the General Assembly is lawmaking. The Legislature enacts laws, provides a forum for debate and secures financing for the operation of state government. In the case of the executive branch, the constitution places the "Supreme Executive Power'' of the state with the governor. The governor and his executive branch agencies "execute" or administer laws, mandates and new programs created by the General Assembly by statute. The judicial branch, serves as a check on the powers of both the legislative and executive branches.

For financial reporting purposes, the state's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable, and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. Further information about the state's reporting entity can be found in Note 1 to the financial statements.

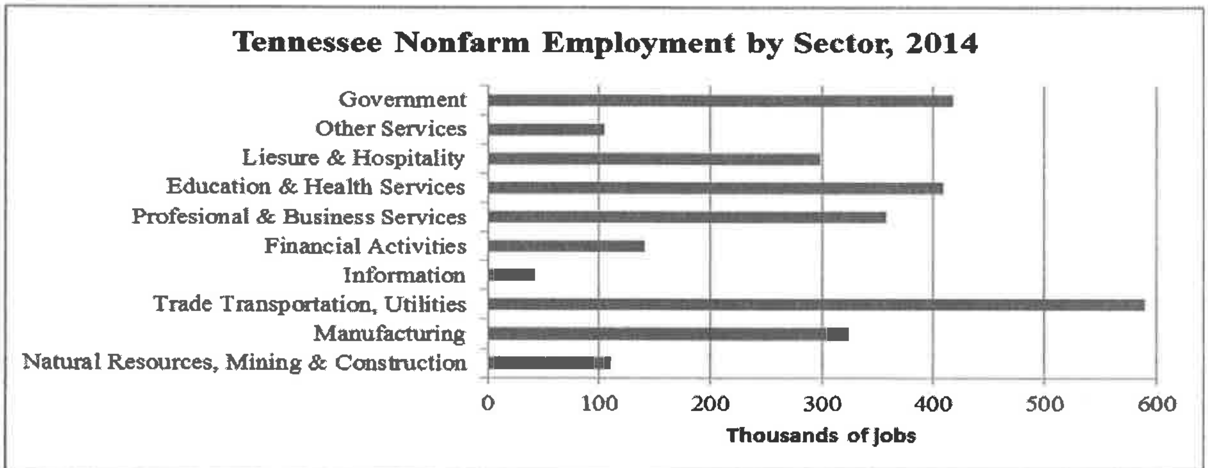
The state and its component units provide a wide range of services and funding to the citizens of Tennessee, including education; health and human services; economic development; environmental and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The financial activities associated with these services are reflected in both summary and detail throughout the CAFR.

Tennessee's constitution requires the state to maintain a balanced budget, and state legislation grants the governor the authority and duty to develop and submit to the General Assembly a recommended budget. Preparation of the Governor's annual budget for the state of Tennessee is the responsibility of the Commissioner of Finance and Administration, who is the State Budget Director. Within the Department of Finance and Administration, the Division of Budget is responsible for budget development using the modified accrual basis of accounting. (Annual budgets are adopted for the departments in the general fund and special revenue funds [except Fraud and Economic Crime and Agricultural Promotion Boards], and for the debt service fund.) At the time the budget document is presented to the General Assembly, the appropriation process is initiated. The general appropriations act reflects the General Assembly's approval of the annual budget, and once passed and signed, the budget, in the form of the appropriations act, becomes the state's financial plan for the coming year. Budgetary control is maintained through a formal appropriation and allotment process. Appropriation of funds in Tennessee is a legislative power, not an executive power. No expenditures may be made, and no allotments increased, except pursuant to appropriations made by law. Budgetary control is maintained at the program level by the individual departments, acting in conjunction with the Department of Finance and Administration. Additional information regarding the state's budgetary process can be found in the Notes to Required Supplementary information within this report.

Information Useful in Assessing Tennessee's Economic Condition

Local economy

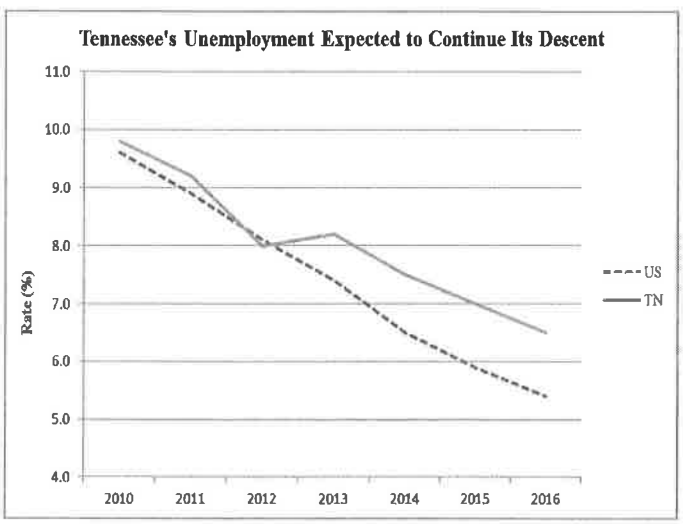
Tennessee is committed to maintaining and improving its reputation as a world-class business location. Simply put, Tennessee is good for business, offering a beneficial labor environment, productive and educated work force, wonderful quality of life and wealth of technology resources. These factors combine to create a business climate that gives companies a winning edge in their long-term growth and profitability. Named 2013 State of the Year by Business Facilities Magazine, a national economic development publication, Tennessee continues to demonstrate that it not only provides a top-notch business environment, but also the ongoing support needed for success.



Source: Center for Business and Economic Research, University of Tennessee, January 2014

While the great recession ended (i.e. bottomed out) in the summer of 2009, lingering effects continue to work their way through Tennessee's economy, as they are in the national economy. Output and income levels in Tennessee were relatively quickly restored in the aftermath of the recession. Employment levels and the unemployment rate, on the other hand, have not returned to where they were before the onset of the recession. Full recovery to prerecession levels of annualized employment is expected to occur in 2015; however the unemployment rate is expected to remain above its prerecession low (4.8 percent state and 4.6 percent national) for several years. Tennessee's overall economic outlook is similar to the national outlook, with moderate-to-slow growth expected for the second half of the year and a continuation of growth through 2015.

The state's fall 2014 economic outlook by The Center for Business and Economic Research, University of Tennessee projects the following:



- Nonfarm employment is expected to advance 1.8 percent this year and 1.6 percent next year.
- Manufacturing employment should increase by 0.9 percent this year and 0.5 percent in 2015.
- The state unemployment rate will average 7.2 percent in 2014 and 2015, and then fall to 6.6 percent in 2016.
- Nominal personal income is projected to rise by 3.5 percent in 2014 and 4.4 percent in 2015.
- Taxable sales will grow by 3.1 percent this year and 3.4 percent next year.

With a near-term outlook for the national and state economies that is as bright as it has been since the end of the recession, and Tennessee's commitment to economic growth, full post-recession recovery is definitely in sight. A noteworthy example is that middle Tennessee has actually been adding jobs and growing at a rate faster than the national economy for the past year or so. Nashville's economy ranks as one of the fastest-growing in the country, and has been called the "It" city and "on fire", sparked by a booming cultural scene, world-class health care, rising universities, and a great location.

Long-term financial planning and relevant financial policies

- The Tennessee Governmental Accountability Act of 2013 requires that a system of strategic planning, program performance measures and performance audits be used to measure the effectiveness and efficiency of governmental services. The information generated by the system is intended to inform the public and assist the general assembly in making meaningful decisions about the allocation of scarce resources in meeting vital needs.

- 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.

  Tennessee's commitment to conservative and prudent debt management is widely recognized by the nation's leading debt-rating agencies. Current ratings on the state's general obligation long-term debt are: Fitch AAA, Standard and Poor's AA+, and Moody's Investor Service Aaa.

- The maximum principal amount of bonds that Tennessee can issue after July 1, 2013, is based on a debt service coverage test that first calculates the amount necessary to pay the maximum annual debt service in the then current or any future fiscal year on all outstanding bonds and bonds proposed to be issued (the debt service amount). This amount is then compared with the amount of total state tax revenue (as defined in state legislation) that was allocated to the general fund, debt service fund and highway fund for the immediately preceding fiscal year (the total tax revenue amount). If the debt service amount is not greater than ten percent (10%) of the total tax revenue amount, then bonds may be issued. If the debt service amount is six percent (6%) or more of the total tax revenue amount, a debt capacity study is to be conducted on an annual basis until the debt service amount drops below six percent (6%) of the total tax revenue amount.

- 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.

- Tennessee does not borrow money to fund transportation projects. Transportation initiatives instead follow a "pay-as-you-go" philosophy that utilizes bond authorizations as a cash management tool to accelerate projects in anticipation of expected revenues over a project's horizon. The bonds are authorized but remain unissued. The authorization allows the Tennessee Department of Transportation (TDOT) to obligate projects and get them started. Project costs are then paid throughout the year using TDOT's current cash flow. TDOT manages the project costs and has developed a model to project the cumulative cash requirement of multiple projects at different stages of construction and maintenance. The model projects TDOT's cash balance and indicates when additional bonds can be authorized or, if expected revenue failed to meet targets, whether the bonds must be sold to cover expenses.

  The state's practice of using cash flow to finance road projects in lieu of issuing debt has been one of the key factors in Tennessee's ability to secure and retain very high bond ratings.

- In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent (5%) of the estimated state tax revenues to be allocated to the general fund and education trust fund. This goal was increased to eight percent (8%) effective July 1, 2013. 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.

- The Tennessee 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. Departmental and programmatic specific forecasting data is used 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 enhance cash flows based on historical data alone, and help the state better plan and position itself for fluctuations in available cash balances.

- With rising and potentially uncontrollable pension cost a significant concern, in 2013 Tennessee joined a long list of states that enacted pension reform measures. For employees hired after June 30, 2014, Tennessee replaced the traditional defined benefit where financial risk was borne entirely by the employer. For these employees, the defined benefit plan was replaced with a combination of a defined benefit plan and a defined contribution plan. This new hybrid plan includes greater controls over employer costs and unfunded liabilities. Accordingly, a bifurcated pension plan is now in place. A defined benefit legacy plan will remain in force for employees hired before July 1, 2014.

- Monthly financial data on revenues and expenditures (budgetary comparison reports) are provided to the governor and agency heads. Significant variations are required to be researched and commented upon by agency heads. 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

Tennessee is continuing its priorities and progress in 2014 in the areas of attracting and growing Tennessee jobs, the importance of a customer-focused, efficient and effective state government, improving public safety, and making significant progress in education.

- Currently leading the way nationwide in K-12 education reform, Tennessee is continuing that momentum and has expanded its focus to include post-secondary education through a pair of innovative initiatives: Drive to 55 and the Tennessee Promise. Drive to 55 is a strategic initiative to have the best trained workforce in America. Within the next five years, over half of jobs in Tennessee will require postsecondary credentials beyond a high school degree. Accordingly, this initiative aims to bring the percentage of Tennesseans with college degrees or certifications to 55 percent by the year 2025. Strategies to be employed by Drive to 55 include better preparing students to reduce the need for remedial courses, increasing dual enrollment and dual credit, improving mentoring, reducing the financial barriers to education, and enhancing programs to increase graduation rates.

  Beginning in 2015, the Tennessee Promise, the signature component of the Drive to 55 push, ensures that high school graduates can attend two years at a community college or technical college absolutely free of tuition and fees. Tennessee is the only state in the country making this promise. It makes a clear statement to Tennessee families that education beyond high school is a priority. The Tennessee Promise is not funded through taxpayer dollars. Excess lottery reserve funds are being used to create an endowment to strategically redirect existing resources and to keep the program sustainable over time.

- During 2013 and 2014 state office space was reduced by about one million square feet, and for the first time in recent history, there is a statewide inventory of all state properties. In addition, a comprehensive plan to maintain and manage state assets has been developed. Besides saving money, these changes have created better working conditions for state employees with efficient, well-lit and functional office space.

- Agencies across state government came together in the summer of 2014 to produce Prescription for Success: Statewide Strategies to Prevent and Treat the Prescription Drug Abuse Epidemic in Tennessee, a comprehensive multi-faceted strategic plan to combat the prescription drug abuse problem in Tennessee. The plan has three major components: a description of the prescription drug problem in Tennessee, information about how the problem is currently being addressed, and a plan for the future that includes specific, measurable goals that will help determine if the lives of individuals and families in Tennessee are being improved as a result of the efforts.

  The plan does not obligate the Administration or the General Assembly to any additional funding requests to fulfill this plan's purpose. Funding requests related to the initiatives will be determined through the normal General Assembly budgeting process.

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, 2013. This was the thirty-fourth 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, 2013. Prepared by the Department of Finance and Administration's Division of Budget, this was the twenty second 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.

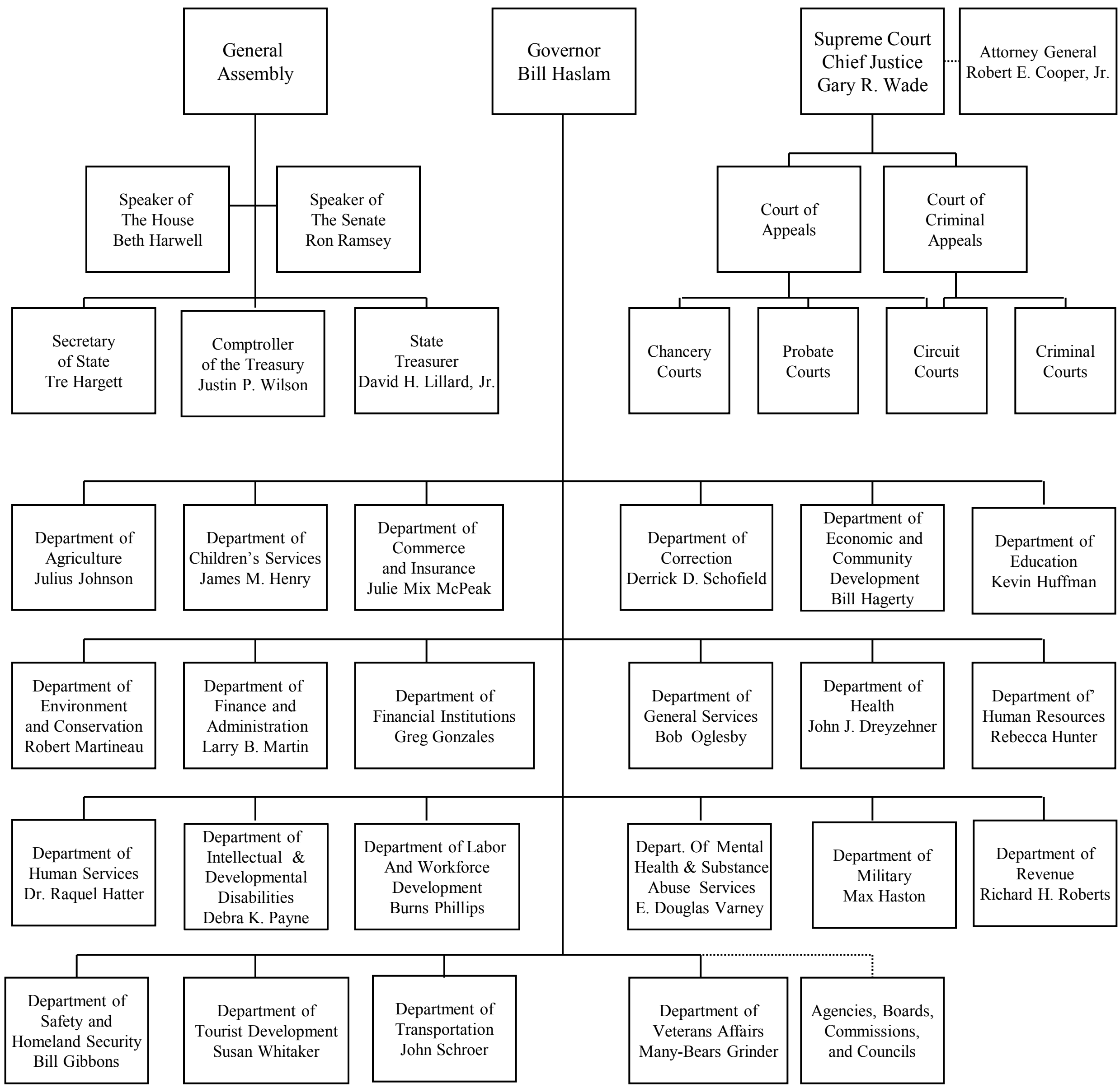
This CAFR is an example of state leadership's continuing commitment to maintaining the highest standards of accountability in financial reporting. We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency, each component unit, and the dedicated staff within the Department of Finance and Administration, Division of Accounts.

Respectfully submitted,

Larry B. Martin
Commissioner

Jan I. Sylvis
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2014



Government Finance Officers Association

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, 2013

Executive Director/CEO

FINANCIAL SECTION

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

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 Assistant Corporation, and the Tennessee State School Bond Authority. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the State of Tennessee.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4, the State of Tennessee implemented Governmental Accounting Standards Board Statement 67, *Financial Reporting for Pension Plans*, during the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

As discussed in Note 5, the financial statements of the Tennessee Consolidated Retirement System, pension trust funds, include investments valued at $3.4 billion (7.88 percent of pension and other employee benefit trust funds net position), and the financial statements of the University of Tennessee, a discretely presented component unit, include investments valued at $454.9 million (6.37 percent of total component unit net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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, which 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 our 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.

Supplementary Information

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 supplementary information and 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 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section and statistical section 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 19, 2014, 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 *Government Auditing Standards* in considering the State of Tennessee's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 19, 2014

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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, 2014. 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 Position–The assets and deferred outflows of the state exceeded its liabilities at June 30, 2014, by $31.7 billion (net position). Of this amount, $3.6 billion represents unrestricted net position, which may be used to meet the state's ongoing obligations to citizens and creditors while $26.9 billion represents *net investment in capital assets*.

  Changes in Net Position–The state's net position increased by $533.8 million. This increase was largely the result of an increase in capital assets.

  Component units–Component units reported total net position of $7.1 billion, an increase of $351 million.

- **Fund Level:**

  At June 30, 2014, the state's governmental funds reported combined ending fund balances of $4.4 billion, a decrease of $224.9 million (see discussion on page 20) compared to the prior year. Of the combined fund balance, approximately $3.1 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, $456 million of this amount is set aside in a revenue fluctuation account (rainy day fund).

- **Long-Term Debt:**

  The state's total debt decreased by $66.952 million during the fiscal year to total $2.321 billion. This change primarily results from the state's decision to not issue any 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 position 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 Position 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 position* 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, liabilities, and deferred outflows/inflows 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 position* displays all the state's financial and capital resources in the format of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equal net position. 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. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Proprietary Funds. 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 essential 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 notes to the financial statements can be found on pages 47-122.

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 position may serve over time as a useful indicator of a government's financial position. In the case of the state, assets and deferred outflows of resources exceeded liabilities by $31.7 billion as of June 30, 2014.

By far, the largest portion of the state's net position (84.8 percent) reflects its net 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 and deferred outflows of resources 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 Position as of June 30
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 7,164,197	$ 7,481,380	$ 2,377,111	$ 2,250,689	$ 9,541,308	$ 9,732,069
Capital assets	27,515,983	26,853,825			27,515,983	26,853,825
Total assets	34,680,180	34,335,205	2,377,111	2,250,689	37,057,291	36,585,894
Deferred outflow of resources	63,773	73,266			63,773	73,266
Current and other liabilities	1,809,064	1,909,567	104,682	100,984	1,913,746	2,010,551
Noncurrent liabilities	3,537,596	3,512,866	7,682	7,464	3,545,278	3,520,330
Total liabilities	5,346,660	5,422,433	112,364	108,448	5,459,024	5,530,881
Net position:						
Net investment in capital assets	26,855,523	26,286,881			26,855,523	26,286,881
Restricted	1,242,324	1,193,341			1,242,324	1,193,341
Unrestricted	1,299,446	1,505,816	2,264,747	2,142,241	3,564,193	3,648,057
Total net position	$ 29,397,293	$ 28,986,038	$ 2,264,747	$ 2,142,241	$ 31,662,040	$ 31,128,279

An additional portion of the state's net position (3.9 percent) 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 position ($3.6 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 position, for the government as a whole, and for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The state's net position increased by $533.8 million during the year ended June 30, 2014. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

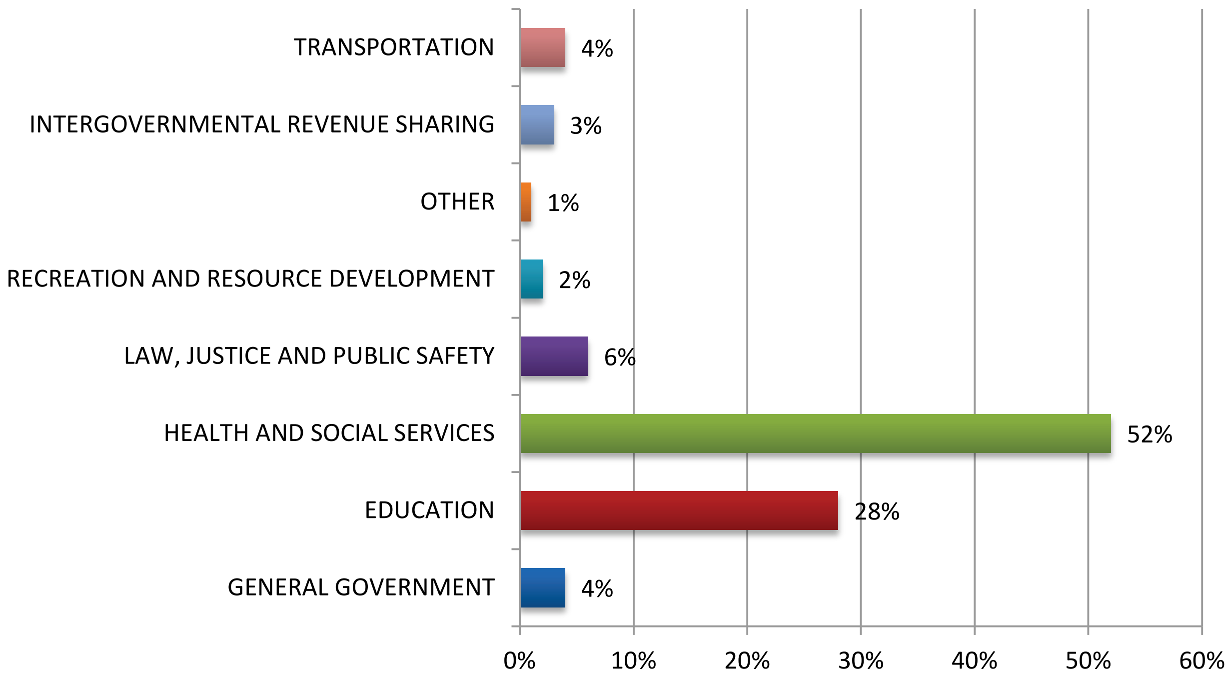
State of Tennessee
Changes in Net Position
For the Fiscal Year Ended June 30
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 2,125,114	$ 2,069,091	$ 978,079	$ 1,215,071	$ 3,103,193	$ 3,284,162
Operating grants and contributions	11,355,859	11,697,733	134,026	327,928	11,489,885	12,025,661
Capital grants and contributions	762,251	772,061			762,251	772,061
General revenues:						
Sales Taxes	7,276,443	7,018,128			7,276,443	7,018,128
Other taxes	5,432,661	5,605,963			5,432,661	5,605,963
Other	228,217	286,849			228,217	286,849
Total revenues	27,180,545	27,449,825	1,112,105	1,542,999	28,292,650	28,992,824
Expenses:						
General government	959,641	987,369			959,641	987,369
Education	7,383,077	7,083,697			7,383,077	7,083,697
Health and social services	13,912,421	14,078,338			13,912,421	14,078,338
Law, justice and public safety	1,612,248	1,538,217			1,612,248	1,538,217
Recreation and resources development	646,781	554,045			646,781	554,045
Regulation of business and professions	158,644	158,161			158,644	158,161
Transportation	1,126,744	1,101,271			1,126,744	1,101,271
Intergovernmental revenue sharing	897,312	844,628			897,312	844,628
Interest on long-term debt	67,520	71,933			67,520	71,933
Payments to fiduciary funds	827	22,386			827	22,386
Employment security			451,470	743,213	451,470	743,213
Insurance programs			541,205	544,250	541,205	544,250
Loan programs			1,469	1,577	1,469	1,577
Other			76	163	76	163
Total expenses	26,765,215	26,440,045	994,220	1,289,203	27,759,435	27,729,248
Increase in net position before contributions and transfers	415,330	1,009,780	117,885	253,796	533,215	1,263,576
Transfers	(4,622)	(4,256)	4,622	4,256		
Contributions to permanent funds	547	180			547	180
Increase (decrease) in net position	411,255	1,005,704	122,507	258,052	533,762	1,263,756
Net position, July 1	28,986,038	27,980,334	2,142,240	1,884,188	31,128,278	29,864,522
Net position, June 30	$ 29,397,293	$ 28,986,038	$ 2,264,747	$ 2,142,240	$ 31,662,040	$ 31,128,278

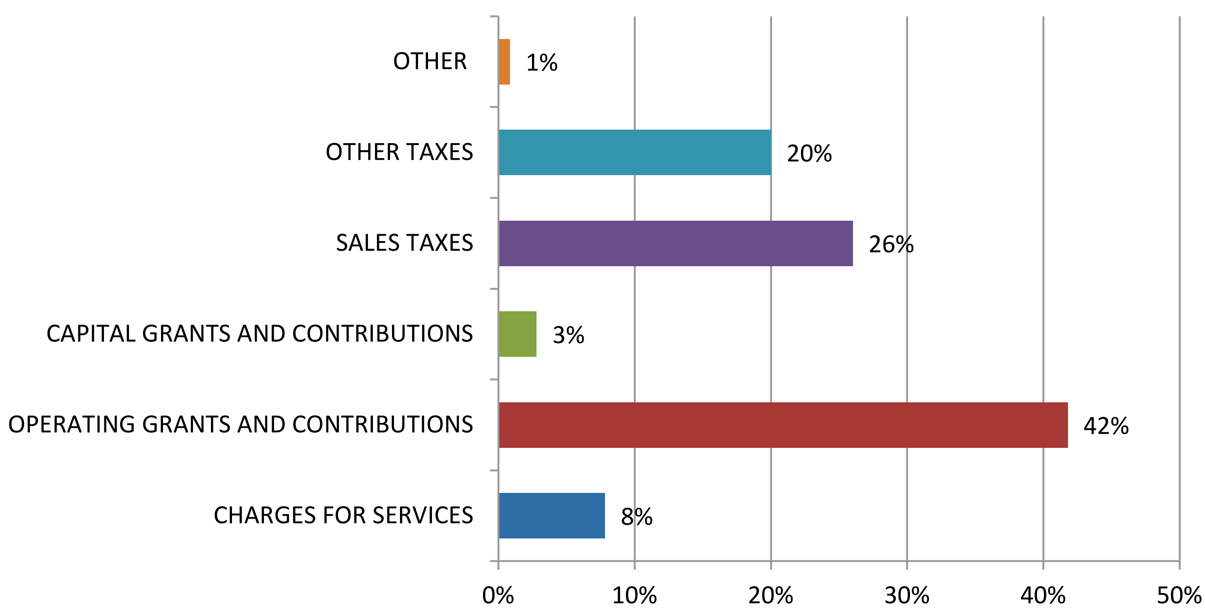
Governmental activities. Net position of the state's governmental activities increased by $411.3 million (1.4 percent). This increase accounts for 77 percent of the total increase in net position of the primary government and is primarily the result of the capitalization of $993.4 million in expenses related to roadways and bridges and not recording depreciation expense for these assets. The effect of capitalization of assets is offset by a net decrease of $443.3 million in the general fund's ending fund balance from the prior year. See page 20 for a discussion of this decrease.

See notes to the financial statements, note 4, on page 57 for an explanation for June 30, 2013 adjustments.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net position of the state's business-type activities increased by $122.51 million (6 percent). The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net position of $60.2 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 increased operating grants received during the year. The Nonmajor Enterprise funds' activity resulted in a $62.3 million increase in net position which in large part, is attributable to increases in premiums charged to participants' of the Teacher and Local Government Group Insurance funds. Expenses remained relatively unchanged in these two enterprise funds.

THE STATE'S FUNDS

At June 30, 2014, governmental funds reported a decrease in total revenues and in total expenditures. Details are in the following paragraphs. The revenue fluctuation account (rainy day fund) reported as unassigned fund balance has been increased to $456 million or 3 percent of the general fund's expenditures.

The general fund reported a $443 million decrease in fund balance. A decrease in nonfederal revenues of $26.9 million was offset by an increase in transfers in of $24.6 million. Total nonfederal expenditures however, increased by $435 million.

The education fund revenues and transfers increased overall approximately by $425 million (6.2 percent) while expenditures increased by $307 million (4.5 percent). Most of the increase was due to the increase of the state's equitable share of the Basic Education Program (K-12 funding), to provide additional funds for capital outlay and technology upgrades to the local education agencies (LEAs), to provide funding for equipment at technology centers and community colleges, to aid in the implementation of a new outcomes-based funding formula for higher education institutions and the state's share of the salary and group health insurance increases for the LEAs and higher education institutions.

The overall fund balance increased in the education fund by $80.9 million. The majority of this increase is restricted to provide student financial assistance.

The capital project fund had a $4.3 million decrease in fund balance caused mainly by management's decision to issue less long-term debt during the current period resulting in the spending of unspent long-term debt proceeds carried over from the prior period.

The highway fund revenues increased $24.6 million and expenditures decreased $108.6 million. Revenues increased primarily as a result of an increase in federal funds and expenditures decreased because less new projects were started during the fiscal year.

The total plan net position of the pension trust funds were $42.9 billion, an increase of approximately $5.3 billion from the prior year. The increase was primarily the result of improvements in the financial markets; the pension trust funds incurred a net investment gain of $6.2 billion.

General Fund Budgetary Highlights

Federal revenue collections were significantly below estimated levels due to the timing difference of the actual expenditures and appropriation of multi–year projects in Community Development programs, TennCare and the Department of Environment and Conservation. TennCare also underspent in health information technology grants, CoverKids, Medicare cost sharing and MCO expenditures. Human Services had a decrease in Child Care, Cash Assistance and SNAP caseloads which are significantly funded with federal revenue.

Actual expenditures in the Tenncare program, Labor and Workforce Development, Economic and Community Development and Human Services were significantly less than what was projected in the final budget primarily due to unexpended reserved amounts and multi–year projects that were appropriated in the current year. Unspent allotments were non–lapsing and carried forward into the next fiscal year. In addition, there was a favorable variance between budgeted and actual expenditures for Children in State Custody due to underspending in Family Support Services, Custody Services, and Child and Family Management. Miscellaneous Appropriations were underspent due to various line items not being necessary such as Retired Teachers Insurance, the Homeland Security Emergency Fund, deferred compensation, the Accent Systems project and other operational rate adjustments. Also showing a favorable variance was Environment and Conservation due to available funds in the sewer treatment loan fund which resulted in the need for less funding from the general fund for clean water loans. Corrections expenditures were less than projected due to the local jail population averaging 2,000 less inmates than compared to previous periods.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets at June 30, 2014, of $27.5 billion, net of $1.7 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government
(Expressed in Thousands)

	Governmental Activities 2014	Governmental Activities 2013
Land	$ 2,097,270	$ 2,012,356
Infrastructure	22,630,755	22,235,634
Construction in progress	999,670	819,029
Structures and improvements	2,481,209	2,484,288
Machinery and equipment	965,038	906,311
Software in development	50,325	27,397
Subtotal	29,224,267	28,485,015
Accumulated depreciation	(1,708,284)	(1,631,190)
Total	$ 27,515,983	$ 26,853,825

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 2013 to 2014 by approximately 2.5 percent. The change was primarily due to purchases of land for highway right-of-ways and increases in construction in progress related to infrastructure (highways and bridges) projects. Infrastructure increased in total by $355.6 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $559.9 million and decreased (projects completed and capitalized) by $366.7 million. Infrastructure right-of-way acreage increased the land classification by $66.7 million. The change in machinery and equipment of $58.7 million resulted primarily from an $18.6 million mobile equipment upgrade for the Department of Transportation, a $5.1 million radio system upgrade for the Department of Correction, and a $6 million upgrade to the Department of Safety and Homeland Security's communication system. During fiscal year 2014, the state had several system projects in the application development stage, resulting in the capitalization of $38.7 million in new software development costs and there were $11.79 million in system projects that were placed in operation and are now classified as equipment.

In accordance with generally accepted accounting principles, 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 8,339 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 124), indicated that bridges were rated at 9 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 2013-2014 fiscal year reflects a $118.3 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 $22 million for a new Tennessee School for the Deaf building, $61.3 million for projects at correctional facilities and $307.3 million for funding projects at higher education institutions.

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. Any improvement to real property, including the demolition of any building or structure located on real property in which the State of Tennessee or any of its departments, institutions, or agencies has an interest, other than Department of Transportation, highway and road improvements and demolition of structures in highway rights-of-way requires State Building Commission approval. 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, 2014
Highway	$ 904,700
Higher Education	479,906
Environment and Conservation	12,077
Economic and Community Development	96,157
General Government	464,625
Total	$ 1,957,465

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, 2014	June 30, 2013
Bonds, net	$ 1,996,458	$ 2,172,630
Commercial Paper	324,366	215,146
Total	$ 2,320,824	$ 2,387,776

The state did not issue any general obligation bonds during the fiscal year. 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 a maximum allowable debt service limitation based on a percentage of tax revenues allocated to the general fund, highway fund and debt service fund. As of June 30, 2014, the state's maximum allowable debt service of $648.934 million was well above the maximum annual debt service of $227.401 million, with a legal debt service margin of $421.533 million.

FACTORS THAT WILL AFFECT THE FUTURE

Governor Haslam's administration continues to focus its priorities to move Tennessee forward to reduce unemployment and improve the quality of life by creating jobs and economic development and improving education and workforce development.

Strategies have been developed and carried out that have resulted in attracting new corporate investment. Noteworthy announced investments include:

- Under Armour, a globally-renowned brand of athletic wear and gear will invest more than $100 million and create 1,500 new jobs.
- General Motors will invest $185 million to make small gas engines at its Spring Hill complex to produce the next-generation Cadillac SRX . Also, two future mid-size vehicles will be built in Spring Hill after a $350 million investment that will create or retain approximately 1,800 jobs.
- Academy Sports + Outdoors, a premier sports, outdoor and lifestyle retailer, will invest $100 million in a new distribution center, creating approximately 700 new jobs.
- SL Tennessee, a South Korean automotive parts manufacturer will invest $80.5 million and create 1,000 new jobs at their manufacturing facility.
- Volkswagen will add an additional manufacturing line for a midsize SUV and create the National Research & Development and Planning Center in an expansion of $600 million, creating 2,000 new jobs.
- MicroPort Orthopedics, an orthopedic implant and instrument manufacturer, will invest $100 million in manufacturing capability and training facilities and create 171 new jobs.
- Fresenius Medical Care, a top producer of dialysis equipment, will invest up to $140 million in locating a manufacturing facility and creating approximately 665 new jobs.
- Mohawk Industries announced that it will build a new ceramic tile production facility, investing $180 million and 320 new jobs.
- Beretta, a global manufacturer of high-quality sporting and military firearms will invest $45 million in a state-of-the-art manufacturing and R&D facility and create 300 new jobs.

Tennessee is forging critical relationships between education and economic development through three programs: Pathways Tennessee, Drive-to-55 and the Tennessee Promise. The Pathways to Prosperity Network is a joint effort between the Pathways to Prosperity Project at Harvard Graduate School of Education, Jobs for the Future, and nine states: Tennessee, California, Georgia, Illinois, Massachusetts, Missouri, New York, North Carolina and Ohio. The group's focus is ensuring that more young people complete high school and attain postsecondary degrees and certifications relevant to the labor market. The Drive-to-55 program is a State initiative to equip 55 percent of Tennesseans with a college degree or certificate by 2025. The program is generating greater private sector awareness, ownership and support for the long-term steps needed in college entry and completion, adult education and training, and identifying and closing skills gaps to better prepare our state for the future. The Tennessee Promise commits to provide two years of community college or a college of applied technology (TCAT) absolutely free of tuition and fees to graduating high school seniors on a continuing basis. Participating students must: graduate from high school; agree to work with a mentor; complete eight hours of community service; and maintain a 2.0 GPA during their two years at a community college or TCAT. After graduating from a community college, if students choose to attend a four-year school, the state's program makes it possible for those students to start as a junior. By getting their first two years free, the cost of a four-year degree would be cut in half. Governor Haslam believes that making education more relevant to today's marketplace is critical to attracting the jobs of the future by providing the workforce the job market demands.

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 2100, Nashville, TN 37243.

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Position
June 30, 2014

(Expressed in Thousands)

	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	$ 4,189,987	$ 835,521	$ 5,025,508	$ 2,223,609
Cash on deposit with fiscal agent		862,554	862,554	
Investments	657,768		657,768	481,608
Receivables, net	1,971,435	169,513	2,140,948	464,618
Internal balances	1,082	(1,082)		
Due from primary government				45,346
Due from component units	109,658	7	109,665	
Inventories, at cost	28,113		28,113	10,148
Prepayments	331		331	18,704
Loans receivable, net	11,921	510,598	522,519	3,689,715
Net investment in capital leases	11,281		11,281	
Fair value of derivatives				616
Other				7,228
Restricted assets:				
Cash and cash equivalents	182,621		182,621	326,596
Investments				1,535,817
Receivables, net				178,721
Capital assets:				
Land, at cost	2,097,270		2,097,270	222,296
Infrastructure	22,630,755		22,630,755	494,807
Structures and improvements, at cost	2,481,209		2,481,209	5,154,279
Machinery and equipment, at cost	965,038		965,038	1,070,725
Less-accumulated depreciation	(1,708,284)		(1,708,284)	(2,872,944)
Construction in progress	999,670		999,670	686,207
Software in development	50,325		50,325	
Total assets	34,680,180	2,377,111	37,057,291	13,738,096
Deferred outflows of resources	63,773		63,773	28,053
Liabilities				
Accounts payable and other current liabilities	1,447,587	77,923	1,525,510	419,558
Due to primary government				109,665
Due to component units	38,905		38,905	
Unearned revenue	297,491	26,759	324,250	180,125
Payable from restricted assets	16,797		16,797	
Due to component units from restricted assets	6,441		6,441	
Other	1,843		1,843	29,080
Noncurrent liabilities:				
Due within one year	281,511		281,511	307,729
Due in more than one year	3,256,085	7,682	3,263,767	5,579,321
Total liabilities	5,346,660	112,364	5,459,024	6,625,478
Deferred inflows of resources				748
Net position				
Net investment in capital assets	26,855,523		26,855,523	3,303,900
Restricted for:				
Student financial assistance	471,512		471,512	
Natural and wildlife resources	81,348		81,348	
Capital projects	157,540		157,540	99,078
Single family bond programs				434,000
Regulatory activities	77,896		77,896	
Other	116,036		116,036	653,374
Permanent:				
Expendable	194,244		194,244	214,412
Nonexpendable	143,748		143,748	954,263
Unrestricted	1,299,446	2,264,747	3,564,193	1,480,896
Total net position	$ 29,397,293	$ 2,264,747	$ 31,662,040	$ 7,139,923

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, 2014

(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	$ 959,641	$ 812,528	$ 61,783	$ 983
Education	7,383,077	73,276	1,667,063	
Health and social services	13,912,421	756,038	9,166,332	
Law, justice and public safety	1,612,248	140,123	125,231	9,449
Recreation and resources development	646,781	145,675	162,722	8,683
Regulation of business and professions	158,644	165,611	686	
Transportation	1,126,744	31,863	172,042	743,136
Intergovernmental revenue sharing	897,312			
Interest	67,520			
Payments to fiduciary fund	827			
Total governmental activities	26,765,215	2,125,114	11,355,859	762,251
Business-type activities:				
Employment security	451,470	370,752	119,686	
Insurance programs	541,205	598,209	144	
Loan programs	1,469	8,897	14,194	
Other	76	221	2	
Total business-type activities	994,220	978,079	134,026	
Total primary government	$ 27,759,435	$ 3,103,193	$ 11,489,885	$ 762,251
Component units:				
Higher education institutions	$ 4,529,626	$ 1,635,319	$ 1,629,704	$ 229,819
Loan programs	789,531	218,870	459,493	
Lottery program	1,323,406	1,323,307	43	
Other	72,312	54,738	3,280	11,953
Total component units	$ 6,714,875	$ 3,232,234	$ 2,092,520	$ 241,772

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 position
Net position, July 1

Net position, June 30

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (84,347)		$ (84,347)	
(5,642,738)		(5,642,738)	
(3,990,051)		(3,990,051)	
(1,337,445)		(1,337,445)	
(329,701)		(329,701)	
7,653		7,653	
(179,703)		(179,703)	
(897,312)		(897,312)	
(67,520)		(67,520)	
(827)		(827)	
(12,521,991)		(12,521,991)	
	$ 38,968	38,968	
	57,148	57,148	
	21,622	21,622	
	147	147	
	117,885	117,885	
(12,521,991)	117,885	(12,404,106)	
			$ (1,034,784)
			(111,168)
			(56)
			(2,341)
			(1,148,349)
7,276,443		7,276,443	
843,164		843,164	
3,948,253		3,948,253	
641,244		641,244	
			1,249,909
			158,525
7,079		7,079	29,457
221,138		221,138	3,803
547		547	57,686
(4,622)	4,622		
12,933,246	4,622	12,937,868	1,499,380
411,255	122,507	533,762	351,031
28,986,038	2,142,240	31,128,278	6,788,892
$ 29,397,293	$ 2,264,747	$ 31,662,040	$ 7,139,923

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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, 2014

(Expressed in Thousands)

	General	Education	Highway	Capital Projects
Assets				
Cash and cash equivalents	$ 1,904,079	$ 1,348	$ 450,379	$ 550,325
Investments		373,254		
Receivables, net	1,133,144	574,819	211,292	9,111
Due from other funds	300,396	258		1,085
Due from component units	349	94,670		13,657
Inventories, at cost	12,514	60	9,196	
Prepayments	1,806			
Loans receivable, net	30		1,509	
Net investment in capital leases	259			
Restricted assets:				
Cash and cash equivalents				182,621
Total assets	$ 3,352,577	$ 1,044,409	$ 672,376	$ 756,799
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable and accruals	$ 953,303	$ 133,393	$ 163,036	$ 32,368
Due to other funds	10,966	297,678	1,439	1,238
Due to component units	18,232	11,166	2,080	4,711
Payable from restricted assets				16,797
Due to component units from restricted assets				6,441
Unearned revenue	245,407	2,229	3,167	
Other				1,843
Total liabilities	1,227,908	444,466	169,722	63,398
Deferred inflows of resources	47,512	55,658	22,277	
Fund balances:				
Nonspendable				
Inventories	12,514	60	9,196	
Long term portion of accounts receivable	8,561			
Permanent fund corpus				
Restricted	68,331	504,623	3,310	157,540
Committed	281,969	9,411	279,862	
Assigned	1,138,496	30,191	188,009	535,861
Unassigned	567,286			
Total fund balances	2,077,157	544,285	480,377	693,401
Total liabilities, deferred inflows of resources and fund balances	$ 3,352,577	$ 1,044,409	$ 672,376	$ 756,799

Amounts reported for governmental activities in the Statement of Net Position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the fund.

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 Position.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Net position of governmental activities

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 361,349	$ 3,267,480
284,514	657,768
25,441	1,953,807
	301,739
972	109,648
	21,770
	1,806
10,382	11,921
	259
	182,621
$ 682,658	$ 6,508,819
$ 53,320	$ 1,335,420
462	311,783
2,370	38,559
	16,797
	6,441
14	250,817
	1,843
56,166	1,961,660
11,058	136,505
	21,770
	8,561
143,748	143,748
358,877	1,092,681
107,025	678,267
5,784	1,898,341
	567,286
615,434	4,410,654
$ 682,658	
	27,048,486
	136,543
	904,062
	(3,102,452)
	$ 29,397,293

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	General	Education	Highway	Capital Projects
Revenues				
Taxes:				
Sales	$ 2,989,699	$ 4,191,034	$ 53,798	
Fuel	12,761		702,149	
Business	3,470,160	269,151	6,033	
Other	606,153	133		
Licenses, fines, fees, and permits	320,689	1,516	220,418	
Investment income	11,536	15,556		
Federal	9,464,501	1,213,709	1,022,817	$ 6,402
Departmental services	1,697,844	77,542	46,963	160,291
Other	210,267	384,402	6,605	3,046
Total revenues	18,783,610	6,153,043	2,058,783	169,739
Expenditures				
Current:				
General government	524,323			
Education		7,175,054		
Health and social services	14,493,610			
Law, justice and public safety	1,549,238			
Recreation and resources development	529,527			
Regulation of business and professions	92,545			
Transportation			1,753,581	
Intergovernmental revenue sharing	606,979		290,333	
Debt service:				
Principal				1,400
Interest				
Debt issuance costs				
Capital outlay				491,077
Total expenditures	17,796,222	7,175,054	2,043,914	492,477
Excess (deficiency) of revenues over (under) expenditures	987,388	(1,022,011)	14,869	(322,738)
Other financing sources (uses)				
Commercial paper issued				91,281
Insurance claims recoveries	1,328			
Proceeds from pledge of future revenues	472			
Transfers in	98,234	1,102,900	126,200	227,357
Transfers out	(1,530,770)		(1,886)	(229)
Total other financing sources (uses)	(1,430,736)	1,102,900	124,314	318,409
Net change in fund balances	(443,348)	80,889	139,183	(4,329)
Fund balances, July 1	2,520,505	463,396	341,194	697,730
Fund balances, June 30	$ 2,077,157	$ 544,285	$ 480,377	$ 693,401

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 51,634	$ 7,286,165
128,254	843,164
248,395	3,993,739
33,340	639,626
184,535	727,158
40,025	67,117
43,449	11,750,878
11,694	1,994,334
16	604,336
741,342	27,906,517
29,484	553,807
7,390	7,182,444
	14,493,610
5,790	1,555,028
181,999	711,526
72,693	165,238
	1,753,581
	897,312
141,243	142,643
75,155	75,155
1,452	1,452
	491,077
515,206	28,022,873
226,136	(116,356)
	91,281
7	1,335
	472
7,089	1,561,780
(230,538)	(1,763,423)
(223,442)	(108,555)
2,694	(224,911)
612,740	4,635,565
$ 615,434	$ 4,410,654

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 Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$	(224,911)
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.		697,452
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.		(171,859)
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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		51,362
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.		(40,357)
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.		99,568
Changes in net position of governmental activities	$	411,255

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 Position
Proprietary Funds
June 30, 2014

(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	$ 502,846		$ 332,675	$ 835,521	$ 922,507
Cash on deposit with fiscal agent		$ 862,554		862,554	
Receivables:					
Accounts receivable		165,004	4,509	169,513	7,455
Loans receivable	21,044		13,134	34,178	
Due from other funds		363		363	493
Due from component units		7		7	10
Inventories, at cost					6,343
Prepayments					322
Total current assets	523,890	1,027,928	350,318	1,902,136	937,130
Noncurrent assets:					
Accounts receivable					10,055
Due from other funds					1,376
Loans receivable	341,481		134,939	476,420	
Net investment in capital leases					10,982
Capital assets:					
Land, at cost					60,357
Structures and improvements, at cost					545,901
Machinery and equipment, at cost					374,395
Less-accumulated depreciation					(513,276)
Construction in progress					119
Total capital assets, net of accumulated depreciation					467,496
Total noncurrent assets	341,481		134,939	476,420	489,909
Total assets	865,371	1,027,928	485,257	2,378,556	1,427,039
Deferred outflows of resources					7,993
Liabilities					
Current liabilities:					
Accounts payable and accruals	5	43,595	34,323	77,923	83,050
Due to other funds		1,445		1,445	1,134
Due to component units					346
Lease obligations payable					407
Bonds payable					15,957
Unearned revenue		26,669	90	26,759	46,674
Other					33,594
Total current liabilities	5	71,709	34,413	106,127	181,162
Noncurrent liabilities:					
Lease obligations payable					8,728
Commercial paper payable					59,930
Bonds payable, net					160,406
Other noncurrent liabilities	5,358		2,324	7,682	120,744
Total noncurrent liabilities	5,358		2,324	7,682	349,808
Total liabilities	5,363	71,709	36,737	113,809	530,970
Net position					
Net investment in capital assets					230,061
Restricted for capital projects					17,997
Unrestricted	860,008	956,219	448,520	2,264,747	656,004
Total net position	$ 860,008	$ 956,219	$ 448,520	$ 2,264,747	$ 904,062

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

State of Tennessee
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

(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	$ 6,855		$ 3,666	$ 10,521	$ 515,226
Investment income	436		96	532	
Premiums		$ 370,752	596,806	967,558	727,928
Other					600
Total operating revenues	7,291	370,752	600,568	978,611	1,243,754
Operating expenses					
Personal services					80,545
Contractual services	1,189		32,025	33,214	333,289
Materials and supplies					81,617
Rentals and insurance					49,225
Depreciation and amortization					48,038
Benefits		451,470	504,571	956,041	730,448
Other			4,965	4,965	9,926
Total operating expenses	1,189	451,470	541,561	994,220	1,333,088
Operating income (loss)	6,102	(80,718)	59,007	(15,609)	(89,334)
Nonoperating revenues (expenses)					
Taxes					3
Operating grants	12,572	100,492	6,187	119,251	(641)
Insurance claims recoveries					219
Gain on sale of capital assets					9,154
Grant expense					(9,003)
Interest income		19,194	155	19,349	488
Interest expense					(8,456)
Other	(3,942)		(1,164)	(5,106)	
Total nonoperating revenues (expenses)	8,630	119,686	5,178	133,494	(8,236)
Income (loss) before contributions and transfers	14,732	38,968	64,185	117,885	(97,570)
Capital contributions					983
Transfers in	6,465		1,811	8,276	196,194
Transfers out			(3,654)	(3,654)	(39)
Change in net position	21,197	38,968	62,342	122,507	99,568
Net position, July 1	838,811	917,251	386,178	2,142,240	804,494
Net position, June 30	$ 860,008	$ 956,219	$ 448,520	$ 2,264,747	$ 904,062

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, 2014

(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		$ 425,489	$ 607,490	$ 1,032,979	$ 390,056
Receipts from interfund services provided		3,115		3,115	885,758
Payments to suppliers			(549,843)	(549,843)	(1,119,194)
Payments to employees			(2)	(2)	(79,823)
Payments for unemployment benefits		(475,245)		(475,245)	
Payments for interfund services used	$ (1,189)		(4,654)	(5,843)	(69,020)
Net cash from (used for) operating activities	(1,189)	(46,641)	52,991	5,161	7,777
Cash flows from noncapital financing activities					
Operating grants received	12,573	109,566	6,187	128,326	
Negative cash balance implicitly financed		1,445		1,445	
Negative cash balance implicitly repaid					23
Transfers in	6,465		1,811	8,276	195,581
Transfers out			(3,654)	(3,654)	
Tax revenues received					3
Net cash from (used for) noncapital financing activities	19,038	111,011	4,344	134,393	195,607
Cash flows from capital and related financing activities					
Purchase of capital assets					(29,180)
Commercial paper proceeds					23,718
Proceeds from sale of capital assets					21,414
Insurance claims recoveries					219
Principal payments					(23,802)
Interest paid					(7,974)
Capital contributions					5,421
Net cash from (used for) capital and related financing activities					(10,184)
Cash flows from investing activities					
Loans issued and other disbursements to borrowers	(37,200)		(9,238)	(46,438)	
Collection of loan principal	43,501		18,324	61,825	
Interest received	7,296	19,194	2,250	28,740	488
Net cash from (used for) investing activities	13,597	19,194	11,336	44,127	488
Net increase (decrease) in cash and cash equivalents	31,446	83,564	68,671	183,681	193,688
Cash and cash equivalents, July 1	471,400	778,990	264,004	1,514,394	728,819
Cash and cash equivalents, June 30	$ 502,846	$ 862,554	$ 332,675	$ 1,698,075	$ 922,507

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

(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)	$ 6,102	$ (80,718)	$ 59,007	$ (15,609)	$ (89,334)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					48,038
Loss on disposal of capital assets					2,923
Investment income			(2,108)	(2,108)	
Interest income	(7,291)			(7,291)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		35,488	21	35,509	(481)
(Increase) decrease in due from other funds		35		35	(1,633)
(Increase) decrease in due from component units		1		1	(10)
(Increase) decrease in inventories					(1,005)
(Increase) decrease in prepaids					(182)
Increase (decrease) in accounts payable		(12,726)	(3,783)	(16,509)	53,982
Increase (decrease) in due to other funds					(6,233)
Increase (decrease) in due to component units					(88)
Increase (decrease) in unearned revenue		11,279	(146)	11,133	1,800
Total adjustments	(7,291)	34,077	(6,016)	20,770	97,111
Net cash provided by (used for) operating activities	$ (1,189)	$ (46,641)	$ 52,991	$ 5,161	$ 7,777
Noncash investing, capital and financing activities					
Capital contributions					$ 1,175
Capital asset disposed of by transfer to component units					(9,003)
Capital asset disposed of by transfer to highway fund					(39)
Assets acquired through capital lease					8,969
Total noncash investing, capital and financing activities					$ 1,102

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—These funds are presented individually in the supplementary section.

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 Position
Fiduciary Funds
June 30, 2014

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 280,673	$ 397,314	$ 58,209	$ 482,470
Cash collateral on loaned securities	3,611,069			
Receivables:				
Accounts				1,442
Taxes			114	394,928
Interest and dividends	147,337	2,824	236	
Due from sale of investments	337,462			
Derivative instruments	566,525			
Due from other governments	60,059			
Real estate income	1,777			
Investments sold			3	
Other	27,653		98	
Total receivables	1,140,813	2,824	451	396,370
Due from other funds	10,485			24
Due from component units	9,719			
Investments, at fair value:				
Short-term securities	137,164	1,168,551		
Government bonds	8,482,728	199,963	7	
Corporate bonds	5,711,842		1,400	
Corporate stocks	24,715,744			
Mutual funds			101,509	
Derivative instruments	3,292			
Strategic lending	321,608			
Private equities	779,280			
Real estate	2,278,482			
Total investments	42,430,140	1,368,514	102,916	
Capital assets, at cost				
Software in development	17,978			
Machinery and equipment	12,040			
Accumulated depreciation	(1,677)			
Total assets	47,511,240	1,768,652	161,576	878,864
Liabilities				
Accounts payable and accruals	426,182		16,880	748,506
Due to other funds			118	
Derivative instruments	567,634			
Securities lending collateral	3,611,069			
Amounts held in custody for others				130,358
Total liabilities	4,604,885		16,998	878,864
Net position				
Restricted for:				
Pensions	42,905,157			
Employees' flexible benefits	1,198			
Individuals, organizations and other governments			144,578	
Amounts held in trust for:				
Pool participants		1,768,652		
Total net position	$ 42,906,355	$ 1,768,652	$ 144,578	$ -

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

State of Tennessee
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 277,078		
Employers	1,034,694		
Federal			$ 5,259
Private			9,360
State			827
Other			6,135
Total contributions	1,311,772		21,581
Investment income:			
Net increase in fair value of investments	5,123,250		8,898
Interest	468,346	$ 3,616	2,591
Dividends	497,074		
Real estate income	108,072		
Securities lending income	6,283		
Total investment income	6,203,025	3,616	11,489
Less: Investment expenses	42,191		
Securities lending expense	934		
Administrative fee		968	
Net investment income	6,159,900	2,648	11,489
Capital share transactions:			
Shares sold		2,812,956	
Less: Shares redeemed		3,341,687	
Net capital share transactions		(528,731)	
Total additions	7,471,672	(526,083)	33,070
Deductions			
Annuity benefits	2,056,978		
Death benefits	3,912		
Other	6,310		30,503
Refunds	54,046		2,692
Administrative expenses	10,157		6,125
Total deductions	2,131,403		39,320
Change in net position restricted for:			
Pensions	5,340,252		
Employees' flexible benefits	17		
Individuals, organizations and other governments		(526,083)	(6,250)
Net position, July 1	37,566,086	2,294,735	150,828
Net position, June 30	$ 42,906,355	$ 1,768,652	$ 144,578

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, 2014
INDEX FOR THE NOTES

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 (TCSA) (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 (THDA) (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 (TELC) (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 (TBR) (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 (UT) (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 (TLDA) (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. Any deficiency in the statutory reserve will be included in the governor's recommended budget submitted to the General Assembly for consideration.

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 (TSSBA) (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. The state can also impose its will on the Authority.

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. The state can also impose its will on the organization.

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
Andrew Jackson Building, 3rd floor
502 Deaderick Street
Nashville, TN 37243

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

Tennessee State Veterans' Homes Board
345 Compton Road
Murfreesboro, TN 37130

Tennessee State School Bond Authority
505 Deaderick Street
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
One Century Place
23 Century Boulevard, Suite 200
Nashville, TN 37214

All others may be obtained at the following:
Finance & Administration
Division of Accounts
21st 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 position 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, warehousing of supplies, and records management.

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 *College Savings Plans*, that accounts for two separate education savings programs, Baccalaureate Education and TNStars, created under Section 529 of the Internal Revenue Code. *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.

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, deferred outflows/inflows, and net position/fund balance

1. Deposits and investments—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. Receivables and payables—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 Office for Information Resources, Postal Services, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2014, 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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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 position. 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, and Tennessee Local Development Authority – 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. The Tennessee Board of Regents and the University of Tennessee report restricted cash, investments, and receivables for those that come with certain restrictions from donors, lenders, or grantors.

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	40-50
Building improvements	20
Machinery and equipment	3-20

6. Deferred outflows/inflows—Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The primary government only has one item, deferred charge on refunding of debt, that qualifies for reporting in this category. The state reported in the governmental

activities column of the government-wide statement of net position, $63.7 million as deferred outflows of resources for this purpose.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. The state has only one item which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds reported unavailable revenues from various taxes ($93.5 million), federal grants ($28.1 million), and other sources ($14.9 million) as deferred inflows of resources.

7. 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.

8. Long-term liabilities—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 position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount. Bond issuance costs are expensed as incurred.

   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.

9. Net position—Consists of three components: *Net investment in capital assets* 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 position consists of net position in which constraints are placed on the use of net position 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, $605.4 million was by enabling legislation.

   Unrestricted net position consists of net position that does not meet the definition of "restricted net position" or "net investment in capital assets."

10. Fund balance—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. Generally, 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.

11. 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.

12. Comparative data/reclassifications—Comparative total data for the prior year has 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 position

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. 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 $3,102.452 million difference are as follows (expressed in thousands):

Bonds payable	$ 1,656,651
Plus: premium on bonds issued (to be amortized as interest expense)	163,443
Deferred outflows of resources for bond refundings (to be amortized as interest expense)	(55,780)
Commercial paper payable	264,436
Accrued interest payable	21,585
Capital leases payable	12,663
Claims and judgments	111,734
Compensated absences	245,234
Other postemployment benefits	561,931
Pollution remediation	44,111
Other long-term liabilities and accounts payable	76,444
Net adjustment to reduce fund balance—total governmental funds to arrive at net position—governmental activities	$ 3,102,452

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 a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net positions 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 $697.452 million difference are as follows (expressed in thousands):

Capital outlay	$ 787,008
Depreciation expense	(89,556)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 697,452

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 positions. Also, governmental funds report the effect of 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 ($51.362) million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of commercial paper	$ 91,281
Debt reduced:	
General obligation debt	(141,243)
Commercial paper redeemed	(1,400)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ (51,362)

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 $40.357 million difference are as follows (expressed in thousands):

Compensated absences	$ 11,033
Claims and judgments	(6,109)
Accrued interest	(1,619)
Capital lease	(790)
Other postemployment benefits	58,147
Pollution remediation	3,010
Pledged tax credits	(30,244)
Amortization of other charges	40
Loss on disposal of capital assets	12,871
Amortization of bond premiums	(14,101)
Amortization of deferred outflows of resources	8,119
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 40,357

NOTE 3 – **Deficit fund equity**

The risk management fund, an internal service fund, has a total net position deficit of $17.280 million. This deficit was caused by a higher claims award actuarial liability than expected. Additional billings to state agencies will be made over a reasonable period of time to address this deficit.

NOTE 4 – **Accounting changes**

Prior period adjustments

Primary government

- Governmental activities—$8.036 million, a net increase in net position, is a correction of an error resulting from the misstatement of revenues in the previous year in the general fund.
- Governmental activities—approximately $39.570 million, a net decrease in net position, is a correction of an error resulting from the misstatement of expenditures relating to construction in progress for infrastructure in the previous years.
- Governmental activities—approximately $39.489 million, a net increase in net position, is a correction of an error resulting from the misstatement of expenditures related to other post-employment benefits (of this amount, $715 thousand is related to the internal service funds).
- Business-type activities—$7.316 million, net increase in net position, is a correction of an error resulting from the misstatement of revenues and expenditures in the previous year in the employment security fund (an enterprise fund).

Component units

- Institutions of the Tennessee Board of Regents recorded prior period adjustments for a net increase to net position of $9.577 million for various misstatements in capital assets, revenues and expenses.

- Tennessee State School Bond Authority recorded a prior period adjustment for a net decrease to net position in the amount of $856 thousand due to the overstatement of receivables and revenues in the previous year.

- Tennessee Student Assistance Corporation recorded a prior period adjustment for a net decrease to net position in the amount of $3.243 million for the misstatement of interest receivable and allowance for doubtful accounts for loan forgiveness programs.

Fiduciary funds

- The pension trust fund applied a change in accounting principle. During the 2014 fiscal year, the Tennessee General Assembly passed legislation which clarified that assets accumulated on behalf of teachers of Local Education Agencies (LEAs) shall be for the exclusive benefit of teachers, and assets accumulated on behalf of state employees shall be for the exclusive benefit of state employees. Pursuant to this clarification relative to the legal separation of assets for these two groups of employees, the teachers group, previously reported by the TCRS in the State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP), is now reported under a separate cost-sharing multiple-employer Teacher Legacy Pension Plan (TLPP). The state employees are reported, along with employees of political subdivisions (previously reported as Political Subdivision Pension Plan (PSPP)), within the Public Employee Retirement Plan (PERP), an agent multiple-employer pension plan. The net position of the SETHEEPP at June 30, 2013, of $30.484 billion was separated into two groups, with the amount attributed to the TLPP being $18.657 billion, and the amount attributed to the PERP being $11.827 billion. The PSPP amount was $7.080 billion. The beginning balance of each of the plans has been adjusted for this reclassification.

- The local government investment pool recorded a prior period adjustment of $44.979 million to correct an overstatement of cash at June 30, 2013.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2014, (expressed in thousands):

	6/30/2013 Net Position As Reported	Adjustments to Net Position	6/30/2013 Net Position As Restated
Government-wide statements:			
Primary government			
Governmental activities	$ 28,978,083	$ 7,955	$ 28,986,038
Business-type activities	2,134,924	7,316	2,142,240
Total primary government	$ 31,113,007	$ 15,271	$ 31,128,278
Component units	$ 6,783,414	$ 5,478	$ 6,788,892
Total component units	$ 6,783,414	$ 5,478	$ 6,788,892
Fiduciary funds statements:			
Public employee retirement plan	$ 7,080,898	$ 11,827,471	$ 18,908,369
Teacher legacy pension plan	30,484,007	(11,827,471)	18,656,536
Total pension trust fund	$ 37,564,905	$ -	$ 37,564,905
Local government investment pool	$ 2,339,714	$ (44,979)	$ 2,294,735
Total investment trust fund	$ 2,339,714	$ (44,979)	$ 2,294,735

During the fiscal year ended June 30, 2014, the state implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASBS 67, *Financial Reporting for Pension Plans*, replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50 *Pension Disclosures*, as they related to pension plans that are administered through trusts or equivalent arrangements. This statement requires changes in the presentation of the financial statements, notes to the financial statements and required supplementary information for the pension plans. GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions−an amendment of GASBS No. 27*, effective for fiscal year 2015. The effect of the implementation of this standard on the state's financial statements has not been determined.

GASBS 69, *Government Combinations and Disposals of Government Operations,* establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations. The implementation of this standard did not have an impact on the financial statements.

GASBS 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* establishes accounting and financial reporting standards for situations where a state or local government, extends or receives a nonexchange financial guarantee. The implementation of this standard did not have an impact on the financial statements.

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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 are 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 College Savings Plans, a private-purpose trust consisting of the Baccalaureate Education System Trust (BEST) and the Tennessee Stars College Savings 529 Program (TNStars); 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.

Effective July 1, the state began offering a longer range product for participants in the SPIF who were wanting a higher return on their investment and who did not need access to their money immediately. The Intermediate Term Investment Fund, an investment trust fund, was created July 1, 2013. Also, the Insurance Receivership Fund, a private-purpose trust fund, was created in fiscal year 2014.

As of June 30, 2014, the state's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

Credit Quality Rating	TCRS	COE	SPIF	College Savings Plans
AAA	$ 906,618	$ 6,163	$ 1,658,775	
AA	548,236	12,479	749,757	
A	1,079,470	15,938		
BBB	2,917,707	17,130		
BB	295,057	516		
B	49,484			
CCC	110,157			
CC	1,576			
D	45,704			
NR	3,155,001	40,580	1,705,696	$ 11,450
A1 (Commercial paper)			599,977	
	9,109,010	92,806	4,714,205	11,450
Government agencies and obligations	5,323,742	72,544	2,213,470	
Total debt investments	14,432,752	165,350	6,927,675	11,450
Non Fixed Income Assets				
Equity	24,715,744	172,886		
Equity fund				50,557
Fixed mutual fund				33,384
Preferred stock	96,060			
Real estate	2,278,482			
Private equities	1,100,887			
Derivatives (not rated)	3,292			
Lehman escrow	2,906			
Certificate of deposit classified as short term			349,825	
Short-term investment fund at custodian	16,301			
Less: cash equivalents	(216,284)		(1,449,334)	
Total investments	$ 42,430,140	$ 338,236	$ 5,828,166	$ 95,391

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

	Lottery for Education	Intermediate Term Investment Fund	Insurance Receiverships Fund	Total
	$ 4,887		$ 958	$ 2,577,401
	84,394	$ 43,326		1,438,192
	77,242			1,172,650
	34,132			2,968,969
				295,573
				49,484
				110,157
				1,576
				45,704
	34,859	156,637		5,104,223
				599,977
	235,514	199,963	958	14,363,906
	59,489			7,669,245
	295,003	199,963	958	22,033,151
				24,888,630
				50,557
				33,384
				96,060
				2,278,482
				1,100,887
				3,292
				2,906
				349,825
	24,528			40,829
				(1,665,618)
	$ 319,531	$ 199,963	$ 958	$ 49,212,385

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, 2014, 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 position 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, 2014, 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 College Savings Plans 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.

The ITIF's investment policy requires that 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 designated 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 investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper. Repurchase agreements must be done with primary dealers in government securities which have executed a master repurchase agreement with the state.

The Insurance Receiverships Fund has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical ratings.

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, College Savings Plans, Lottery for Education Fund, or other state funds in any one issuer.

As of June 30, 2014, the combined SPIF, TCRS, COE Trust, Intermediate Term Investment Fund, College Savings Plans, 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 National Mortgage Association	$ 3,263,150	6.49

As of June 30, 2014, SPIF, COE Trust, Lottery for Education Trust, and Intermediate Term Investment Fund separately held investments in certain organizations representing five percent (5%) or more of its 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):

The State Pooled Investment Fund (SPIF)

Issuer Organization	Fair Value	Percentage
Federal Home Loan Mortgage Bank	$ 1,278,947	18.46
Federal National Mortgage Association	1,255,719	18.12
Federal Farm Credit Bank	828,835	11.96
Federal Home Loan Mortgage Corporation	500,732	7.23

The Chairs of Excellence Trust (COE)

Issuer Organization	Fair Value	Percentage
Federal National Mortgage Association	$ 25,169	7.44
Federal Home Loan Mortgage Corporation	17,805	5.26

The Lottery for Education Fund

Issuer Organization	Fair Value	Percentage
Federal Home Loan Bank	$ 26,043	8.15
Federal National Mortgage Association	62,337	19.51

The Intermediate Term Investment Fund (ITIF)

Issuer Organization	Fair Value	Percentage
Federal Home Loan Mortgage Bank	$ 67,701	33.86
Federal National Mortgage Association	16,555	8.28
Federal Farm Credit Bank	42,634	21.32
Federal Home Loan Mortgage Corporation	62,849	31.43
Federal Agricultural Mortgage Corporation	10,224	5.11

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. 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 7 to 365 days at June 30, 2014. Interest rates on certificates of deposit held at June

30, 2014, ranged from 0.10 percent to 0.30 percent. The days to maturity on U.S. Government Agencies ranged from 28 to 397 days at June 30, 2014. Interest rates on U.S. Government Agencies held at June 30, 2014 ranged from 0.04 percent to 2.63 percent. The days to maturity on commercial paper ranged from 1 to 44 days at June 30, 2014. Interest rates on commercial paper held at June 30, 2014, ranged from 0.03 percent to 0.12 percent.

As of June 30, 2014, the combined SPIF portfolio 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	$ 4,114,227	4.3
U.S. Government Treasuries	2,213,470	3.9
Commercial paper	599,977	0.7

For ITIF, the days to maturity on U.S. Government Agencies ranged from 1 to 51 months at June 30, 2014. Interest rates on U.S. Government Agencies held at June 30, 2014, ranged from 0.13 percent to 2.50 percent.

The ITIF's investment policy with respect to maturity states that the dollar weighted average maturity of the fund shall not exceed three (3) years, and that no security will be bought with a remaining life of over five (5) years. The maximum time period from the date of acquisition to maturity of government or agency securities may not exceed five (5) years. Prime commercial paper, including asset-backed commercial paper, shall not have a maturity that exceeds two hundred seventy (270) days. Individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. 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, however, they may be traded in the secondary market to maintain liquidity.

As of June 30, 2014, the Intermediate Term Investment Fund had the following weighted average maturities (expressed in thousands):

INTERMEDIATE TERM INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Government Agencies	$ 199,963	2.1

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 duration within a range around that index. 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 mortgages, which may result from a decline in interest rates.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2014	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 245,508	7.24
Government Bonds	2,049,684	12.97
Government Inflation Indexed	2,480,124	8.23
Government Mortgage-Backed	3,495,299	4.15
Government Asset-Backed	51,791	2.48
Municipal Bonds	156,846	9.94
Corporate Fixed Income		
Collateralized Mortgage Obligations	127,912	2.04
Commercial Mortgage Backed	429,665	1.82
Asset Backed Securities	670,436	1.39
Corporate Bonds	4,388,339	8.64
Short Term		
Commercial Paper	149,989	0.08
Short Term Bills and Notes	187,160	0.23
Total Debt Investments	$ 14,432,753	

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, 2014	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 22,526	4.39
U.S. TIPS	38,145	8.06
U.S. Agencies	8,711	3.68
Government Mortgage-Backed	44,735	4.30
Government Asset-Backed	2,654	5.69
Municipal Bonds	7,784	5.51
Corporate Fixed Income		
Corporate Mortgage-Backed	1,991	1.88
Corporate Bonds	37,023	6.46
Corporate Asset-Backed	1,779	2.43
Total Debt Investments	$ 165,348	

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 scholarship objectives.

LOTTERY FOR EDUCATION
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2014	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 53,520	2.50
Government Bonds	52,262	6.31
Government Mortgage-Backed	34,859	6.27
Government Asset-Backed	7,227	4.43
Municipal Bonds	2,893	8.42
Corporate Fixed Income		
Commercial Mortgage-Backed	6,027	6.16
Corporate Bonds	138,215	5.23
Total Debt Investments	$ 295,003	

The investment policy for College Savings Plans 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.

COLLEGE SAVINGS PLANS
DEBT INVESTMENTS
(expressed in thousands)

Fund Name Blended	Fair Value as of June 30, 2014	Effective Duration (Years)
Vanguard Wellington Fund Admiral Shares	$ 3,631	6.26
DFA Enhanced U.S. Large Company Portfolio Institutional Class	3,212	1.53
Vanguard LifeStrategy Conservative Growth Fund	2,185	5.85
Vanguard LifeStrategy Income Fund	1,488	5.85
Fixed Income		
Vanguard Total Bond Market Signal Shares	658	5.70
Vanguard Intermediate-Term Investment-Grade Fund Admiral	124	5.24
DFA Inflation-Protected Securities Portfolio Institutional Class	103	7.79
Vanguard Intermediate-Term Treasury Admiral Shares	49	5.15
Total Debt Investments	$ 11,450	

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 25 percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2014, was as follows (expressed in thousands):

Currency	Total Fair Value	Equity	Cash
Australian Dollar	$ 283,539	$ 283,448	$ 91
British Pound Sterling	1,095,088	1,085,973	9,115
Canadian Dollar	1,919,373	1,919,233	140
Danish Krone	127,596	127,571	25
Euro Currency	1,519,998	1,500,315	19,683
Hong Kong Dollar	179,740	177,918	1,822
Japanese Yen	1,287,069	1,274,238	12,831
New Israeli Shekel	6,513	6,513	
New Zealand Dollar	6,131	6,131	
Norwegian Krone	78,057	78,007	50
Singapore Dollar	74,181	74,009	172
Swedish Krona	136,993	136,993	
Swiss Franc	457,132	455,376	1,756
Total	$ 7,171,410	$ 7,125,725	$ 45,685

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 percent 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, 2014, 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, 2014, 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, 2014			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts						
		$ (200)		$ (200)	23,203	EUR
		(909)		(909)	14,101,216	JPY
	Investment Income	$ (1,109)	Derivative Instruments Payable	$ (1,109)		
Future Contracts	Investment Income	$ 6,481	Derivative Instruments Receivable	$ 3,381	$ 930,356	
TBA Mortgage-Backed Securities	Investment Income	$ 3,292	Derivative Instruments Payable	$ 3,292	$ 399,932	

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, 2014, the TCRS had uninsured and uncollateralized cash deposits of $45,684,593 in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

The Insurance Receivership fund does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2014, the Insurance Receivership fund had uninsured and uncollateralized cash deposits of $1,017,383 at First Tennessee.

7. Securities Lending

The TCRS is authorized to invest in securities lending investments by TCA 8-37-104(a)(6) with the terms established in the investment policy, whereby TCRS loans securities to brokers and dealers (borrower) and in turn, TCRS receives cash as collateral. TCRS pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than thirty percent (30%) of the market value of the total assets in the TCRS portfolio and provided further that such loans are secured by collateral. Securities received as collateral hereunder shall have a market value equal to at least one hundred two percent (102%) of the loaned domestic security or one hundred five percent (105%) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100%) of the market value of the loaned securities and may be invested by or on behalf of the TCRS in any instrument the TCRS may be directly invested. At year-end TCRS has no credit risk exposure to borrowers.

The TCRS securities lending program is managed by a third party lending agent, Deutsche Bank AG. The TCRS may loan any debt or equity securities which is owned by TCRS.

At June 30, 2014 the TCRS had the following securities on loan and received the cash/non cash collateral (expressed in thousands) as shown below:

Securities on Loan	Fair Value of Securities on Loan	Cash/Non Cash Collateral Received
Fixed	$ 1,580,956	$ 1,623,591
Equity	1,935,288	1,987,478
Total	$ 3,516,244	$ 3,611,069

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, 2014, the University's investments were rated as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating: US Treasury/ Agency	Aaa	Aa1	Aa2
U.S. Treasuries	$ 3,443	$ 3,443			
U.S. Agencies	8,957		$ 8,957		
U.S. Agencies (in pool)	411,737		411,737		
Corporate Bonds	14,543				$ 486
Municipal Bonds	3,549			$ 637	678
Mutual Funds – Bonds	103,989		2,023		57,250
Mortgages and Notes	15				
Money Market Mutual Fund	5,265				
Total	$ 551,498	$ 3,443	$ 422,717	$ 637	$ 58,414

(Continued)

Rated Debt Instruments	Credit Quality Rating: Aa3	A1	A2	A3	Baa1
U.S. Treasuries					
U.S. Agencies					
U.S. Agencies (in pool)					
Corporate Bonds	$ 379	$ 1,209	$ 1,480	$ 2,352	$ 4,291
Municipal Bonds	1,100				
Mutual Funds – Bonds			1,433		
Mortgages and Notes					
Money Market Mutual Fund					
Total	$ 1,479	$ 1,209	$ 2,913	$ 2,352	$ 4,291

(Continued)

Rated Debt Instruments	Credit Quality Rating: Baa2	Baa3	Ba1	Ba2	Ba3
U.S. Treasuries					
U.S. Agencies					
U.S. Agencies (in pool)					
Corporate Bonds	$ 3,652	$ 164	$ 530		
Municipal Bonds					
Mutual Funds – Bonds	46			$ 19,053	$ 3,754
Mortgages and Notes					
Money Market Mutual Fund					
Total	$ 3,698	$ 164	$ 530	$ 19,053	$ 3,754

(Continued)

Rated Debt Instruments	Credit Quality Rating: B1	B2	Unrated
U.S. Treasuries			
U.S. Agencies			
U.S. Agencies (in pool)			
Corporate Bonds			
Municipal Bonds			$ 1,134
Mutual Funds – Bonds	$ 106	$ 34	20,290
Mortgages and Notes			15
Money Market Mutual Fund			5,265
Total	$ 106	$ 34	$ 26,704

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2014, 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	$ 3,443		$ 2,268	$ 1,175	
U.S. Agencies	8,957		6,183	1,686	$ 1,088
U.S. Agencies (in pool)	411,737		92,695	220,730	98,312
Corporate Bonds	14,543	$ 3,221	8,478	2,629	215
Municipal Bonds	3,549	527	2,149	723	150
Mortgages and Notes	15	15			
Bond Mutual Funds	103,989	2,017	127	65,386	36,459
	$ 546,233	$ 5,780	$ 111,900	$ 292,329	$ 136,224

University foundations' investments in the amount of $132.915 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 five limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2014, the estimated fair value of these assets is $454.947 million and total capital contributions, less returns of capital, equal $343.701 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

Credit Risk

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, 2014, 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[1]/ Agency	AAA	AA	A	BBB
U.S. Treasuries	$ 56,385	$ 56,385				
U. S. Agencies	72,720	2,039	$ 20	$ 70,557		
Commercial Paper	2,000				$ 2,000	
Corporate Bonds	16,150		322	3,402	9,113	$ 3,286
Mutual Funds—Bonds	29,739		10,066	2,441	2,867	2,335
Mortgage Backed Securities	7,151		138	7,013		
Collateralized Mortgage Obligation	1,151		698	452		
Money Market Mutual Fund	5,041					
Total Debt Instruments	$ 190,337	$ 58,424	$ 11,244	$ 83,865	$ 13,980	$ 5,621

(Continued)

	Credit Quality Rating					
Rated Debt Instruments	BB	B	CCC	CC	C	Not Rated
U.S. Treasuries						
U. S. Agencies						$ 104
Commercial Paper						
Corporate Bonds	$ 1					26
Mutual Funds—Bonds	1,244	$ 50	$ 38	$ 7	$ 1	10,690
Mortgage Backed Securities						
Collateralized Mortgage Obligation						1
Money Market Mutual Fund						5,041
Total Debt Instruments	$ 1,245	$ 50	$ 38	$ 7	$ 1	$ 15,862

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

Interest Rate Risk

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, 2014, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1 to 5	6 to 10	More Than 10[2]
U.S. Treasuries	$ 56,385	$ 7,575	$ 45,628	$ 3,182	
U.S. Agencies	72,720	16,139	53,809	2,470	$ 302
Commercial Paper	2,000	2,000			
Corporate Bonds	16,150	4,066	11,019	1,065	
Mutual Funds—Bonds	29,739	1,144	7,084	5,739	15,772
Mortgage Backed Securities	7,151	240	1,233	2,217	3,461
Collateralized Mortgage Obligation	1,151		72	1,041	38
Total Debt Investments	$ 185,296	$ 31,164	$ 118,845	$ 15,714	$ 19,573

2. Includes investments with no maturity date.

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 $279.632 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 100 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 50 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, 2014, were rated by Standard and Poor's and/or Moody's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating U.S. Treasury/ Agency	AA+	A-1	AA-2	Not Rated
U.S. Agency Coupon	$ 156,546		$ 140,991		4,868	$ 10,687
U.S. Treasury Coupon	81,459	$ 81,459				
U.S. Treasury Discount	185,126			$ 160,127		24,999
Total Debt Instruments	$ 423,131	$ 81,459	$ 140,991	$ 160,127	4,868	$ 35,686

Concentration of Credit Risk

At June 30, 2014, more than 5 percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 222,527	52.59
Federal National Mortgage Association	81,964	19.37

Interest Rate Risk

As of June 30, 2014, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 156,546	2.713
U.S. Treasury Coupon	81,459	3.010
U.S. Agency Discount	185,126	0.033
Total	$ 423,131	

B. **Receivables**

Receivables at June 30, 2014, for the state's individual major funds and nonmajor 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 Governments	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:							
General	$ 170,848	$ 788,170	$ 301,125	$ 8,218	$ 1,268,361	$ (135,099)	$ 1,133,262
Education	389	522,862	96,732	3,147	623,130	(48,311)	574,819
Highway	225	66,149	128,811	16,117	211,302	(10)	211,292
Capital projects	13		9,098		9,111		9,111
Nonmajor governmental funds	525	12,952	10,623	1,990	26,090	(649)	25,441
Internal service funds	6,734		10,249	954	17,937	(427)	17,510
Total-governmental activities	$ 178,734	$ 1,390,133	$ 556,638	$ 30,426	$ 2,155,931	$ (184,496)	$ 1,971,435
Amounts not expected to be collected within one year		$ 123,121	$ 10,055				$ 133,176
Business-type activities:							
Employment security	$ 180,048	$ 89,726	$ 731		$ 270,505	$ (105,501)	$ 165,004
Nonmajor enterprise funds	4,634		32		4,666	(157)	4,509
Total-business-type activities	$ 184,682	$ 89,726	$ 763		$ 275,171	$ (105,658)	$ 169,513

C. **Capital assets**

Capital asset activity for the year ended June 30, 2014, was as follows (expressed in thousands):

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 2,012,356	$ 88,524	$ (3,610)	$ 2,097,270
Infrastructure	22,275,204	366,718	(11,167)	22,630,755
Construction in progress	779,460	610,165	(389,955)	999,670
Software in development	27,397	40,340	(17,412)	50,325
Capital assets, being depreciated:				
Structures and improvements	2,484,288	33,777	(36,856)	2,481,209
Machinery and equipment	906,311	107,877	(49,150)	965,038
Total capital assets	28,485,016	1,247,401	(508,150)	29,224,267
Less accumulated depreciation for:				
Structures and improvements	(1,044,277)	(54,529)	23,709	(1,075,097)
Machinery and equipment	(586,913)	(83,071)	36,797	(633,187)
Total accumulated depreciation	(1,631,190)	(137,600)	60,506	(1,708,284)
Governmental activities capital assets, net	$ 26,853,826	$ 1,109,801	$ (447,644)	$ 27,515,983

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

Governmental activities:	
General government	$ 4,090
Education	1,229
Health and social services	17,177
Law, justice and public safety	34,344
Recreation and resource development	13,343
Regulation of business and professions	707
Transportation	18,666
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	48,044
Total depreciation expense – governmental activities	$ 137,600

Highway construction commitments — At June 30, 2014, the Department of Transportation had contractual commitments of approximately $677.1 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($595.7 million) and general obligation bond proceeds ($81.4 million).

Discretely presented component units

Capital asset activity for the year ended June 30, 2014, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Art and collections	$ 10,232	$ 670		$ 10,902
Land	194,693	12,298	$ (1,101)	205,890
Construction in progress	778,975	399,615	(492,383)	686,207
Capital assets, being depreciated:				
Infrastructure	459,321	34,676	(291)	493,706
Structures and improvements	4,568,128	495,771	(49,763)	5,014,136
Machinery and equipment	1,010,371	76,221	(59,909)	1,026,683
Total capital assets	7,021,720	1,019,251	(603,447)	7,437,524
Less accumulated depreciation for:				
Infrastructure	(214,408)	(21,059)	351	(235,116)
Structures and improvements	(1,820,410)	(126,800)	32,785	(1,914,425)
Machinery and equipment	(636,771)	(85,473)	55,840	(666,404)
Total accumulated depreciation	(2,671,589)	(233,332)	88,976	(2,815,945)
Total capital assets, net	$ 4,350,131	$ 785,919	$ (514,471)	$ 4,621,579

The University of Tennessee foundations, and certain Tennessee Board of Regents foundations utilize FASB standards; therefore, only the June 30, 2014, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Art and collections	$ 640
Land	16,406
Total capital assets, not being depreciated	17,046
Capital assets, being depreciated:	
Infrastructure	1,101
Structures and improvements	140,143
Machinery and equipment	32,500
Total capital assets being depreciated	173,744
Less: total accumulated depreciation	(56,999)
Total capital assets, being depreciated, net	116,745
Total capital assets, net	$ 133,791

D. Interfund balances

1. Interfund balances at June 30, 2014, for the state's individual major funds, nonmajor funds, internal service funds, and fiduciary funds in the aggregate consist of the following (expressed in thousands):

DUE FROM

		General	Education	Highway	Employment Security	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Fiduciary Funds	Total
	General		$ 297,192	$ 166	$ 1,445	$ 1,238	$ 127	$ 110	$ 118	$ 300,396
D	Education	$ 258								258
U E	Employment security	363								363
	Capital projects	10		396			39	640		1,085
T O	Internal service funds	1,854						15		1,869
	Fiduciary funds	8,481	486	877			296	369		10,509
	Total	$ 10,966	$ 297,678	$ 1,439	$ 1,445	$ 1,238	$ 462	$ 1,134	$ 118	$ 314,480

Of the $297.2 million due to the general fund from the education fund, $297.1 million resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund.

2. COMPONENT UNITS PAYABLES

Component units accounts payable to the primary government at June 30, 2014, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

		Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
	PRIMARY GOVERNMENT:						
P	General			$ 224	$ 39	$ 86	$ 349
A	Education		$ 94,670				94,670
Y	Capital projects			8,764	87	4,806	13,657
A	Employment security					7	7
B L	Nonmajor governmental funds				972		972
E	Internal service funds			7	3		10
	Fiduciary funds	$ 72		5,088	4,534	25	9,719
T O	Total	$ 72	$ 94,670	$ 14,083	$ 5,635	$ 4,924	$ 119,384

3. COMPONENT UNITS RECEIVABLES

Component units accounts receivable from the primary government at June 30, 2014, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

RECEIVABLE TO	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Total
COMPONENT UNITS:							
Tennessee Board of Regents	$ 7,976	$ 5,166	$ 636	$ 380	$ 983	$ 46	$ 15,187
University of Tennessee	9,041	6,000	1,444	10,772	1,387	300	28,944
Nonmajor component units	1,215						1,215
Total	$ 18,232	$ 11,166	$ 2,080	$ 11,152	$ 2,370	$ 346	$ 45,346

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2014, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds
General		$ 1,102,900		$ 216,074	$ 6,860
Highway	$ 1,886				
Capital projects					229
Nonmajor governmental funds	92,694		$ 126,200	11,283	
Nonmajor enterprise funds	3,654				
Totals	$ 98,234	$ 1,102,900	$ 126,200	$ 227,357	$ 7,089

(Continued)

Transfers In

Transfers Out	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Total
General	$ 6,465	$ 1,811	$ 195,833	$ 827	$ 1,530,770
Highway					1,886
Capital projects					229
Nonmajor governmental funds			361		230,538
Nonmajor enterprise funds					3,654
Totals	$ 6,465	$ 1,811	$ 196,194	$ 827	$ 1,767,077

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, 2014, the general fund transferred $1.5 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $1.1 billion to subsidize the activities of the education fund, $216 million for capital outlay expenditures, $171 million to provide appropriations to internal service funds, $21.4 million for payments for interfund services used, $15.7 million to provide appropriations to finance various programs in other funds, and $3.8 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $126.2 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

The nonmajor special revenue funds transferred $9.2 million to the general fund for the purpose of funding the requirements of state government operations. The transfer is considered inconsistent with the activities of those funds making the transfer. The transfer was made in accordance with budgetary authority granted by the Legislature.

The facilities revolving fund, an internal service fund, transferred $38.7 thousand to the full accrual ledger for the book value of a building. This transfer caused the total transfers-in to not match total transfers-out on the fund level statements.

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
2015	$ 11,378
2016	5,444
2017	4,087
2018	3,326
2019	1,433
2020-2021	1,462
Total minimum payments required	$ 27,130

Expenditures for rent under leases for the year ended June 30, 2014, amounted to $63.9 million.

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 percent to 32.12 percent. 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	$ 40,079	
Less: accumulated depreciation	4,933	35,146
		$ 35,496

At June 30, 2014, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2015	$ 3,443
2016	3,431
2017	3,491
2018	3,543
2019	3,595
2020-2024	18,786
2025-2029	15,791
Total	52,080
Less - interest	17,622
Less - executory costs	12,660
Present value of net minimum lease payments	$ 21,798

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 this cost of this building.

The state, as lessor, entered into a lease agreement with the Shelby County Government (lessee) for the Regional Forensic Center facility. The lease term is 20 years beginning July 1, 2012. The state shall transfer all of its rights, title and interest in and to the facility to Shelby County for a nominal amount upon the end of the lease term. The state is subsidizing a part of the cost of this building.

Minimum future lease payments to be received as of June 30, 2014 (expressed in thousands):

Year Ended June 30	Total
2015	$ 980
2016	705
2017	689
2018	673
2019	657
2020-2024	2,479
2025-2029	1,877
2030-2033	1,344
Total minimum future lease payments	$ 9,404

Net investment in direct financing leases at June 30:

Minimum lease payments receivable	$ 9,404
Less: executory costs	(1,193)
Plus: unamortized loss on leases	4,023
Net investment in direct financing lease	$ 12,234

H. **Long-term liabilities**

1. General obligation bonds – Bonds Payable at June 30, 2014, are shown below (expressed in thousands):

Governmental activities:	Amount
General obligation bonds, .94% to 5.59%, due in generally decreasing amounts of principal and interest from $126.207 million in 2015 to $7.105 million in 2033	$ 973,416
General obligation refunding bonds, 1999 Series A, 4.75% to 5%, principal and interest due in amount of $5.398 million in 2015	5,145
General obligation refunding bonds, 2004 Series C, 5% to 5.25%, principal and interest due in amounts from $31.584 million in 2015 to $11.388 million in 2018	74,710
General obligation refunding bonds, 2005 Series A, 5.25%, principal and interest due in amounts from $15.081 million in 2015 to $17.950 million in 2017	46,695
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $11.051 million in 2015 to $7.544 million in 2022	82,010
General obligation refunding bonds, 2009 Series D, 2.83% to 5.59%, principal and interest due in amounts from $3.818 million in 2015 to $3.889 million in 2029	40,034
General obligation refunding bonds, 2010 Series B, 3% to 4%, principal and interest due in amounts from $1.223 million in 2015 to $7.375 million in 2024	37,135
General obligation refunding bonds, 2011 Series B, 3% to 5%, principal and interest due in amounts from $9.564 million in 2015 to $187.775 thousand in 2026	62,085
General obligation refunding bonds, 2011 Series C, .94% to 3.53%, principal and interest due in amounts from $2.633 million in 2015 to $1.175 million in 2024	18,455
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $19.598 million in 2015 to $7.334 million in 2028	449,070
General obligation refunding bonds, 2012 Series C, .55% to 1.60%, principal and interest due in amounts from $1.242 million in 2015 to $7.021 million in 2020	29,195
Total bonds outstanding	1,817,950
Plus unamortized bond premium	178,508
Total bonds payable	$ 1,996,458

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, 2014, $461.675 million of bonds outstanding are considered defeased.

2. General obligation commercial paper – Governmental activities commercial paper payable at June 30, 2014, is shown below (expressed in thousands).

	Commercial paper
General obligation commercial paper, interest rates ranging from .09% to .16% for tax exempt and .14% to .20% for taxable, varying maturities	$ 324,366

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 July 1, 2016. At June 30, 2014, $324.366 million of commercial paper was outstanding ($298.367 million tax exempt and $25.999 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. Pledged Revenues/Collateralized Borrowing

The state has entered into agreements under the Tennessee Small Business Investment Company Credit Act involving future gross premium taxes (or under certain conditions, other taxes imposed upon an insurance company by the state) that qualify for classification as collateralized borrowings. The proceeds of the borrowings are used to create a pool of venture capital funds for investment in early and mid-stage companies in Tennessee, and are being received in exchange for future vested credits against gross premium taxes owed. These credits are intended to represent a payment of taxes, have a limited life of 25 years, and are recorded as a reduction of the liability reported in the statement of net position when used.

The total amount of proceeds received and remaining to be repaid through the use of the aforementioned tax credits is $74,647,454.59 as of June 30, 2014. For the current year, gross premium tax revenue totaled $727,943,303.73 and credits of $30,244,466.00 were used to reduce the liability for the borrowing. Gross premium taxes have averaged approximately $597 million per year over the last five years.

General obligation bonds and commercial paper constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state; and a charge and lien upon all fees, taxes and other revenues and funds allocated to the state's general fund, debt service fund and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. The charge and lien on fees, taxes and other revenues in favor of the bonds is subject to a specific pledge of "Special Taxes" in favor of state general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of the annual proceeds of a tax of five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon upon petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the state; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the state. The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter, or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013, this pledge of "Special Taxes" will expire. Annual debt service for the current year and the total available pledged revenues were $243.099 million and $987.468 million respectively. For fiscal year 2014, 63.32 percent of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds issued prior to July 1, 2013.

4. Debt service requirements to maturity – Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2015	$ 152,025	$ 75,376	$ 227,401
2016	146,270	68,738	215,008
2017	140,415	62,385	202,800
2018	131,720	55,828	187,548
2019	122,425	50,238	172,663
2020-2024	554,600	175,815	730,415
2025-2029	442,405	74,540	516,945
2030-2033	128,090	8,111	136,201
	$ 1,817,950	$ 571,031	$ 2,388,981

5. General obligation bonds authorized and unissued – A summary of general obligation bonds authorized and unissued at June 30, 2014, 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, 2013	Authorized	Canceled	Unissued June 30, 2014
Highway	$ 984,000	$ 83,500	$ 162,800	$ 904,700
Higher Education	452,288	28,400	782	479,906
Environment & Conservation	12,077			12,077
Economic & Community Development	43,757	52,400		96,157
General government	474,106	3,300	12,781	464,625
Totals	$ 1,966,228	$ 167,600	$ 176,363	$ 1,957,465

6. Changes in long-term liabilities – A summary of changes in long-term obligations for the year ended June 30, 2014, follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds and commercial paper	$ 2,387,776	$ 115,000	$ (181,952)	$ 2,320,824	$ 152,025
Capital leases	13,790	8,969	(961)	21,798	1,199
Compensated absences	241,266	158,689	(147,254)	252,701	90,581
Claims and judgments	154,562	92,826	(48,732)	198,656	33,594
Pollution remediation	100,598	13,969	(14,833)	99,734	4,112
Other postemployment benefits	510,455	58,780		569,235	
Other long-term liabilities	104,419	473	(30,244)	74,648	
Governmental activities Long-term obligations	$ 3,512,866	$ 448,706	$ (423,976)	$ 3,537,596	$ 281,511
Business-type activities					
Deposits payable	$ 7,464	$ 659	$ (441)	$ 7,682	
Business-type activities Long-term obligations	$ 7,464	$ 659	$ (441)	$ 7,682	

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 the Highway Fund (special revenue fund), Risk Management (internal service fund) and the general fund. Typically, the general fund, special revenue funds, and internal service funds liquidate OPEB obligations. Typically, pollution remediation is liquidated from the general fund and highway fund.

I. **Payables**

Payables as of June 30, 2014, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental activities:						
General	$ 653,678	$ 69,117		$ 93,867	$ 145,122	$ 961,784
Education	27,994	4,393		89,159	12,333	133,879
Highway	79,672	7,136		77,105		163,913
Capital projects	32,368					32,368
Nonmajor governmental funds	13,397	2,275	$ 21,602	37,774	153	75,201
Internal service funds	74,474	2,963	3,005			80,442
Total—governmental activities	$ 881,583	$ 85,884	$ 24,607	$ 297,905	$ 157,608	$ 1,447,587
Business-type activities:						
Employment security	$ 14			$ 34,381	$ 9,200	$ 43,595
Sewer treatment loan			$ 5			5
Nonmajor enterprise funds	34,321		2			34,323
Total—business-type activities	$ 34,335		$ 7	$ 34,381	$ 9,200	$ 77,923

J. **Governmental fund balances**

Balances as of June 30, 2014, were as follows (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General fund			
General operations:			
Legislature			$ 44,532
Constitutional offices	$ 4,562	$ 16,471	29,848
Administrative services		23,520	308,870
Childrens services			9,619
Public health	20,938	92,921	349,018
Human services		47,963	29,432
Business and industry development	10,020	2,193	290,693
Judicial	19,386	13,024	2,417
Natural resources	1,220	15,383	3,810
Public safety		21,085	40,664
Agriculture		1,601	18,908
Employment and business regulation	12,060	44,424	3,537
Other	145	3,384	7,148
Total general fund	$ 68,331	$ 281,969	$ 1,138,496
Education fund			
After school program	$ 27,442		
Lottery for education	422,542		
Energy efficient school initiative	4,679		
State endowment	48,970		
Other	990	$ 9,411	$ 30,191
Total education fund	$ 504,623	$ 9,411	$ 30,191
Highway fund			
State matching	$ 3,310		
Railway, aeronautics, and waterway program		$ 188,328	
State aid		90,116	
Future highway projects			$ 178,175
Railroad inspection		1,418	
Other			9,834
Total highway fund	$ 3,310	$ 279,862	$ 188,009
Capital projects fund	$ 157,540		$ 535,861
Total capital projects fund	$ 157,540		$ 535,861
Nonmajor governmental funds			
Debt service			$ 5,784
Chairs of excellence	$ 194,196		
Criminal injuries		$ 7,944	
Wildlife resources	45,220	15,253	
Underground storage tanks	46,660	876	
Enhanced emergency 911	65,836	3,253	
Environmental protection		25,993	
Solid and hazardous waste	48	14,665	
Parks acquisition		22,630	
Other	6,917	16,411	
Total nonmajor governmental funds	$ 358,877	$ 107,025	$ 5,784

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 percent 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 8 percent of the estimated state tax revenues allocated to the general fund and education fund, the following must be allocated to the account:

The lesser of:

(1) At least 10 percent 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 eight percent (8%) 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 $456 million as of June 30, 2014.

(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, 2014, 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, 2014 (expressed in thousands):

Condensed Statement of Net Position
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	$ 2,364,512	$ 144,151	$ 1,393,505	$ 1,027,680	$ 561,866	$ 5,491,714
Due from primary government			15,187	28,944	1,215	45,346
Due from other component units					1,404,532	1,404,532
Restricted assets	199,341	6,156	441,445	1,226,663	167,529	2,041,134
Capital assets, net	626	924	2,502,309	2,214,725	36,786	4,755,370
Total assets	2,564,479	151,231	4,352,446	4,498,012	2,171,928	13,738,096
Deferred outflows	1,250		2,851	5,911	18,041	28,053
Liabilities						
Accounts payable and other current liabilities	44,045	48,551	219,964	268,887	28,069	609,516
Due to primary government	72	94,670	14,083	5,635	4,924	119,384
Due to other component units			708,343	696,189		1,404,532
Long-term liabilities	1,994,684	7,989	191,895	345,243	1,952,235	4,492,046
Total liabilities	2,038,801	151,210	1,134,285	1,315,954	1,985,228	6,625,478
Deferred inflows			132		616	748
Net position						
Net investment in capital assets	626	924	1,803,666	1,468,055	30,629	3,303,900
Restricted	449,905	21	635,415	1,244,468	25,318	2,355,127
Unrestricted	76,397	(924)	781,799	475,446	148,178	1,480,896
Total net position	$ 526,928	$ 21	$ 3,220,880	$ 3,187,969	$ 204,125	$ 7,139,923

Condensed Statement of Activities
Component Units

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component units:				
Housing Development Agency	$ 422,834	$ 121,135	$ 302,126	
Tennessee Education Lottery	1,323,406	1,323,307	43	
Board of Regents	2,473,515	974,218	696,108	$ 143,583
University of Tennessee	2,056,111	661,101	933,596	86,236
Nonmajor component units	439,009	152,473	160,647	11,953
Total	$ 6,714,875	$ 3,232,234	$ 2,092,520	$ 241,772

General revenues:
Payments from primary government
Unrestricted grants and contributions
Unrestricted investment earnings
Miscellaneous
Total general revenues
Contributions to permanent funds
Change in net position
Net position – July 1
Net position – 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 $685.2 million were made to the TBR and $485.4 million to the UT.

Capital project expenditures in the amount of $198 million were made for the TBR and $52 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 $66 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $323 million for the state's Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Position					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ 427					$ 427
	$ (56)				(56)
		$ (659,606)			(659,606)
			$ (375,178)		(375,178)
				$ (113,936)	(113,936)
427	(56)	(659,606)	(375,178)	(113,936)	(1,148,349)
		683,554	487,077	79,278	1,249,909
		146,941	2,234	9,350	158,525
34	70	4,691	24,556	106	29,457
		3,803			3,803
34	70	838,989	513,867	88,734	1,441,694
		13,752	43,934		57,686
461	14	193,135	182,623	(25,202)	351,031
526,467	7	3,027,745	3,005,346	229,327	6,788,892
$ 526,928	$ 21	$ 3,220,880	$ 3,187,969	$ 204,125	$ 7,139,923

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, 2014, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 27,075	$ 676,351
University of Tennessee	29,360	662,219
Total	$ 56,435	$ 1,338,570

L. **Major component units – long-term debt**

Tennessee Housing Development Agency (THDA)

Bonds Payable at June 30, 2014, is shown below (expressed in thousands):

Homeownership program revenue bonds, housing finance program bonds, and residential finance program bonds, various series, .25% to 5.75%, due in amounts of principal and interest ranging from $212.077 million in 2015 to $111.678 million in 2044	$ 1,962,990
Plus unamortized bond premium	21,477
Less unamortized bond discount	(169)
Total bonds payable	$ 1,984,298

The revenue bonds listed above are not obligations of the state. They are secured by pledges 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, 2014, included the following issues:

November 2013—Residential Finance program bonds of $121.300 million

Current refundings

During the year ended June 30, 2014, bonds were retired at par before maturity in the Homeownership Program in the amount of $217,425,000, in the Housing Finance Program in the amount of $60,775,000, and in the Residential Finance Program in the amount of $15,555,000. The respective carrying values of the bonds were $221,007,463, $61,136,292 and $15,821,689. This resulted in revenue to the Homeownership Program of $3,582,463, to the Housing Finance Program of $361,292, and to the Residential Finance Program of $266,689.

On May 30, 2013, the agency issued $215,905,000 in Residential Finance Program Bonds, Issue 2013-1. On July 1, 2013, the agency used $75,905,000 of these bonds to refund bonds previously issued in the Mortgage Finance Program (this amount consists of $47,985,000 early redemption) and Homeownership Program (this amount consists of $27,920,000 early redemption). The carrying amount of these bonds was $75,905,000. The refunding reduced the agency's debt service by $8,688,786 million over the next 18 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $9,063,606.

On November 19, 2013, the agency issued $121,300,000 in Residential Finance Program Bonds, Issue 2013-2. On January 1, 2014, the agency used $31,300,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $31,300,000 early redemption). The carrying amount of these bonds was $31,300,000. The refunding reduced the agency's debt service by $1,548,956 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,485,956.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2015	$ 139,455	$ 72,622	$ 212,077
2016	56,210	70,196	126,406
2017	57,190	68,863	126,053
2018	56,315	67,338	123,653
2019	54,550	65,707	120,257
2020-2024	249,355	302,779	552,134
2025-2029	278,485	249,077	527,562
2030-2034	256,105	194,321	450,426
2035-2039	343,460	142,690	486,150
2040-2044	471,865	45,677	517,542
	$ 1,962,990	$ 1,279,270	$ 3,242,260

M. Nonmajor component units – long-term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable at June 30, 2014, is shown below (expressed in thousands):

Revenue bonds, 3.5% to 5%, due in generally decreasing amounts of principal and interest from $1.155 million in 2015 to $25 thousand in 2029	$ 5,520
Plus unamortized bond premium	167
Less unamortized bond discount	(13)
Total bonds payable	$ 5,674

The revenue bonds listed above are not obligations of the state. They are secured by pledges 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, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2015	$ 910	$ 245	$ 1,155
2016	785	203	988
2017	775	166	941
2018	585	129	714
2019	495	105	600
2020-2024	1,410	296	1,706
2025-2029	560	66	626
	$ 5,520	$ 1,210	$ 6,730

Tennessee State School Bond Authority (TSSBA)

Bonds and Revolving Credit Facility Payable at June 30, 2014, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from $112.358 million in 2015 to $7.267 million in 2044	$ 1,695,470
Plus unamortized bond premium	85,106
Less unamortized bond discount	(18)
Total bonds payable	$ 1,780,558
Revolving credit facility, interest rates ranging from .48% to .66%, varying	$ 157,584

The revenue bonds and revolving credit facility 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.

On November 21, 2013, the Authority issued the 2013 Series A bonds. The Series A tax-exempt bond proceeds in the amount of $149,130,000 were sold with an original issue premium of $14,036,286. The bond proceeds redeemed $132,991,992 of the Authority's tax-exempt commercial paper and $2,763,930 of the Authority's taxable commercial paper. A portion of a project funded under the 2013 Series A Bonds was being funded with taxable commercial paper. With a change in scope and a review from bond counsel, it was decided that this project could be financed with tax-exempt bonds and was included in the 2013 Series A Bond issuance. The balance of the proceeds were used to pay for construction costs of certain projects and various costs of issuance.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2015	$ 56,435	$ 55,923	$ 112,358
2016	69,320	53,611	122,931
2017	59,150	51,196	110,346
2018	63,280	48,767	112,047
2019	62,070	46,120	108,190
2020-2024	329,800	189,573	519,373
2025-2029	661,345	124,966	786,311
2030-2034	186,235	69,291	255,526
2035-2039	133,005	33,368	166,373
2040-2044	74,830	6,973	81,803
	$ 1,695,470	$ 679,788	$ 2,375,258

Revolving credit facility 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. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The Revolving Credit Agreement permits loans (the revolving credit facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed

$300,000,000. The Revolving Credit Agreement expires March 20, 2017, subject to extension. The revolving credit facility may be issued as tax-exempt or as taxable loans. At the program's inception, the revolving credit facility refinanced certain outstanding commercial paper proceeds that the Authority had previously issued to finance capital projects. At June 30, 2014, $90,500,000 of tax-exempt revolving credit facility and $67,084,392 of taxable revolving credit facility loans were outstanding.

N. **Component units – changes in long-term liabilities**

A summary of changes in long-term obligations for the year ended June 30, 2014, follows (expressed in thousands).

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds and loans payable:					
University of Tennessee (UT) loans payable	$ 633,014	$ 234,005	$ (175,440)	$ 691,579	$ 29,360
Tennessee Board of Regents (TBR) loans payable	683,810	175,030	(145,583)	713,257	28,439
Tennessee Housing Development Agency (THDA) bonds payable	2,136,806	277,828	(430,336)	1,984,298	122,690
Nonmajor component units bonds and loans payable	1,897,028	379,109	(326,164)	1,949,973	57,804
Total revenue bonds and loans payable	$ 5,350,658	$ 1,065,972	$ (1,077,523)	$ 5,339,107	$ 238,293
UT compensated absences	82,629	41,596	(42,940)	81,285	42,940
UT other postemployment benefits	87,696	6,423		94,119	
UT due to grantors, unearned revenue and annuities payable	68,967	98,772	(95,728)	72,011	
TBR compensated absences	61,890	39,673	(37,946)	63,617	16,776
TBR other postemployment benefits	95,116	3,283		98,399	
TBR due to grantors, unearned revenue and other	23,932	1,294	(5,178)	20,048	
THDA escrow deposits, arbitrage rebate payable, and unearned revenue	2,635	1,787	(973)	3,449	82
THDA compensated absences	1,230		(20)	1,210	587
THDA other postemployment benefits	1,303	110		1,413	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	5,362	1,321	(196)	6,487	352
TELC compensated absences	530	570	(516)	584	584
TELC unearned rent	105	1,156	(343)	918	328
Nonmajor component units compensated absences	1,195	463	(386)	1,272	718
Nonmajor component units other postemployment benefits	906	84		990	
Component units long-term liabilities	$ 5,784,154	$ 1,262,504	$ (1,261,749)	$ 5,784,909	$ 300,660

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 $97.829 million ($2.756 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, 2014, net appreciation of $196.174 million is available to be spent, of which $192.109 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, 2014, net appreciation of $18.238 million is available to be spent, of which $17.960 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, 2014, included 129 local education agencies and one education cooperative, with 49,921 active teachers and support personnel enrolled in one of three health care options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the limited 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.

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, 21st 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):

	2014	2013
Unpaid claims at beginning of year	$ 30,125	$ 30,109
Incurred claims:		
Provision for insured events of the current year	429,300	432,586
Increase (decrease) in provision for insured events of prior years	(3,680)	(184)
Total Incurred Claims Expenses	425,620	432,402
Payments:		
Claims attributable to insured events of the current year	402,349	402,515
Claims attributable to insured events of prior years	26,430	29,871
Total payments	428,779	432,386
Total unpaid claims at end of the year	$ 26,966	$ 30,125

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, 2014, included 56 counties, 148 municipalities and 140 quasi-governmental organizations, with 12,429 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.

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, 21st 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):

	2014	2013
Unpaid claims at beginning of year	$ 6,884	$ 6,909
Incurred claims:		
Provision for insured events of the current year	97,731	93,862
Increase (decrease) in provision for insured events of prior years	(531)	(405)
Total incurred claims expenses	97,200	93,457
Payments:		
Claims attributable to insured events of the current year	91,708	87,025
Claims attributable to insured events of prior years	6,344	6,457
Total payments	98,052	93,482
Total unpaid claims at end of the year	$ 6,032	$ 6,884

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 Agricultural Promotion Boards 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 $136,844,000 (discounted at one percent) at June 30, 2014 and $89,292,000 (discounted at one percent) at June 30, 2013. The accrued liability for incurred property losses was 5,701,233 at June 30, 2014 and $7,111,133 at June 30, 2013. The changes in the balances of the claims liabilities during fiscal years 2013 and 2014 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2013-2014	$ 96,403	$ 83,017	$ (36,875)	$ 142,545
2012-2013	$ 97,981	$ 30,572	$ (32,150)	$ 96,403

The RMF held $116.3 million in cash at June 30, 2014 and $108.5 million in cash at June 30, 2013 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, 2014, included 62,672 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):

	2014	2013
Unpaid claims at beginning of year	$ 41,233	$ 42,719
Incurred claims:		
Provision for insured events of the current year	665,258	629,111
Increase (decrease) in provision for insured events of prior years	1,522	(1,295)
Total incurred claims expenses	666,780	627,816
Payments:		
Claims attributable to insured events of the current year	621,136	587,933
Claims attributable to insured events of prior years	42,627	41,369
Total payments	663,763	629,302
Total unpaid claims at end of the year	$ 44,250	$ 41,233

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 has served eligible uninsured Tennesseans and their spouses, working for qualifying businesses, or self-employed or work but do not have insurance. Because CoverTN is a limited benefit plan that does not meet the minimum requirements under the Affordable Care Act, the program closed December 31, 2013. At date of closure, enrollment was reported at 14,255 members.

   The CoverTN program provided health care financing based in part upon member premiums, and used 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 one percent of members exhausted the maximum benefit limit of $25,000 in fiscal year 2014. The CoverTN program is subject to a claim run out period with Blue Cross Blue Shield of Tennessee that extends through the final day of the thirteenth month from the closure of the program.

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

	2014	2013
Unpaid claims at beginning of year	$ 1,822	$ 2,281
Incurred claims:		
Provision for insured events of the current year	15,202	26,454
Increase (decrease) in provision for insured events of prior years	134	(296)
Total incurred claims expenses	15,336	26,158
Payments:		
Claims attributable to insured events of the current year	15,232	24,644
Claims attributable to insured events of prior years	1,973	1,973
Total payments	17,205	26,617
Total unpaid claims at end of the year	$ (47)	$ 1,822

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 67,998 at June 30, 2014.

   As part of the federally funded CHIP program, CoverKids receives the majority of funding from the Federal Government at an approximately 76/24 ratio match. For qualifying families, there are no monthly premiums and the program has no deductibles. Members pay affordable co-pays for services. To reduce costs, the CoverKids members were transitioned October 1, 2013, from the Blue Cross Blue Shield Provider Network S to the TennCareSelect Provider Network also administered by Blue Cross Blue Shield.

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

	2014	2013
Unpaid claims at beginning of year	$ 12,450	$ 7,447
Incurred claims:		
Provision for insured events of the current year	144,272	173,092
Increase (decrease) in provision for insured events of prior years	(3,237)	1,762
Total incurred claims expenses	141,035	174,854
Payments:		
Claims attributable to insured events of the current year	136,465	160,670
Claims attributable to insured events of prior years	9,181	9,181
Total payments	145,646	169,851
Total unpaid claims at end of the year	$ 7,839	$ 12,450

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 Tennessee residents unable to obtain health insurance because of their health conditions. The benefit plans are based on PPO plans with an 80 percent in-network benefit and 60 percent out-of-network benefit and modeled after the state employee plans. Enrollment was closed to new applicants as of October 31, 2013, and then on May 1, 2014, those members not on premium assistance who had incomes above 100 percent of the federal poverty level were dis-enrolled from the program. 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 2014 assessment determination should be made by the AccessTN Board following the end of fiscal year 2014 at the September 16, 2014, 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 past two years (expressed in thousands):

	2014	2013
Unpaid claims at beginning of year	$ 2,146	$ 2,371
Incurred claims:		
Provision for insured events of the current year	25,462	33,696
Increase (decrease) in provision for insured events of prior years	(222)	(356)
Total incurred claims expenses	25,240	33,340
Payments:		
Claims attributable to insured events of the current year	24,702	31,591
Claims attributable to insured events of prior years	1,981	1,974
Total payments	26,683	33,565
Total unpaid claims at end of the year	$ 703	$ 2,146

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 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 Southern Regional Education Compact has 16 member states. Tennessee paid $13,000 for 2014 membership dues.

The Compact for Education has 49 member states, plus Puerto Rico, the Virgin Islands, American Samoa, and the District of Columbia. Tennessee paid $77,300 for 2014 membership dues.

The Interstate Mining Compact has 21 member states. Tennessee paid $16,229 for 2014 membership dues.

The Southern States Nuclear Compact has 16 member states, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2014 membership dues.

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

The Interstate Insurance Product Regulation Commission is comprised of 42 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 50 states, plus the District of Columbia and the Virgin Islands. Tennessee paid $17,000 for 2014 membership dues.

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. Tennessee paid $36,674 for 2014 membership dues.

The Interstate Compact on Educational Opportunities for Military Children has 46 member states. Tennessee paid $14,961 for 2014 membership dues.

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):

	2013	2012
Current assets	$ 386	$ 301
Capital assets, less depreciation	344	355
Total assets	730	656
Total liabilities	266	289
Net position	464	367
Total liabilities and net position	$ 730	$ 656
Revenues	$ 408	$ 338
Expenses	311	297
Excess of revenues over expenses	97	41
Beginning net position	367	326
Ending net position	$ 464	$ 367

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 (LEA) teachers in the plans. The state is not the sole employer for the LEA employees since some of these agencies provide additional direct subsidies and all provide implicit subsidies. 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	Teachers
Annual required contribution	$ 81,207	$ 30,355	$ 11,381	$ 9,207
Interest on the net OPEB obligation	14,301	1,829	2,596	1,693
Adjustment to the ARC	(13,933)	(1,782)	(2,529)	(1,649)
Annual OPEB cost	81,575	30,402	11,448	9,251
Amount of contribution	(44,927)	(17,706)	(6,030)	(5,233)
Increase in net OPEB obligation	36,648	12,696	5,418	4,018
Net OPEB obligation —beginning of year	357,535	45,715	64,891	42,314
Net OPEB obligation —end of year	$ 394,183	$ 58,411	$ 70,309	$ 46,332

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2012	Employee Group	$ 97,124	52%	$ 304,884
6/30/2013	Employee Group	98,253	46%	357,535
6/30/2014	Employee Group	81,575	55%	394,183
6/30/2012	Teacher Group (State Share)	23,725	73%	39,688
6/30/2013	Teacher Group (State Share)	23,974	75%	45,715
6/30/2014	Teacher Group (State Share)	30,402	58%	58,411
6/30/2012	Medicare Supp State	16,381	28%	53,825
6/30/2013	Medicare Supp State	16,607	33%	64,891
6/30/2014	Medicare Supp State	11,448	53%	70,309
6/30/2012	Medicare Supp Teachers	11,941	44%	35,255
6/30/2013	Medicare Supp Teachers	12,117	42%	42,314
6/30/2014	Medicare Supp Teachers	9,251	57%	46,332

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

	Employee Group Plan	Local Government Group Plan
Annual required contribution	$ 41,433	$ 66
Interest on the net OPEB obligation	7,380	21
Adjustment to the ARC	(7,190)	(21)
Annual OPEB cost	41,623	66
Amount of contribution	(31,787)	(13)
Increase in net OPEB obligation	9,836	53
Net OPEB obligation —beginning of year	184,494	527
Net OPEB obligation —end of year	$ 194,330	$ 580

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2012	Employee Group	$ 49,575	67%	166,667
6/30/2013	Employee Group	50,084	64%	184,494
6/30/2014	Employee Group	41,623	76%	194,330
6/30/2012	Local Government Group	121	26%	464
6/30/2013	Local Government Group	121	48%	527
6/30/2014	Local Government Group	66	20%	580

Funded status and funding progress

The funded status of the plans as of July 1, 2013, 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	7/1/2013	7/1/2013	7/1/2013	7/1/2013
Actuarial accrued liability (AAL)	$ 855,642	$ 294,798	$ 154,051	$ 137,717
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	$ 855,642	$ 294,798	$ 154,051	$ 137,717
Actuarial Value of Assets as a % of the AAL	0%	0%	0%	0%
Covered payroll (active plan members)	$ 1,568,285	N/A	N/A	N/A
UAAL as a percentage of covered payroll	55%	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	7/1/2013	7/1/2013
Actuarial accrued liability (AAL)	$ 369,470	$ 238
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$ 369,470	$ 238
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	$ 1,514,097	$ 22,584
UAAL as a percentage of covered payroll	24%	1%

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.

<u>Actuarial methods and assumptions</u>

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, 2013, 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 7.5 percent initially for the Employee Group plan and the Local Education Group plan. The rate decreases to 7 percent in fiscal year 2015, and then will reduce by decrements to an ultimate rate of 4.7 percent in fiscal year 2044. All rates include a 2.5 percent inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged and, consequently, trend rates are not applicable. 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. Payroll is assumed to grow at a rate of 3 percent.

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, 2014, there were 6,849 retirees and disability participants 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 129 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, 2014, there were 5,174 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the limited 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 56 counties, 148 municipalities, and 140 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, 2014, there were 115 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the limited 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. Prior to July 1, 2006, this plan was reported as an enterprise 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, 2014, there were 28,261 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 Code Annotated* (TCA) 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 558 former employees during fiscal year 2013-2014, and the State Plan paid approximately $6.29 million in benefits to this group.

F. **Pension plans**

1. Tennessee Consolidated Retirement System (TCRS) – TCRS is a defined benefit pension plan covering three large groups of public employees: (1) state employees, including higher education employees, (2) teachers employed by local agencies (LEAs), and (3) employees of political subdivisions. Legislation was enacted in 2014 that clarified the State of Tennessee is responsible for the pension obligations of state employees while LEAs are responsible for pension obligations of teachers. Each participating political subdivision is responsible for the pension obligation of their employees. Accordingly, the State of Tennessee is an agent pension plan in TCRS. LEAs participate in cost sharing plan in TCRS. Each participating political subdivision is an agent plan in TCRS. Assets are held in trust and can be expended only for the purposes of the trust.

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

2. Defined Benefits Plan for State Employees – The departments, agencies, and higher education institutions of the State of Tennessee contribute on behalf of state employees to the TCRS. Benefit provisions are established by state statute in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). Pension benefit provisions are amended by the Tennessee General Assembly. The TCRS provides death, disability, and retirement benefits to plan members and beneficiaries. Members joining the plan after June 30, 1979, are vested with five years of service. Members joining the plan before July 1, 1979, are vested with four years of service. Benefits are determined by a formula using the member's highest five year average salary and years of service. Members joining TCRS before July 1, 2014, are eligible to retire at age 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. Beginning July 1, 2014, new members are enrolled in a retirement plan that consists of a defined benefit (DB) plan and a defined contribution (DC) plan. The new retirement plan is a separate agent plan within TCRS. Members of the retirement plan may retire from the DB plan under the rule of ninety (any combination of age and service that equals ninety) or at age 65 with five years of service. A reduced benefit is available under the rule of eighty or at age 60 with five years of service. Retirees are eligible for cost-of-living adjustments (COLA) 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, and a COLA equal to the CPI will be granted for CPI increases of more than one percent. However, the maximum COLA is capped at three percent each year.

Plan member and employer contributions are recognized in the period of time for which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

State employees joining TCRS before July 1, 2014, are noncontributory. State employees joining TCRS after June 30, 2014, contribute five percent of compensation to the DB plan. The employer contribution requirements are established and may be amended by the Board of Trustees of TCRS. The State of Tennessee is required to contribute at an actuarially determined rate; for employees joining TCRS before July 1, 2014, the current rate is 15.14% of annual covered payroll.

The departments and agencies of the State of Tennessee (Primary Government) contributed $289.648 million to TCRS on behalf of their employees for the year ending June 30, 2014, the amount equals to the required contribution. Similarly, the higher education institutions of the State of Tennessee (Component Units) contributed $120.904 million to TCRS on behalf of their employees for the year ending June 30, 2014, the amount equals to the required contribution.

Annual Pension Cost and Net Pension Obligation−*Primary Government*
(expressed in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 270,690	100%	$ 0
6/30/2013	276,283	100%	0
6/30/2014	289,648	100%	0

Annual Pension Cost and Net Pension Obligation−*Component Units*
(expressed in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 112,197	100%	$ 0
6/30/2013	116,376	100%	0
6/30/2014	120,904	100%	0

3. Defined contribution plan

Optional Retirement Plan (ORP) – The ORP, 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. The plan provisions 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. For employees employed prior to July 1, 2014, plan members are noncontributory. The State of Tennessee institutions of higher education contribute 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. The required contributions made by the State of Tennessee institutions of higher education to the ORP were $93.3 million for the year ended June 30, 2014. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP and the State of Tennessee institutions of higher education will contribute 9 percent of the employee's base salary.

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.

Internal Revenue Code (IRC) Section 401(k) and 457 Plans – 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.

For state employees hired before July 1, 2014, the Section 401(k) and Section 457 plan assets remain the property of the contributing employees, therefore, 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, 2014, contributions totaling $149.9 million were made to the plans.

State employees hired after June 30, 2014, are automatically enrolled to contribute two percent of salary the state's 401(k) plan with the employer contributing an additional five percent to the plan. Employees will vest immediately to both the employee and employer contributions.

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.

The Intermediate Term Investment Fund (ITIF) is an external investment pool sponsored by the State of Tennessee. All funds in the ITIF at June 30, 2014, consist of funds belonging to entities outside of the state's financial reporting entity, and have been included as a separate investment trust fund.

A copy of the SPIF and ITIF report can be obtained at www.treasury.state.tn.us/ or by calling (615) 741-2956.

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 percent of their principal amounts. At June 30, 2014, TSAC was guarantor of $2.760 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 $139 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. Third party lawsuits may also affect future payments. The net effect of potential adjustments, and therefore the amount that Tennessee will actually receive each year from this settlement, remains uncertain.

One of the adjustments built into the agreement, the non-participating manufacturer (NPM) adjustment, can potentially reduce state MSA revenues for years in which participating manufacturers (PM) lose market share to the NPMs because of the MSA, and has been the subject of several years of hearings and review. The PMs and states previously settled NPM adjustments through 2002; however, NPM adjustments for 2003 and subsequent years resulted in PMs withholding of claimed NPM adjustment amounts from MSA payments through 2012. Most of these withholdings were deposited into a disputed payments account. In March 2013, a stipulated partial settlement and award was entered into by several of the original states, including Tennessee, which resolved with finality the settling parties' dispute concerning the 2003 NPM adjustment and certain subsequent years as to limited issues (including protection from any further downward adjustments in their MSA payments based on NPM adjustment disputes for the years 2003 through 2012).

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 $3.8 million for remediation activities. At June 30, 2014, the state had a pollution remediation obligation of $99.7 million and an estimated potential recovery of $4.3 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 $25 million in general obligation commercial paper. In July 2014, the state issued 2014 Series A tax-exempt general obligation bonds in the amount of $111 million at a premium of $19.2 million and 2014 Series B tax-exempt general obligation bonds in the amount of $79.1 million at a premium of $16.3 million. The Series A issuance was used to redeem commercial paper and to finance the purchase of capital assets. The Series B issuance was used to refund portions of 2008 Series A and 2009 Series C.

Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuance: 2014-2 in November 2014 in the amount of $150 million. The agency used mortgage prepayments and foreclosures proceeds to redeem $71.4 million of outstanding bonds in July 2014, $19.6 million in August 2014, $17.9 million in September 2014, $24.2 million in October 2014, $19.5 million in November 2014, and $22.8 million in December 2014.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $10 million in revolving credit facility. In August 2014, TSSBA issued 2014 Series A taxable bonds in the amount of $132.4 million at a discount of $51 thousand and 2014 Series B taxable bonds in the amount of $212.2 million at a premium of $41 million. The 2014 Series A was used to redeem commercial paper, refund 2005 Series A, 2007 Series B, and finance new construction projects. The Series B was used to refund 2006 Series A, 2007 Series A, 2008 Series A, 2008 Series B, 2009 Series A, and finance new construction projects.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

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, 2014	88.90
June 30, 2013	88.10
June 30, 2012	88.90

BRIDGES

Measurement Scale
The state maintains information on its 8,339 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, 2014	84%
June 30, 2012	83%
June 30, 2010	82%

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 Estimated	Roadways Actual	Bridges Estimated	Bridges Actual
2014	$ 419,214	$ 511,204	$ 37,945	$ 54,260
2013	391,114	441,582	33,404	42,175
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

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)
7/1/2010	Employee Grp	$ 0	$ 977,935	$ 977,935	0%	$ 1,560,085	63%
7/1/2011	Employee Grp	0	1,023,529	1,023,529	0%	1,613,128	63%
7/1/2013	Employee Grp	0	855,642	855,642	0%	1,568,285	55%
7/1/2010	Teacher Grp	0	215,202	215,202	0%	N/A	N/A
7/1/2011	Teacher Grp	0	216,600	216,600	0%	N/A	N/A
7/1/2013	Teacher Grp	0	294,798	294,798	0%	N/A	N/A
7/1/2010	MedSupp- State	0	209,622	209,622	0%	N/A	N/A
7/1/2011	MedSupp- State	0	220,509	220,509	0%	N/A	N/A
7/1/2013	MedSupp- State	0	154,051	154,051	0%	N/A	N/A
7/1/2010	MedSupp- Teacher	0	158,789	158,789	0%	N/A	N/A
7/1/2011	MedSupp- Teacher	0	163,305	163,305	0%	N/A	N/A
7/1/2013	MedSupp- Teacher	0	137,317	137,317	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)
7/1/2010	Employee Grp	$ 0	$ 518,083	$ 518,083	0%	$ 1,362,560	38%
7/1/2011	Employee Grp	0	452,669	452,669	0%	1,445,364	31%
7/1/2013	Employee Grp	0	369,470	369,470	0%	1,514,097	24%
7/1/2010	Local Govt	0	2,166	2,166	0%	21,500	10%
7/1/2011	Local Govt	0	363	363	0%	21,458	2%
7/1/2013	Local Govt	0	238	238	0%	22,584	1%

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

Pension Schedule of Funding Progress—*Primary Government*
(expressed in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) −Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2009	$ 7,511	$ 8,702	$ 1,191	86%	$ 1,845	65%
2011	8,489	9,614	1,125	88%	1,760	64%
2013	8,695	9,726	1,031	89%	1,752	59%

Pension Schedule of Funding Progress—*Component Units*
(expressed in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) −Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2009	$ 2,792	$ 3,235	$ 443	86%	$ 686	65%
2011	3,241	3,670	429	88%	672	64%
2013	3,662	4,097	435	89%	738	59%

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 eight 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	2013	2014
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773	18,579	21,146	18,073	12,735
(2) Unallocated expenses	3,520	2,830	2,085	1,195	888	1,277	1,327	940
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	45,418	41,328	36,871	33,239	
(4) Net paid (cumulative) as of:								
End of policy year	6,591	34,095	36,859	45,389	41,378	34,206	30,914	
One year later	9,044	38,791	40,277	45,073	41,319	36,594		
Two years later	9,056	40,010	40,232	45,072	41,215			
Three years later	9,452	40,000	40,234	45,059				
Four years later	9,452	40,000	40,232					
Five years later	9,452	40,000						
Six years later	9,452							
(5) Reestimated net incurred claims and expenses:								
End of policy year	8,922	38,764	39,811	45,418	41,328	36,871	33,239	
One year later	8,975	38,715	40,276	45,066	41,217	36,585		
Two years later	9,051	40,010	40,232	45,066	41,217			
Three years later	9,452	40,000	40,232	45,066				
Four years later	9,452	40,000	40,232					
Five years later	9,452	40,000						
Six years later	9,452							
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	530	1,236	421	(352)	(111)	(286)		

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, 2014

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 7,400,600	$ 7,400,600	$ 7,078,773	$ (321,827)
Licenses, fines, fees, and permits	316,596	316,596	320,689	4,093
Interest on investments	2,010	2,010	11,536	9,526
Federal	10,377,308	10,596,389	9,464,501	(1,131,888)
Departmental services	1,536,663	1,792,149	1,697,844	(94,305)
Other	205,730	205,730	210,267	4,537
Total revenues	19,838,907	20,313,474	18,783,610	(1,529,864)
Expenditures:				
General government				
Legislative	81,589	81,590	38,163	43,427
Secretary of State	56,042	55,825	38,556	17,269
Comptroller	105,154	111,374	97,657	13,717
Treasurer	70,388	72,803	60,441	12,362
Governor	4,980	4,980	4,704	276
Commissions	77,358	78,121	65,363	12,758
Finance and Administration	168,083	165,510	92,174	73,336
General Services	51,791	51,641	25,860	25,781
Revenue	119,880	121,134	101,389	19,745
Other general government	1,492	1,493	16	1,477
Health and social services				
Veterans Affairs	8,033	8,768	7,521	1,247
Labor and Workforce Development	273,895	274,495	167,876	106,619
Mental Health	318,453	323,672	303,267	20,405
Intellectual Disabilities	209,597	215,795	199,812	15,983
Health	598,364	619,094	563,710	55,384
Tenncare	10,720,919	10,912,273	9,639,248	1,273,025
Human Services	3,058,322	3,107,832	2,880,185	227,647
Children in State Custody	669,257	784,371	731,991	52,380
Law, justice and public safety				
Judicial	328,855	331,288	310,185	21,103
Correction	951,671	932,761	878,563	54,198
Probation and Parole	7,587	7,587	7,102	485
Military	96,330	132,909	94,677	38,232
Bureau of Criminal Investigation	81,437	86,159	77,682	8,477
Safety	202,340	203,340	181,029	22,311
Recreation and resource development				
Agriculture	99,980	100,984	78,062	22,922
Tourist Development	28,950	28,950	24,258	4,692
Environment and Conservation	259,750	264,967	200,630	64,337
Economic and Community Development	556,843	616,370	226,577	389,793
Regulation of business and professions				
Commerce and Insurance	94,757	94,526	77,054	17,472
Financial Institutions	19,946	19,946	15,491	4,455
Intergovernmental revenue sharing	606,979	606,979	606,979	
Total expenditures	19,929,022	20,417,537	17,796,222	2,621,315
Excess (deficiency) of revenues over (under) expenditures	(90,115)	(104,063)	987,388	1,091,451
Other financing sources:				
Insurance claims recoveries		1,328	1,328	
Proceeds from pledge of future revenues		472	472	
Transfers in	98,234	98,234	98,234	
Transfers out	(1,529,684)	(1,530,770)	(1,530,770)	
Total other financing sources (uses)	(1,431,450)	(1,430,736)	(1,430,736)	
Net change in fund balance	(1,521,565)	(1,534,799)	(443,348)	1,091,451
Fund balances (budgetary basis), July 1	2,520,505	2,520,505	2,520,505	
Fund balances (budgetary basis), June 30	$ 998,940	$ 985,706	$ 2,077,157	$ 1,091,451

	Education Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 4,473,000	$ 4,473,000	$ 4,460,318	$ (12,682)
Licenses, fines, fees, and permits	1,800	1,800	1,516	(284)
Interest on investments	12,600	12,600	15,556	2,956
Federal	1,280,976	1,314,724	1,213,709	(101,015)
Departmental services	65,614	68,791	77,542	8,751
Other	330,200	330,200	384,402	54,202
Total revenues	6,164,190	6,201,115	6,153,043	(48,072)
Expenditures:				
Education	5,718,480	5,752,605	5,601,228	151,377
Higher education	1,599,796	1,596,520	1,573,826	22,694
Total expenditures	7,318,276	7,349,125	7,175,054	174,071
Excess (deficiency) of revenues over (under) expenditures	(1,154,086)	(1,148,010)	(1,022,011)	125,999
Other financing sources:				
Transfers in	1,102,900	1,102,900	1,102,900	
Total other financing sources	1,102,900	1,102,900	1,102,900	
Net change in fund balance	(51,186)	(45,110)	80,889	125,999
Fund balances (budgetary basis), July 1	463,396	463,396	463,396	
Fund balances (budgetary basis), June 30	$ 412,210	$ 418,286	$ 544,285	$ 125,999

	Highway Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 768,100	$ 768,100	$ 761,980	$ (6,120)
Licenses, fines, fees, and permits	225,790	225,790	220,418	(5,372)
Federal	965,327	3,815,083	1,022,817	(2,792,266)
Departmental services	37,764	111,193	46,963	(64,230)
Other	3,486	3,486	6,605	3,119
Total revenues	2,000,467	4,923,652	2,058,783	(2,864,869)
Expenditures:				
Transportation	2,128,518	5,051,703	1,753,581	3,298,122
Intergovernmental revenue sharing	288,000	288,000	290,333	(2,333)
Total expenditures	2,416,518	5,339,703	2,043,914	3,295,789
Excess (deficiency) of revenues over (under) expenditures	(416,051)	(416,051)	14,869	430,920
Other financing sources (uses):				
Bond authorization	81,000			
Transfers in		126,200	126,200	
Transfers out	(1,886)	(1,886)	(1,886)	
Total other financing sources (uses)	79,114	124,314	124,314	
Net change in fund balance	(336,937)	(291,737)	139,183	430,920
Fund balances (budgetary basis), July 1	341,194	341,194	341,194	
Fund balances (budgetary basis), June 30	$ 4,257	$ 49,457	$ 480,377	$ 430,920

State of Tennessee
Required Supplementary Information
Note to RSI
For the Fiscal Year Ended June 30, 2014

Budgetary process

The law requires the Governor to submit a recommended budget to the General Assembly annually. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the departments in the general fund and the special revenue funds (except Fraud and Economic Crime and Agricultural Promotion Boards), and for the 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.

Generally, appropriations lapse at the end of each fiscal year. It is the state's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment for the highway fund and these appropriations do not lapse at year-end but are reappropriated for subsequent year expenditure. Of the $480.4 million fund balance remaining in the highway fund, $471.1 million will be reappropriated in the next year. There were no outstanding encumbrances reported as of June 30, 2014. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $23.1 million were required.

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, 2014

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 307,482	$ 1,135	$ 52,732	$ 361,349
Investments			284,514	284,514
Receivables:				
Taxes	6,796	5,495	12	12,303
Due from other governments	10,623			10,623
Interest			1,990	1,990
Other	525			525
Due from component units			972	972
Loans receivable		10,382		10,382
Total assets	$ 325,426	$ 17,012	$ 340,220	$ 682,658
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable and accruals	$ 53,150	$ 170		$ 53,320
Due to other funds	392		$ 70	462
Due to component units	212		2,158	2,370
Unearned revenue	14			14
Total liabilities	53,768	170	2,228	56,166
Deferred inflows of resources		11,058		11,058
Fund balances:				
Nonspendable:				
Permanent fund corpus			143,748	143,748
Restricted	164,633		194,244	358,877
Committed	107,025			107,025
Assigned		5,784		5,784
Total fund balances	271,658	5,784	337,992	615,434
Total liabilities, deferred inflows of resources and fund balances	$ 325,426	$ 17,012	$ 340,220	$ 682,658

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, 2014

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales		$ 51,634		$ 51,634
Fuel	$ 18,254	110,000		128,254
Business	529	247,866		248,395
Other	33,340			33,340
Licenses, fines, fees, and permits	179,184	2,700	$ 2,651	184,535
Investment income	252		39,773	40,025
Federal	43,449			43,449
Departmental services	10,394	1,300		11,694
Other	13		3	16
Total revenues	285,415	413,500	42,427	741,342
Expenditures				
Current:				
General government	29,484			29,484
Education			7,390	7,390
Law, justice and public safety	5,790			5,790
Recreation and resources development	181,975		24	181,999
Regulation of business and professions	72,693			72,693
Debt service:				
Bond principal retirement		141,243		141,243
Bond interest		74,926		74,926
Commercial paper interest		229		229
Debt issuance costs		1,452		1,452
Total expenditures	289,942	217,850	7,414	515,206
Excess (deficiency) of revenues over (under) expenditures	(4,527)	195,650	35,013	226,136
Other financing sources (uses)				
Insurance claims recoveries	7			7
Transfers in	2,852	3,837	400	7,089
Transfers out	(11,655)	(218,883)		(230,538)
Total other financing sources (uses)	(8,796)	(215,046)	400	(223,442)
Net changes in fund balances	(13,323)	(19,396)	35,413	2,694
Fund balances, July 1	284,981	25,180	302,579	612,740
Fund balances, June 30	$ 271,658	$ 5,784	$ 337,992	$ 615,434

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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, 2014

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 409,500	$ 409,500	
Licenses, fines, fees, and permits	2,700	2,700	
Other	1,300	1,300	
Total revenues	413,500	413,500	
Expenditures:			
Debt Service	223,441	217,850	$ 5,591
Total expenditures	223,441	217,850	5,591
Excess (deficiency) of revenues over (under) expenditures	190,059	195,650	5,591
Other financing sources (uses):			
Transfers in	3,837	3,837	
Transfers out	(218,883)	(218,883)	
Total other financing sources (uses)	(215,046)	(215,046)	
Net change in fund balance	(24,987)	(19,396)	5,591
Fund balances (budgetary basis), July 1	25,180	25,180	
Fund balances (budgetary basis), June 30	$ 193	$ 5,784	$ 5,591

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 alleged grounds 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, 2014

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection
Assets					
Cash and cash equivalents	$ 59,436	$ 11,012	$ 9,320	$ 32,712	$ 26,004
Receivables:					
Taxes	1,055	541	1,721		
Due from other governments	4,262	4,937		1	
Other	317		1	59	
Total assets	$ 65,070	$ 16,490	$ 11,042	$ 32,772	$ 26,004
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 4,159	$ 8,489	$ 3,679	$ 31,266	$ 11
Due to other funds	254	57	7		
Due to component units	184				
Unearned revenue					
Total liabilities	4,597	8,546	3,686	31,266	11
Fund balances:					
Restricted	45,220			1,506	
Committed	15,253	7,944	7,356		25,993
Total fund balances	60,473	7,944	7,356	1,506	25,993
Total liabilities and fund balances	$ 65,070	$ 16,490	$ 11,042	$ 32,772	$ 26,004

(continued on next page)

	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
	$ 7,531	$ 21,420	$ 2,912	$ 47,342	$ 71,359	$ 929	$ 3,195
		994		1,542	426	59	
	57	836		165			
			6				
	$ 7,588	$ 23,250	$ 2,918	$ 49,049	$ 71,785	$ 988	$ 3,195
	$ 186	$ 620	$ 34	$ 1,489	$ 2,692	$ 10	$ 50
	17			24	4	1	
	28						
			13				
	231	620	47	1,513	2,696	11	50
	48		2,871	46,660	65,836		2,492
	7,309	22,630		876	3,253	977	653
	7,357	22,630	2,871	47,536	69,089	977	3,145
	$ 7,588	$ 23,250	$ 2,918	$ 49,049	$ 71,785	$ 988	$ 3,195

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2014

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund
Assets					
Cash and cash equivalents	$ 3,030	$ 543	$ 245	$ 1,229	$ 1,953
Receivables:					
Taxes	458				
Due from other governments					
Other			139		
Total assets	$ 3,488	$ 543	$ 384	$ 1,229	$ 1,953
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 36	$ 38	$ 25	$ 125	
Due to other funds		5		1	
Due to component units					
Unearned revenue					
Total liabilities	36	43	25	126	
Fund balances:					
Restricted					
Committed	3,452	500	359	1,103	$ 1,953
Total fund balances	3,452	500	359	1,103	1,953
Total liabilities and fund balances	$ 3,488	$ 543	$ 384	$ 1,229	$ 1,953

Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 4,420	$ 2,890	$ 307,482
		6,796
365		10,623
3		525
$ 4,788	$ 2,890	$ 325,426
$ 241		$ 53,150
22		392
		212
1		14
264		53,768
		164,633
4,524	$ 2,890	107,025
4,524	2,890	271,658
$ 4,788	$ 2,890	$ 325,426

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection
Revenues					
Taxes:					
Fuel	$ 530				
Business	529				
Other	10,247		$ 6,976		
Licenses, fines, fees, and permits	38,891	$ 8,641	5,340		$ 41,315
Interest on investments	55	9	14	$ 1	25
Federal	26,130	4,937		6,036	
Departmental services	6,749		131		
Other		7			
Total revenues	83,131	13,594	12,461	6,037	41,340
Expenditures					
General government		15,407		6,319	
Law, justice and public safety					
Recreation and resources development	84,397		10,915		38,920
Regulation of business and professions					
Total expenditures	84,397	15,407	10,915	6,319	38,920
Excess (deficiency) of revenues over (under) expenditures	(1,266)	(1,813)	1,546	(282)	2,420
Other financing sources (uses)					
Insurance claims recoveries	7				
Transfers in	1,403			220	229
Transfers out	(361)		(7,662)		(2,100)
Total other financing sources (uses)	1,049		(7,662)	220	(1,871)
Net change in fund balances	(217)	(1,813)	(6,116)	(62)	549
Fund balances, July 1	60,690	9,757	13,472	1,568	25,444
Fund balances, June 30	$ 60,473	$ 7,944	$ 7,356	$ 1,506	$ 25,993

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
			$ 17,724			
	$ 10,247					
$ 252		$ 4,667	2,172	$ 65,152	$ 696	$ 28
7	18	3	43	68		3
1,275	836		2,910			523
3,414	21	16	3			25
		6				
4,948	11,122	4,692	22,852	65,220	696	579
		4,670			540	
6,658	8,259		23,974			74
				72,693		
6,658	8,259	4,670	23,974	72,693	540	74
(1,710)	2,863	22	(1,122)	(7,473)	156	505
1,000						
1,000						
(710)	2,863	22	(1,122)	(7,473)	156	505
8,067	19,767	2,849	48,658	76,562	821	2,640
$ 7,357	$ 22,630	$ 2,871	$ 47,536	$ 69,089	$ 977	$ 3,145

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, 2014

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund
Revenues					
Taxes:					
Fuel					
Business					
Other	$ 4,729		$ 1,141		
Licenses, fines, fees, and permits		$ 1,656		$ 884	$ 3,442
Interest on investments	2			1	2
Federal					
Departmental services		4	6		
Other					
Total revenues	4,731	1,660	1,147	885	3,444
Expenditures					
General government		1,543			
Law, justice and public safety					
Recreation and resources development	3,178		972	1,157	3,471
Regulation of business and professions					
Total expenditures	3,178	1,543	972	1,157	3,471
Excess (deficiency) of revenues over (under) expenditures	1,553	117	175	(272)	(27)
Other financing sources (uses)					
Insurance claims recoveries					
Transfers in					
Transfers out		(1,532)			
Total other financing sources (uses)		(1,532)			
Net change in fund balances	1,553	(1,415)	175	(272)	(27)
Fund balances, July 1	1,899	1,915	184	1,375	1,980
Fund balances, June 30	$ 3,452	$ 500	$ 359	$ 1,103	$ 1,953

Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
		$ 18,254
		529
		33,340
$ 5,314	$ 734	179,184
	1	252
802		43,449
25		10,394
		13
6,141	735	285,415
6,215		29,484
	580	5,790
		181,975
		72,693
6,215	580	289,942
(74)	155	(4,527)
		7
		2,852
		(11,655)
		(8,796)
(74)	155	(13,323)
4,598	2,735	284,981
$ 4,524	$ 2,890	$ 271,658

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, 2014

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes	$ 7,697	$ 11,306	$ 3,609
Licenses, fines, fees, and permits	49,271	38,891	(10,380)
Interest on investments		55	55
Federal	26,618	26,130	(488)
Departmental services	1,581	6,749	5,168
Other	9,561		(9,561)
Total revenues	94,728	83,131	(11,597)
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	105,064	84,397	20,667
Commerce and Insurance			
Revenue			
Total expenditures	105,064	84,397	20,667
Excess (deficiency) of revenues over (under) expenditures	(10,336)	(1,266)	9,070
Other financing sources (uses):			
Transfers in	1,410	1,410	
Transfers out	(361)	(361)	
Total other financing sources (uses)	1,049	1,049	
Net change in fund balance	(9,287)	(217)	9,070
Fund balances (budgetary basis), July 1	60,690	60,690	
Fund balances (budgetary basis), June 30	$ 51,403	$ 60,473	$ 9,070

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			$ 6,759	$ 6,976	$ 217
$ 11,163	$ 8,641	$ (2,522)	5,645	5,340	(305)
	9	9		14	14
4,930	4,937	7			
			1	131	130
7	7				
16,100	13,594	(2,506)	12,405	12,461	56
16,100	15,407	693			
			12,405	10,915	1,490
16,100	15,407	693	12,405	10,915	1,490
	(1,813)	(1,813)		1,546	1,546
			(7,662)	(7,662)	
			(7,662)	(7,662)	
	(1,813)	(1,813)	(7,662)	(6,116)	1,546
9,757	9,757		13,472	13,472	
$ 9,757	$ 7,944	$ (1,813)	$ 5,810	$ 7,356	$ 1,546

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, 2014

(Expressed in Thousands)

	Help America Vote		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		$ 1	$ 1
Federal	$ 26,500	6,036	(20,464)
Departmental services			
Other			
Total revenues	26,500	6,037	(20,463)
Expenditures:			
Judicial			
Secretary of State	27,720	6,319	21,401
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	27,720	6,319	21,401
Excess (deficiency) of revenues over (under) expenditures	(1,220)	(282)	938
Other financing sources (uses):			
Transfers in	220	220	
Transfers out			
Total other financing sources (uses)	220	220	
Net change in fund balance	(1,000)	(62)	938
Fund balances (budgetary basis), July 1	1,568	1,568	
Fund balances (budgetary basis), June 30	$ 568	$ 1,506	$ 938

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 53,156	$ 41,315	$ (11,841)		$ 252	$ 252
	25	25		7	7
			$ 1,891	1,275	(616)
			3,581	3,414	(167)
			1		(1)
53,156	41,340	(11,816)	5,473	4,948	(525)
53,386	38,920	14,466	11,764	6,658	5,106
53,386	38,920	14,466	11,764	6,658	5,106
(230)	2,420	2,650	(6,291)	(1,710)	4,581
229	229		1,000	1,000	
(2,100)	(2,100)				
(1,871)	(1,871)		1,000	1,000	
(2,101)	549	2,650	(5,291)	(710)	4,581
25,444	25,444		8,067	8,067	
$ 23,343	$ 25,993	$ 2,650	$ 2,776	$ 7,357	$ 4,581

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, 2014

(Expressed in Thousands)

	Parks Acquisition		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes	$ 6,931	$ 10,247	$ 3,316
Licenses, fines, fees, and permits			
Interest on investments		18	18
Federal		836	836
Departmental services		21	21
Other			
Total revenues	6,931	11,122	4,191
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation	10,656	8,259	2,397
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	10,656	8,259	2,397
Excess (deficiency) of revenues over (under) expenditures	(3,725)	2,863	6,588
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(3,725)	2,863	6,588
Fund balances (budgetary basis), July 1	19,767	19,767	
Fund balances (budgetary basis), June 30	$ 16,042	$ 22,630	$ 6,588

(continued on next page)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			$ 18,500	$ 17,724	$ (776)
$ 4,483	$ 4,667	$ 184	4,881	2,172	(2,709)
	3	3		43	43
			1,974	2,910	936
	16	16		3	3
	6	6			
4,483	4,692	209	25,355	22,852	(2,503)
5,136	4,670	466			
			25,355	23,974	1,381
5,136	4,670	466	25,355	23,974	1,381
(653)	22	675		(1,122)	(1,122)
(653)	22	675		(1,122)	(1,122)
2,849	2,849		48,658	48,658	
$ 2,196	$ 2,871	$ 675	$ 48,658	$ 47,536	$ (1,122)

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, 2014

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes			
Licenses, fines, fees, and permits	$ 63,195	$ 65,152	$ 1,957
Interest on investments		68	68
Federal			
Departmental services			
Other			
Total revenues	63,195	65,220	2,025
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance	75,006	72,693	2,313
Revenue			
Total expenditures	75,006	72,693	2,313
Excess (deficiency) of revenues over (under) expenditures	(11,811)	(7,473)	4,338
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(11,811)	(7,473)	4,338
Fund balances (budgetary basis), July 1	76,562	76,562	
Fund balances (budgetary basis), June 30	$ 64,751	$ 69,089	$ 4,338

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 800	$ 696	$ (104)	$ 500	$ 28	$ (472)
				3	3
				523	523
				25	25
800	696	(104)	500	579	79
800	540	260			
			500	74	426
800	540	260	500	74	426
	156	156		505	505
	156	156		505	505
821	821		2,640	2,640	
$ 821	$ 977	$ 156	$ 2,640	$ 3,145	$ 505

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, 2014

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 3,188	$ 4,729	$ 1,541
Licenses, fines, fees, and permits			
Interest on investments		2	2
Federal			
Departmental services			
Other			
Total revenues	3,188	4,731	1,543
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,588	3,178	410
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	3,588	3,178	410
Excess (deficiency) of revenues over (under) expenditures	(400)	1,553	1,953
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(400)	1,553	1,953
Fund balances (budgetary basis), July 1	1,899	1,899	
Fund balances (budgetary basis), June 30	$ 1,499	$ 3,452	$ 1,953

(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)
$ 1,615	$ 1,656	$ 41	$ 1,897	$ 884	$ (1,013)
				1	1
	4	4			
1,615	1,660	45	1,897	885	(1,012)
			1,897	1,157	740
1,615	1,543	72			
1,615	1,543	72	1,897	1,157	740
	117	117		(272)	(272)
(1,532)	(1,532)				
(1,532)	(1,532)				
(1,532)	(1,415)	117		(272)	(272)
1,915	1,915		1,375	1,375	
$ 383	$ 500	$ 117	$ 1,375	$ 1,103	$ (272)

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, 2014

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes			
Licenses, fines, fees, and permits	$ 3,039	$ 3,442	$ 403
Interest on investments		2	2
Federal			
Departmental services	120		(120)
Other			
Total revenues	3,159	3,444	285
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,589	3,471	118
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	3,589	3,471	118
Excess (deficiency) of revenues over (under) expenditures	(430)	(27)	403
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(430)	(27)	403
Fund balances (budgetary basis), July 1	1,980	1,980	
Fund balances (budgetary basis), June 30	$ 1,550	$ 1,953	$ 403

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			$ 43,075	$ 50,982	$ 7,907
$ 6,321	$ 5,314	$ (1,007)	205,966	178,450	(27,516)
				251	251
776	802	26	62,689	43,449	(19,240)
1	25	24	5,284	10,388	5,104
			9,569	13	(9,556)
7,098	6,141	(957)	326,583	283,533	(43,050)
			5,136	4,670	466
			27,720	6,319	21,401
			16,100	15,407	693
7,098	6,215	883	7,098	6,215	883
			800	540	260
			7,177	6,649	528
			115,963	89,957	26,006
			105,064	84,397	20,667
			75,006	72,693	2,313
			1,615	1,543	72
7,098	6,215	883	361,679	288,390	73,289
	(74)	(74)	(35,096)	(4,857)	30,239
			2,859	2,859	
			(11,655)	(11,655)	
			(8,796)	(8,796)	
	(74)	(74)	(43,892)	(13,653)	30,239
4,598	4,598		282,062	282,062	
$ 4,598	$ 4,524	$ (74)	$ 238,170	$ 268,409	$ 30,239

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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, 2014

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Assets			
Cash and cash equivalents	$ 9,306	$ 43,426	$ 52,732
Investments	284,514		284,514
Receivables:			
Taxes		12	12
Interest	1,990		1,990
Due from component units	972		972
Total assets	$ 296,782	$ 43,438	$ 340,220
Liabilities and fund balances			
Liabilities:			
Due to other funds	$ 70		$ 70
Due to component units	2,158		2,158
Total liabilities	2,228		2,228
Fund balances:			
Nonspendable			
Permanent fund corpus	100,358	43,390	143,748
Restricted	194,196	48	194,244
Total fund balances	294,554	43,438	337,992
Total liabilities and fund balances	$ 296,782	$ 43,438	$ 340,220

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Revenues			
Licenses, fines, fees and permits		$ 2,651	$ 2,651
Investment income	$ 39,735	38	39,773
Other	2	1	3
Total revenues	39,737	2,690	42,427
Expenditures			
Education	7,390		7,390
Recreation and resources development		24	24
Total expenditures	7,390	24	7,414
Excess of revenues over expenditures	32,347	2,666	35,013
Other financing sources (uses)			
Transfers in	400		400
Total other financing sources (uses)	400		400
Net change in fund balances	32,747	2,666	35,413
Fund balances, July 1	261,807	40,772	302,579
Fund balances, June 30	$ 294,554	$ 43,438	$ 337,992

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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 Position
Nonmajor Enterprise Funds
June 30, 2014

(Expressed in Thousands)

Assets	**Energy Loan Program**	**Teacher Group Insurance**	**Local Government Group Insurance**	**Drinking Water**
Current assets:				
Cash and cash equivalents	$ 18,277	$ 186,746	$ 34,794	$ 72,503
Receivables:				
Accounts receivable		3,800	709	
Loans receivable	1,245			5,451
Total current assets	19,522	190,546	35,503	77,954
Noncurrent assets:				
Loans receivable	648			85,037
Total noncurrent assets	648			85,037
Total assets	20,170	190,546	35,503	162,991
Liabilities				
Current liabilities:				
Accounts payable and accruals		28,101	6,220	2
Unearned revenue		56	17	
Total current liabilities		28,157	6,237	2
Noncurrent liabilities:				
Other noncurrent liabilities				2,324
Total noncurrent liabilities				2,324
Total liabilities		28,157	6,237	2,326
Net position				
Unrestricted	20,170	162,389	29,266	160,665
Total net position	$ 20,170	$ 162,389	$ 29,266	$ 160,665

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 4,188	$ 13,817	$ 2,350	$ 332,675
			4,509
	6,438		13,134
4,188	20,255	2,350	350,318
	49,254		134,939
	49,254		134,939
4,188	69,509	2,350	485,257
			34,323
	17		90
	17		34,413
			2,324
			2,324
	17		36,737
4,188	69,492	2,350	448,520
$ 4,188	$ 69,492	$ 2,350	$ 448,520

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services				$ 1,666
Investment income	$ 38			58
Premiums		$ 487,995	$ 108,811	
Total operating revenues	38	487,995	108,811	1,724
Operating expenses				
Contractual services		25,776	5,916	199
Benefits		410,325	94,246	
Other	21	4,055	729	
Total operating expenses	21	440,156	100,891	199
Operating income (loss)	17	47,839	7,920	1,525
Nonoperating revenues (expenses)				
Operating grants	1,132			2,536
Interest income		118	23	
Other				(1,164)
Total nonoperating revenues (expenses)	1,132	118	23	1,372
Income (loss) before transfers	1,149	47,957	7,943	2,897
Transfers in				1,811
Transfers out	(3,654)			
Change in net position	(2,505)	47,957	7,943	4,708
Net position, July 1	22,675	114,432	21,323	155,957
Net position, June 30	$ 20,170	$ 162,389	$ 29,266	$ 160,665

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,403	$ 376	$ 221	$ 3,666
			96
			596,806
1,403	376	221	600,568
	60	74	32,025
			504,571
158		2	4,965
158	60	76	541,561
1,245	316	145	59,007
	2,519		6,187
3	9	2	155
			(1,164)
3	2,528	2	5,178
1,248	2,844	147	64,185
			1,811
			(3,654)
1,248	2,844	147	62,342
2,940	66,648	2,203	386,178
$ 4,188	$ 69,492	$ 2,350	$ 448,520

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2014

(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		$ 495,103	$ 110,733	
Payments to suppliers		(446,688)	(102,923)	
Payments to employees				
Payments for interfund services used		(3,726)	(669)	$ (199)
Net cash from (used for) operating activities		44,689	7,141	(199)
Cash flows from noncapital financing activities				
Operating grants received	$ 1,132			2,536
Transfers in				1,811
Transfers out	(3,654)			
Net cash from (used for) noncapital financing activities	(2,522)			4,347
Cash flows from investing activities				
Loans issued and other disbursements to borrowers				(6,719)
Collection of loan principal	1,719			10,492
Interest received	38	118	23	1,726
Net cash from (used for) investing activities	1,757	118	23	5,499
Net increase (decrease) in cash and cash equivalents	(765)	44,807	7,164	9,647
Cash and cash equivalents, July 1	19,042	141,939	27,630	62,856
Cash and cash equivalents, June 30	$ 18,277	$ 186,746	$ 34,794	$ 72,503
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ 17	$ 47,839	$ 7,920	$ 1,525
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(38)			(1,724)
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	21	(94)	94	
Increase (decrease) in accounts payable		(2,927)	(856)	
Increase (decrease) in unearned revenue		(129)	(17)	
Total adjustments	(17)	(3,150)	(779)	(1,724)
Net cash provided by (used for) operating activities	$	$ 44,689	$ 7,141	$ (199)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,403	$ 30	$ 221	$ 607,490
(158)		(74)	(549,843)
		(2)	(2)
	(60)		(4,654)
1,245	(30)	145	52,991
	2,519		6,187
			1,811
			(3,654)
	2,519		4,344
	(2,519)		(9,238)
	6,113		18,324
3	340	2	2,250
3	3,934	2	11,336
1,248	6,423	147	68,671
2,940	7,394	2,203	264,004
$ 4,188	$ 13,817	$ 2,350	$ 332,675
$ 1,245	$ 316	$ 145	$ 59,007
	(346)		(2,108)
			21
			(3,783)
			(146)
	(346)		(6,016)
$ 1,245	$ (30)	$ 145	$ 52,991

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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 of office supplies and the receipt and distribution of surplus property for all state government and quasi-governmental entities that opt to use this service.

Records Management—A division of the Secretary of State, is responsible for the retention and disposal of official records for state government.

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 Position
Internal Service Funds
June 30, 2014

(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	$ 124,113	$ 116,276	$ 45,270	$ 1,411	$ 301,430	$ 275,157	
Accounts receivable	391	13	12	15	977	5,337	
Due from other funds	493						
Due from component units				4			
Inventories, at cost	911			119			$ 256
Prepayments							322
Total current assets	125,908	116,289	45,282	1,549	302,407	280,494	578
Noncurrent assets:							
Accounts receivable		10,055					
Due from other funds	1,376						
Net investment in capital leases					10,982		
Capital assets:							
Land, at cost					59,396		
Structures and improvements, at cost					528,166		
Machinery and equipment, at cost	95,755		146,195	4,361	147		5,865
Less-accumulated depreciation	(75,038)		(90,806)	(3,810)	(261,663)		(3,454)
Construction in progress					119		
Total capital assets, net of accumulated depreciation	20,717		55,389	551	326,165		2,411
Total noncurrent assets	22,093	10,055	55,389	551	337,147		2,411
Total assets	148,001	126,344	100,671	2,100	639,554	280,494	2,989
Deferred outflows of resources					7,993		
Liabilities							
Current liabilities:							
Accounts payable	9,949	810	3,669	236	9,724	49,412	111
Accrued payroll and related deductions	2,279		97	181			90
Due to other funds	223	7	6	12	610		29
Due to component units	46	254					
Lease obligations payable					407		
Bonds payable					15,957		
Unearned revenue		8			5,000	41,666	
Other		33,594					
Total current liabilities	12,497	34,673	3,772	429	31,698	91,078	230
Noncurrent liabilities:							
Lease obligations payable					8,728		
Commercial paper payable					38,030		
Bonds payable, net					160,406		
Other noncurrent liabilities	4,818	108,951	388	520			642
Total noncurrent liabilities	4,818	108,951	388	520	207,164		642
Total liabilities	17,315	143,624	4,160	949	238,862	91,078	872
Net position							
Net investment in capital assets	20,717		55,389	551	110,630		2,411
Restricted for capital projects					17,997		
Unrestricted	109,969	(17,280)	41,122	600	280,058	189,416	(294)
Total net position	$ 130,686	$ (17,280)	$ 96,511	$ 1,151	$ 408,685	$ 189,416	$ 2,117

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 8,728	$ 686	$ 417	$ 17,791	$ 6,941	$ 10,180	$ 14,107	$ 922,507
1	60			2	646	1	7,455
							493
	6						10
	614				4,443		6,343
							322
8,729	1,366	417	17,791	6,943	15,269	14,108	937,130
							10,055
							1,376
							10,982
					961		60,357
					17,735		545,901
	99		144	147	13,974	107,708	374,395
	(47)		(133)	(116)	(19,122)	(59,087)	(513,276)
							119
	52		11	31	13,548	48,621	467,496
	52		11	31	13,548	48,621	489,909
8,729	1,418	417	17,802	6,974	28,817	62,729	1,427,039
							7,993
15	121	26	107	6	3,152	141	77,479
360	77	7	581	677	512	710	5,571
25	6		50	59	65	42	1,134
			41		5		346
							407
							15,957
							46,674
							33,594
400	204	33	779	742	3,734	893	181,162
							8,728
						21,900	59,930
							160,406
407	465	128	611	987	1,395	1,432	120,744
407	465	128	611	987	1,395	23,332	349,808
807	669	161	1,390	1,729	5,129	24,225	530,970
	52		11	31	13,548	26,721	230,061
							17,997
7,922	697	256	16,401	5,214	10,140	11,783	656,004
$ 7,922	$ 749	$ 256	$ 16,412	$ 5,245	$ 23,688	$ 38,504	$ 904,062

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2014

(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	$ 142,461	$ 58,026	$ 42,788	$ 7,077	$ 131,736		$ 18,392
Premiums						$ 727,928	
Other						600	
Total operating revenues	142,461	58,026	42,788	7,077	131,736	728,528	18,392
Operating expenses							
Personal services	30,278		1,534	2,827			1,595
Contractual services	92,063	9,390	6,433	2,216	156,806	37,192	2,535
Materials and supplies	16,400		20,821	1,336	2,291		14,549
Rentals and insurance	36	5,457	4,383	40	38,084		3
Depreciation and amortization	11,038		11,173	106	12,359		540
Benefits		81,821				648,627	
Other	1,633		1,382	5	120	6,305	
Total operating expenses	151,448	96,668	45,726	6,530	209,660	692,124	19,222
Operating income (loss)	(8,987)	(38,642)	(2,938)	547	(77,924)	36,404	(830)
Nonoperating revenues (expenses)							
Taxes		3					
Operating grants		(641)					
Insurance claims recoveries			219				
Gain on sale of capital assets					9,154		
Grant expense					(9,003)		
Interest income		85			205	198	
Interest expense					(8,428)		
Total nonoperating revenues (expenses)		(553)	219		(8,072)	198	
Income (loss) before contributions and transfers	(8,987)	(39,195)	(2,719)	547	(85,996)	36,602	(830)
Capital contributions			944	39			
Transfers in	15,742		4,513	315	170,886		613
Transfers out					(39)		
Change in net position	6,755	(39,195)	2,738	901	84,851	36,602	(217)
Net position, July 1	123,931	21,915	93,773	250	323,834	152,814	2,334
Net position, June 30	$ 130,686	$ (17,280)	$ 96,511	$ 1,151	$ 408,685	$ 189,416	$ 2,117

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 8,378	$ 3,690	$ 797	$ 14,831	$ 12,023	$ 44,477	$ 30,550	$ 515,226
							727,928
							600
8,378	3,690	797	14,831	12,023	44,477	30,550	1,243,754
5,223	1,405	401	10,671	9,763	8,474	8,374	80,545
2,729	1,185	366	2,262	2,423	10,028	7,661	333,289
90	1,016	13	197	49	23,459	1,396	81,617
10	7	1	44	10	875	275	49,225
	17		3	3	1,055	11,744	48,038
							730,448
14	5	1	128	19	302	12	9,926
8,066	3,635	782	13,305	12,267	44,193	29,462	1,333,088
312	55	15	1,526	(244)	284	1,088	(89,334)
							3
							(641)
							219
							9,154
							(9,003)
							488
						(28)	(8,456)
						(28)	(8,236)
312	55	15	1,526	(244)	284	1,060	(97,570)
							983
2,175		150		1,800			196,194
							(39)
2,487	55	165	1,526	1,556	284	1,060	99,568
5,435	694	91	14,886	3,689	23,404	37,444	804,494
$ 7,922	$ 749	$ 256	$ 16,412	$ 5,245	$ 23,688	$ 38,504	$ 904,062

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2014

(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	$ 2,752	$ 16,215	$ 791	$ 67	$ 5,253	$ 350,758	$ 231
Receipts from interfund services provided	138,049	41,797	42,027	6,995	126,497	411,719	18,161
Payments to suppliers	(98,033)	(43,338)	(27,957)	(2,410)	(176,260)	(713,209)	(15,449)
Payments to employees	(29,894)		(1,513)	(2,775)			(1,561)
Payments for interfund services used	(11,538)	(6,989)	(6,301)	(1,091)	(24,579)	(5,418)	(1,772)
Net cash from (used for) operating activities	1,336	7,685	7,047	786	(69,089)	43,850	(390)
Cash flows from noncapital financing activities							
Negative cash balance implicitly repaid							23
Transfers in	15,742		4,513	315	170,886		
Tax revenues received		3					
Net cash from (used for) noncapital financing activities	15,742	3	4,513	315	170,886		23
Cash flows from capital and related financing activities							
Purchase of capital assets	(7,178)		(14,864)		(20)		(1,683)
Commercial paper proceeds					23,718		
Proceeds from sale of capital assets			2,202		19,212		
Insurance claims recoveries			219				
Principal payments					(19,422)		
Interest paid					(7,946)		
Capital contributions			421		5,000		
Net cash from (used for) capital and related financing activities	(7,178)		(12,022)		20,542		(1,683)
Cash flows from investing activities							
Interest received		85			205	198	
Net cash from (used for) investing activities		85			205	198	
Net increase (decrease) in cash and cash equivalents	9,900	7,773	(462)	1,101	122,544	44,048	(2,050)
Cash and cash equivalents, July 1	114,213	108,503	45,732	310	178,886	231,109	2,050
Cash and cash equivalents, June 30	$ 124,113	$ 116,276	$ 45,270	$ 1,411	$ 301,430	$ 275,157	$
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income (loss)	$ (8,987)	$ (38,642)	$ (2,938)	$ 547	$ (77,924)	$ 36,404	$ (830)
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	11,038		11,173	106	12,359		540
Loss/(gain) on disposal of capital assets	1,540		1,380				
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(27)	(13)	30	(12)	14	(236)	
(Increase) decrease in due from other funds	(1,633)						
(Increase) decrease in due from component units				(4)			
(Increase) decrease in inventories	51			(51)			(42)
(Increase) decrease in prepaids							(182)
Increase (decrease) in accounts payable	(762)	46,503	(2,598)	197	2,846	5,882	124
Increase (decrease) in due to other funds	93	(7)		3	(6,384)		
Increase (decrease) in due to component units	23	(156)					
Increase (decrease) in unearned revenue						1,800	
Total adjustments	10,323	46,327	9,985	239	8,835	7,446	440
Net cash provided by (used for) operating activities	$ 1,336	$ 7,685	$ 7,047	$ 786	$ (69,089)	$ 43,850	$ (390)
Noncash investing, capital and financing activities							
Capital contributions			$ 523	$ 39			$ 613
Capital asset disposed of by transfer to component units					$ (9,003)		
Capital asset disposed of by transfer to highway fund					(39)		
Assets acquired through capital lease					8,969		
Total noncash investing, capital and financing activities			$ 523	$ 39	$ (73)		$ 613

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 1,804	$ 1,659	$ 16	$ 58	$ 145	$ 10,142	$ 165	$ 390,056
6,573	2,039	781	14,772	11,878	34,085	30,385	885,758
(2,110)	(1,378)	(275)	(1,425)	(691)	(32,147)	(4,512)	(1,119,194)
(5,177)	(1,373)	(379)	(10,704)	(9,590)	(8,728)	(8,129)	(79,823)
(1,155)	(1,033)	(102)	(1,058)	(1,809)	(1,430)	(4,745)	(69,020)
(65)	(86)	41	1,643	(67)	1,922	13,164	7,777
							23
2,175		150		1,800			195,581
							3
2,175		150		1,800			195,607
				(9)	(3,788)	(1,638)	(29,180)
							23,718
							21,414
							219
						(4,380)	(23,802)
						(28)	(7,974)
							5,421
				(9)	(3,788)	(6,046)	(10,184)
							488
							488
2,110	(86)	191	1,643	1,724	(1,866)	7,118	193,688
6,618	772	226	16,148	5,217	12,046	6,989	728,819
$ 8,728	$ 686	$ 417	$ 17,791	$ 6,941	$ 10,180	$ 14,107	$ 922,507
$ 312	$ 55	$ 15	$ 1,526	$ (244)	$ 284	$ 1,088	$ (89,334)
	17		3	3	1,055	11,744	48,038
					3		2,923
(1)	13			1	(249)	(1)	(481)
							(1,633)
	(6)						(10)
	(310)				(653)		(1,005)
							(182)
(380)	144	26	70	154	1,446	330	53,982
4	1		3	19	32	3	(6,233)
			41		4		(88)
							1,800
(377)	(141)	26	117	177	1,638	12,076	97,111
$ (65)	$ (86)	$ 41	$ 1,643	$ (67)	$ 1,922	$ 13,164	$ 7,777
							$ 1,175
							(9,003)
							(39)
							8,969
							$ 1,102

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, 2013. As of that date there were 209,964 active members and 127,571 retired members representing a 2.4% decrease and 9.4% increase, respectively, since the previous actuarial valuation in 2011.

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.

Investment Trust Funds:

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

Intermediate Term Investment Fund—This fund was created for deposits with the state treasurer to be a longer-term option for investment of funds as an alternative to the State Pooled Investment Fund (which includes the Local Government Investment Pool ("LGIP").

Private-Purpose Trust Funds:

College Savings Plans—The Baccalaureate Education System Trust (BEST) 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. As of November 22, 2010, the BEST Board of Trustees voted to stop selling new tuition units in the prepaid plan. In September 2012, the State of Tennessee introduced the Tennessee Stars College Savings 529 Program. This program offers parents and other relatives a low cost way to save for children's college expenses with investment options and special tax advantages. Qualified higher educational expenses include tuition and fees, books, room and board (on or off campus), and equipment and supplies required for attendance at a qualified higher educational institution. If the beneficiary chooses not to attend school, the account owner may transfer the money to another beneficiary who is a member of the family of the original beneficiary or take a refund of the monies saved. Refunds or withdrawals that are not used for qualified higher educational expenses are precluded from receiving favorable tax free treatment. The program is not guaranteed by the State of Tennessee or any other entity.

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 2015 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.

Insurance Receiverships—The Commissioner of Commerce and Insurance is designated the statutory receiver of insurers ordered into receivership and is charged with the duty to secure and distribute the assets for the benefit of policy holders, creditors, and other claimants under court supervision.

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 Position
Pension and Other Employee Benefit Trust Funds
June 30, 2014

(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	$ 141,454	$ 138,207	$ 279,661	$ 1,012	$ 280,673
Cash collateral on loaned securities	1,826,303	1,784,766	3,611,069		3,611,069
Receivables:					
Member contributions	5,626	22,027	27,653		27,653
Employer contributions	20,470	39,589	60,059		60,059
Accrued interest	46,767	45,703	92,470		92,470
Accrued dividends	27,749	27,118	54,867		54,867
Derivative instruments	286,521	280,004	566,525		566,525
Real estate income	899	878	1,777		1,777
Investments sold	170,672	166,790	337,462		337,462
Total receivables	558,704	582,109	1,140,813		1,140,813
Due from other funds	10,273		10,273	212	10,485
Due from component units	9,715		9,715	4	9,719
Investments, at fair value:					
Short term securities	69,371	67,793	137,164		137,164
Government bonds	4,290,151	4,192,577	8,482,728		8,482,728
Corporate bonds	2,888,771	2,823,071	5,711,842		5,711,842
Corporate stocks	12,500,018	12,215,726	24,715,744		24,715,744
Derivative instruments	1,665	1,627	3,292		3,292
Strategic lending	162,654	158,954	321,608		321,608
Private equities	394,122	385,158	779,280		779,280
Real estate	1,152,345	1,126,137	2,278,482		2,278,482
Total investments	21,459,097	20,971,043	42,430,140		42,430,140
Capital assets, at cost					
Software in development	9,092	8,886	17,978		17,978
Machinery and equipment	6,089	5,951	12,040		12,040
Accumulated depreciation	(848)	(829)	(1,677)		(1,677)
Total assets	24,019,879	23,490,133	47,510,012	1,228	47,511,240
Liabilities					
Accounts payable and accruals	216,310	209,842	426,152	30	426,182
Derivative instruments	287,082	280,552	567,634		567,634
Securities lending collateral	1,826,303	1,784,766	3,611,069		3,611,069
Total liabilities	2,329,695	2,275,160	4,604,855	30	4,604,885
Net position					
Restricted for:					
Pensions	21,690,184	21,214,973	42,905,157		42,905,157
Employees' flexible benefits				1,198	1,198
Total net position	$ 21,690,184	$ 21,214,973	$ 42,905,157	$ 1,198	$ 42,906,355

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	$ 75,030	$ 195,521	$ 270,551	$ 6,527	$ 277,078
Employers	686,219	348,475	1,034,694		1,034,694
Total contributions	761,249	543,996	1,305,245	6,527	1,311,772
Investment income:					
Net increase in fair value of investments	2,583,110	2,540,140	5,123,250		5,123,250
Interest	236,137	232,209	468,346		468,346
Dividends	250,622	246,452	497,074		497,074
Real estate income	54,489	53,583	108,072		108,072
Securities lending income	3,168	3,115	6,283		6,283
Total investment income	3,127,526	3,075,499	6,203,025		6,203,025
Less: Investment expenses	21,273	20,918	42,191		42,191
Securities lending expense	471	463	934		934
Net investment income	3,105,782	3,054,118	6,159,900		6,159,900
Total additions	3,867,031	3,598,114	7,465,145	6,527	7,471,672
Deductions					
Annuity benefits	1,043,927	1,013,051	2,056,978		2,056,978
Death benefits	2,275	1,637	3,912		3,912
Other benefits				6,310	6,310
Refunds	31,720	22,326	54,046		54,046
Administrative expenses	7,294	2,663	9,957	200	10,157
Total deductions	1,085,216	1,039,677	2,124,893	6,510	2,131,403
Change in net position restricted for:					
Pensions	2,781,815	2,558,437	5,340,252		5,340,252
Employees' flexible benefits				17	17
Net position, July 1	18,908,369	18,656,536	37,564,905	1,181	37,566,086
Net position, June 30	$ 21,690,184	$ 21,214,973	$ 42,905,157	$ 1,198	$ 42,906,355

State of Tennessee
Combining Statement of Fiduciary Net Position
Investment Trust Funds
June 30, 2014

(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	Total Investment Trust Funds
Assets			
Cash and cash equivalents	$ 396,989	$ 325	$ 397,314
Receivables:			
Interest and dividends	2,031	793	2,824
Total receivables	2,031	793	2,824
Investments, at fair value:			
Short-term securities	1,168,551		1,168,551
Government bonds		199,963	199,963
Total investments	1,168,551	199,963	1,368,514
Total assets	1,567,571	201,081	1,768,652
Net position			
Amounts held in trust for:			
Pool participants	1,567,571	201,081	1,768,652
Total net position	$ 1,567,571	$ 201,081	$ 1,768,652

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	Total Investment Trust Funds
Additions			
Investment income:			
Interest	$ 2,439	$ 1,177	$ 3,616
Total investment income	2,439	1,177	3,616
Less: Investment expenses			
Administrative fee	872	96	968
Net investment income	1,567	1,081	2,648
Capital share transactions:			
Shares sold	2,612,956	200,000	2,812,956
Less: Shares redeemed	3,341,687		3,341,687
Net capital share transactions	(728,731)	200,000	(528,731)
Total additions	(727,164)	201,081	(526,083)
Change in net position restricted for:			
Individuals, organizations and other governments	(727,164)	201,081	(526,083)
Net position, July 1	2,294,735		2,294,735
Net position, June 30	$ 1,567,571	$ 201,081	$ 1,768,652

State of Tennessee
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2014

(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Insurance Receiverships
Assets					
Cash and cash equivalents	$ 3,462	$ 1,511	$ 15,569	$ 19,524	$ 15,080
Receivables:					
Taxes					77
Interest and dividends	230				6
Investments sold	3				
Other					98
Total receivables	233				181
Investments, at fair value:					
Mutual funds	101,509				
Government bonds					7
Corporate bonds					1,400
Total investments	101,509				1,407
Total assets	105,204	1,511	15,569	19,524	16,668
Liabilities					
Accounts payable and accruals	123	70		19	16,668
Due to other funds	118				
Total liabilities	241	70		19	16,668
Net position					
Restricted for:					
Individuals, organizations and other governments	$ 104,963	$ 1,441	$ 15,569	$ 19,505	$ -

Other	Total Private-Purpose Trust Funds
$ 3,063	$ 58,209
37	114
	236
	3
	98
37	451
	101,509
	7
	1,400
	102,916
3,100	161,576
	16,880
	118
	16,998
$ 3,100	$ 144,578

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Insurance Receiverships
Additions					
Contributions:					
Federal		$ 5,259			
Private	$ 8,991				
State	354			$ 473	
Other		1,836		3,451	$ 692
Total contributions	9,345	7,095		3,924	692
Investment income:					
Net increase/(decrease) in fair value of investments	8,903				(5)
Interest	2,484	2	$ 14	24	64
Total investment income	11,387	2	14	24	59
Total additions	20,732	7,097	14	3,948	751
Deductions					
Payments made under trust agreements	8,887	3,913		16,569	751
Refunds	1,008	1,684			
Administrative expenses	360	2,269		3,496	
Total deductions	10,255	7,866		20,065	751
Change in net position restricted for:					
Individuals, organizations and other governments	10,477	(769)	14	(16,117)	
Net position, July 1	94,486	2,210	15,555	35,622	
Net position, June 30	$ 104,963	$ 1,441	$ 15,569	$ 19,505	$ -

Other	Total Private-Purpose Trust Funds
	$ 5,259
$ 369	9,360
	827
156	6,135
525	21,581
	8,898
3	2,591
3	11,489
528	33,070
383	30,503
	2,692
	6,125
383	39,320
145	(6,250)
2,955	150,828
$ 3,100	$ 144,578

State of Tennessee
Combining Statement of Fiduciary Net Position
Agency Funds
June 30, 2014

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
Assets				
Cash and cash equivalents	$ 323,393	$ 130,324	$ 28,753	$ 482,470
Receivables:				
Accounts			1,442	1,442
Taxes	394,928			394,928
Due from other funds		24		24
Total assets	718,321	130,348	30,195	878,864
Liabilities				
Accounts payable and accruals	718,321	12,394	17,791	748,506
Amounts held in custody for others		117,954	12,404	130,358
Total liabilities	$ 718,321	$ 130,348	$ 30,195	$ 878,864

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

Local Government Fund		**Balance July 1, 2013**		**Additions**		**Deductions**		**Balance June 30, 2014**
Assets								
Cash and cash equivalents	$	335,641	$	3,783,599	$	3,795,847	$	323,393
Taxes receivable		393,516		456,336		454,924		394,928
Total assets		729,157		4,239,935		4,250,771		718,321
Liabilities								
Accounts payable and accruals		729,157		4,661,370		4,672,206		718,321
Total liabilities	$	729,157	$	4,661,370	$	4,672,206	$	718,321

Contingent Revenue Fund								
Assets								
Cash and cash equivalents	$	138,101	$	2,539,581	$	2,547,358	$	130,324
Accounts receivable		263		63		326		
Due from other funds				24				24
Total assets		138,364		2,539,668		2,547,684		130,348
Liabilities								
Accounts payable and accruals		11,970		325,714		325,290		12,394
Amount held in custody for others		126,394		620,695		629,135		117,954
Total liabilities	$	138,364	$	946,409	$	954,425	$	130,348

Retiree Health Plans								
Assets								
Cash and cash equivalents	$	20,787	$	238,183	$	230,217	$	28,753
Accounts receivable		2,082		11,097		11,737		1,442
Total assets		22,869		249,280		241,954		30,195
Liabilities								
Accounts payable		16,684		26,265		25,158		17,791
Amount held in custody for others		6,185		239,414		233,195		12,404
Total liabilities	$	22,869	$	265,679	$	258,353	$	30,195

Totals - All Agency Funds								
Assets								
Cash and cash equivalents	$	494,529	$	6,561,363	$	6,573,422	$	482,470
Accounts receivable		395,861		467,496		466,987		396,370
Due from other funds				24				24
Total assets		890,390		7,028,883		7,040,409		878,864
Liabilities								
Accounts payable and accruals		757,811		5,013,349		5,022,654		748,506
Amount held in custody for others		132,579		860,109		862,330		130,358
Total liabilities	$	890,390	$	5,873,458	$	5,884,984	$	878,864

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.

Tennessee 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 colleges of applied technology) 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

COLLEGES OF APPLIED TECHNOLOGY

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 these colleges 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 higher education institutions. 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 Position
Component Units
June 30, 2014

(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	$ 2,153	$ 801	$ 264,941	$ 67,708	$ 948,612	$ 732,192
Investments			63,698		322,866	94,026
Receivables, net	7,561	743	66,505	69,296	113,195	185,252
Due from primary government		393			15,187	28,944
Inventories, at cost					3,335	6,648
Prepayments		23	6	7,147	4,769	4,786
Loans receivable			1,969,362			
Fair value of derivatives						
Other					728	4,776
Restricted assets:						
Cash and cash equivalents			8,345	21	65,777	220,923
Investments			189,307	6,135	320,961	889,438
Receivables, net			1,689		54,707	116,302
Capital assets:						
Land, at cost					136,669	84,237
Infrastructure					382,727	110,255
Structures and improvements, at cost				264	2,832,601	2,290,937
Machinery and equipment, at cost		74	1,437	4,943	451,942	606,327
Less accumulated depreciation		(40)	(811)	(4,283)	(1,518,776)	(1,335,164)
Construction in progress					217,146	458,133
Total assets	9,714	1,994	2,564,479	151,231	4,352,446	4,498,012
Deferred outflows of resources			1,250		2,851	5,911
Liabilities						
Accounts payable and accruals	2,207	258	42,752	47,650	138,001	155,695
Due to primary government	19	15	72	94,670	14,083	5,635
Unearned revenue			1,293	901	70,772	104,930
Other					16,109	12,872
Noncurrent liabilities:						
Due within one year	184	90	127,673	1,264	45,215	75,056
Due in more than one year	559	266	1,867,011	6,725	850,105	961,766
Total liabilities	2,969	629	2,038,801	151,210	1,134,285	1,315,954
Deferred inflows of resources					132	
Net position						
Net investment in capital assets		34	626	924	1,803,666	1,468,055
Restricted for:						
Debt service					3,422	84
Capital projects					42,908	56,170
Single family bond programs			434,000			
Other	6,745		15,905	21	244,979	363,645
Permanent and endowment:						
Expendable					18,238	196,174
Nonexpendable					325,868	628,395
Unrestricted		1,331	76,397	(924)	781,799	475,446
Total net position	$ 6,745	$ 1,365	$ 526,928	$ 21	$ 3,220,880	$ 3,187,969

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
$ 15,712	$ 12,414	$ 46,894	$ 72,026	$ 1,889	$ 58,267	$ 2,223,609
				1,018		481,608
	8,340	403	12,900	15	408	464,618
	822					45,346
	165					10,148
	1,973					18,704
4,563			1,715,790			3,689,715
			616			616
	31			1,693		7,228
1,154	3,297	7,346	19,733			326,596
			129,976			1,535,817
		6,023				178,721
	1,390					222,296
	1,825					494,807
	30,477					5,154,279
	6,002					1,070,725
	(13,870)					(2,872,944)
	10,928					686,207
21,429	63,794	60,666	1,951,041	4,615	58,675	13,738,096
279			17,762			28,053
132	2,183		20,181	64	716	409,839
	4,890					119,384
			2,229			180,125
	99					29,080
910	902		56,435			307,729
4,764	6,418		1,881,707			5,579,321
5,806	14,492		1,960,552	64	716	6,625,478
			616			748
	30,595					3,303,900
	346					3,852
						99,078
						434,000
	4,858	13,369				649,522
						214,412
						954,263
15,902	13,503	47,297	7,635	4,551	57,959	1,480,896
$ 15,902	$ 49,302	$ 60,666	$ 7,635	$ 4,551	$ 57,959	$ 7,139,923

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2014

(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 Position
Component units					
Higher education institutions:					
Board of Regents	$ 2,473,515	$ 974,218	$ 696,108	$ 143,583	$ (659,606)
University of Tennessee	2,056,111	661,101	933,596	86,236	(375,178)
Total higher education institutions	4,529,626	1,635,319	1,629,704	229,819	(1,034,784)
Loan programs:					
Tennessee Student Assistance Corporation	67,090	2,847	7,213		(57,030)
Housing Development Agency	422,834	121,135	302,126		427
Local Development Authority	369	246	15		(108)
Federal Family Education Loan Program	219,244	27,158	147,568		(44,518)
State School Bond Authority	79,994	67,484	2,571		(9,939)
Total loan programs	789,531	218,870	459,493		(111,168)
Lottery program	1,323,406	1,323,307	43		(56)
Other programs:					
Tennessee CSA	5,112	1,543	3,267		(302)
Access Tennessee Insurance Plan	26,792	12,694			(14,098)
Veterans' Homes Board	39,994	40,274	13	11,953	12,246
Certified Cotton Growers'	414	227			(187)
Total other programs	72,312	54,738	3,280	11,953	(2,341)
Total	$ 6,714,875	$ 3,232,234	$ 2,092,520	$ 241,772	$ (1,148,349)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change In Net Position	Net Position July 1	Net Position June 30
$ 683,554	$ 146,941	$ 4,691	$ 3,803	$ 13,752	$ 193,135	$ 3,027,745	$ 3,220,880
487,077	2,234	24,556		43,934	182,623	3,005,346	3,187,969
1,170,631	149,175	29,247	3,803	57,686	375,758	6,033,091	6,408,849
57,386					356	6,389	6,745
		34			461	526,467	526,928
					(108)	16,010	15,902
2,838		60			(41,620)	102,286	60,666
	9,264				(675)	8,310	7,635
60,224	9,264	94			(41,586)	659,462	617,876
		70			14	7	21
					(302)	1,667	1,365
19,054		41			4,997	52,962	57,959
	86				12,332	36,970	49,302
		5			(182)	4,733	4,551
19,054	86	46			16,845	96,332	113,177
$ 1,249,909	$ 158,525	$ 29,457	$ 3,803	$ 57,686	$ 351,031	$ 6,788,892	$ 7,139,923

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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, 2014

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
Revenues			
Interest on investments	$ 442		$ 442
Federal	57		57
Departmental services	66,945	$ 4,810	71,755
Other	2		2
Total revenues	67,446	4,810	72,256
Expenditures			
Education	67,021		67,021
Health and social services		5,073	5,073
Total expenditures	67,021	5,073	72,094
Excess (deficiency) of revenues over (under) expenditures	425	(263)	162
Fund balances, July 1	7,063	1,951	9,014
Fund balances, June 30	$ 7,488	$ 1,688	$ 9,176

Reconciliation to net position:

Fund balances per above	$ 7,488	$ 1,688	$ 9,176
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		33	33
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(743)	(356)	(1,099)
Net position on Statement of Net Position	$ 6,745	$ 1,365	$ 8,110

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 121,135	$ 1,322,446	$ 1,150,106	$ 1,148,350	$ 246
Investment income	6,346		4,348	6,409	15
Grants and contributions					
Other		861	53,730	104,394	
Total operating revenues	127,481	1,323,307	1,208,184	1,259,153	261
Operating expenses					
Personal services	16,578	13,195	1,485,033	1,331,138	
Contractual services	5,973	124,800			53
Mortgage service fees	7,165				
Materials and supplies	1,250		539,158	502,144	
Rentals and insurance	94	1,950			
Interest	70,390				316
Depreciation and amortization	2,476	468	124,333	114,997	
Lottery prizes		836,500			
Nursing home services					
Scholarships and fellowships			297,921	57,026	
Benefits					
Other	9,405	9,192			
Total operating expenses	113,331	986,105	2,446,445	2,005,305	369
Operating income (loss)	14,150	337,202	(1,238,261)	(746,152)	(108)
Nonoperating revenues (expenses)					
Grant income	295,814		543,776	189,256	
Grant expense	(309,503)				
Interest expense			(25,581)	(30,579)	
Interest income		70	67,944	155,880	
Payments from primary government			683,554	487,077	
Grants and contributions				5,707	
Gifts			6,211	5,568	
Payments to primary government		(337,273)			
Other		15	581	(20,228)	
Total nonoperating revenues (expenses)	(13,689)	(337,188)	1,276,485	792,681	
Income (loss) before capital grants and contributions	461	14	38,224	46,529	(108)
Capital payments from primary government			130,263	54,964	
Capital grants and gifts			10,896	31,271	
Additions to permanent endowments			13,752	43,934	
Other				5,925	
Change in net position	461	14	193,135	182,623	(108)
Net position, July 1	526,467	7	3,027,745	3,005,346	16,010
Net position, June 30	$ 526,928	$ 21	$ 3,220,880	$ 3,187,969	$ 15,902

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
$ 35,042	$ 27,158	$ 67,484	$ 227	$ 12,694	$ 3,884,888
		2,571			19,689
	147,568				147,568
39					159,024
35,081	174,726	70,055	227	12,694	4,211,169
24,280					2,870,224
	171,992	1,863	414	550	305,645
					7,165
					1,042,552
					2,044
		66,033			136,739
1,367					243,641
					836,500
14,058					14,058
	252				355,199
				25,852	25,852
		12,098		390	31,085
39,705	172,244	79,994	414	26,792	5,870,704
(4,624)	2,482	(9,939)	(187)	(14,098)	(1,659,535)
5,193		9,264			1,043,303
					(309,503)
(264)					(56,424)
13	60		5	41	224,013
	2,838			19,054	1,192,523
					5,707
86					11,865
	(47,000)				(384,273)
(25)					(19,657)
5,003	(44,102)	9,264	5	19,095	1,707,554
379	(41,620)	(675)	(182)	4,997	48,019
3,127					188,354
8,826					50,993
					57,686
					5,925
12,332	(41,620)	(675)	(182)	4,997	350,977
36,970	102,286	8,310	4,733	52,962	6,780,836
$ 49,302	$ 60,666	$ 7,635	$ 4,551	$ 57,959	$ 7,131,813

SUPPLEMENTARY SCHEDULES

State of Tennessee **Schedule 1**
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2014

(Expressed in Thousands)

	General Long-Term Debt			Facilities Revolving Fund Debt		
For the Year Ended June 30	**Principal**	**Interest**	**Total Require-ments**	**Principal**	**Interest**	**Total Require-ments**
2015	$ 136,068	$ 68,595	$ 204,663	$ 15,957	$ 6,781	$ 22,738
2016	132,429	62,704	195,133	13,841	6,034	19,875
2017	127,436	56,964	184,400	12,979	5,421	18,400
2018	118,951	50,999	169,950	12,769	4,829	17,598
2019	110,970	45,957	156,927	11,455	4,281	15,736
2020	108,442	41,247	149,689	10,963	3,786	14,749
2021	102,519	36,639	139,158	10,066	3,305	13,371
2022	102,654	32,092	134,746	10,101	2,833	12,934
2023	95,706	27,715	123,421	9,354	2,377	11,731
2024	95,476	23,829	119,305	9,319	1,992	11,311
2025	87,224	20,379	107,603	8,961	1,662	10,623
2026	87,459	17,052	104,511	9,001	1,337	10,338
2027	81,135	13,726	94,861	7,190	1,024	8,214
2028	77,589	10,724	88,313	6,606	743	7,349
2029	71,849	7,416	79,265	5,391	477	5,868
2030	47,513	4,402	51,915	3,822	275	4,097
2031	37,251	2,361	39,612	2,289	115	2,404
2032	29,398	824	30,222	817	29	846
2033	6,582	99	6,681	418	6	424
TOTALS	$ 1,656,651	$ 523,724	$ 2,180,375	$ 161,299	$ 47,307	$ 208,606

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

Schedule 2

(Expressed in Thousands)

	June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Internal service funds:					
General obligation commercial paper	$ 70,107	$ 48,060	$ 51,318	$ 40,591	$ 59,930
Facilities Revolving Fund general obligation bonds	196,220	209,858	198,512	180,516	161,299
	266,327	257,918	249,830	221,107	221,229
General long-term debt:					
General obligation bonds	1,492,600	1,544,350	1,914,090	1,797,894	1,656,651
General obligation commercial paper	171,283	166,157	146,452	174,555	264,436
	1,663,883	1,710,507	2,060,542	1,972,449	1,921,087
Totals for primary government	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,193,556	$ 2,142,316

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2014

Schedule 3

(Expressed in Thousands)

General obligation commercial paper - Tax exempt	$ 298,367
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	25,999
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	$ 324,366

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

Schedule 4

(Expressed in Thousands)

	June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Component units:					
Local Development Authority notes	$ 53,919				
Local Development Authority bonds	48,242	$ 8,586	$ 7,406	$ 6,585	$ 5,674
Tennessee Housing Development Agency bonds	2,316,748	2,140,486	2,015,181	2,116,905	1,962,990
Tennessee Housing Development Agency notes	3,672	3,250			
Veterans' Homes Board loan	5,936	5,657	5,310	5,089	6,157
Tennessee State School Bond Authority bonds	1,075,004	1,487,945	1,423,166	1,601,480	1,780,558
Tennessee State School Bond Authority revolving credit	281,782	162,653	253,676	209,429	157,584
University of Tennessee notes	211	184	167	150	133
University of Tennessee bonds	83,644	82,089	80,449	80,365	77,171
Board of Regents notes	2,222	2,098	1,987	1,866	2,492
Board of Regents bonds	700	600	500	400	300
Board of Regents commercial paper	6,431	4,363	4,271	4,085	3,955
	$ 3,878,511	$ 3,897,911	$ 3,792,113	$ 4,026,354	$ 3,997,014

State of Tennessee **Schedule 5**
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2014 and 2013

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2014	June 30, 2013
Taxes:		
Sales and use	$ 2,989,699	$ 2,867,413
Gasoline	9,005	9,101
Motor fuel	3,086	2,970
Gasoline inspection	670	415
Total fuel taxes	12,761	12,486
Franchise	642,721	684,340
Excise	968,051	1,093,374
Gross receipts	355,213	363,971
Beer	14,916	15,068
Alcoholic beverage	45,321	43,121
Mixed drink	38,574	34,711
Tobacco	29,683	31,250
Business	114,808	137,708
Insurance companies premium	727,943	668,067
Retaliatory	21,818	16,196
Workers compensation premium	47,470	44,225
Enhanced coverage	449,137	449,500
Medicaid provider	11,701	13,729
Other	2,804	2,702
Total business taxes	3,470,160	3,597,962
Income	239,316	233,419
Privilege	258,708	256,738
Inheritance and estate	107,722	110,632
Other	407	220
Total other taxes	606,153	601,009
Total taxes	7,078,773	7,078,870
Licenses, fines, fees and permits:		
Motor vehicle registration	43,730	44,468
Motor vehicle title registration fees	8,716	9,214
Drivers licenses	26,004	25,907
Arrests, fines and fees	8,329	8,352
Regulatory board fees	125,235	123,612
Other	108,675	95,294
Total licenses, fines, fees and permits	320,689	306,847
Interest on investments	11,536	12,166
Federal - earned by state departments	9,464,501	9,901,314
Departmental services:		
Charges to the public	329,673	325,726
Interdepartmental charges	799,637	799,180
Charges to cities, counties, etc.	568,534	540,143
Total departmental services	1,697,844	1,665,049
Other	210,267	283,140
Total revenues by source	$ 18,783,610	$ 19,247,386

State of Tennessee **Schedule 6**

Comparative Schedules of Expenditures by Function and Department

General Fund

For the Fiscal Years Ended June 30, 2014 and 2013

(Expressed in Thousands)

	For the Year Ended	
Expenditures by function and department	**June 30, 2014**	**June 30, 2013**
General government:		
Legislative	$ 38,163	$ 39,234
Secretary of State	38,556	36,995
Comptroller	97,657	86,294
Treasurer	60,441	59,300
Governor	4,704	5,082
Commissions	65,363	67,625
Finance and Administration	92,174	91,802
General Services	25,860	28,622
Revenue	101,389	99,418
Miscellaneous Appropriations	16	276
Total general government	524,323	514,648
Health and social services:		
Veterans Affairs	7,521	5,392
Labor and Workforce Development	167,876	188,988
TennCare	9,639,248	9,684,582
Mental Health	303,267	295,213
Intellectual Disabilities	199,812	203,592
Health	563,710	527,228
Human Services	2,880,185	3,085,917
Children's Services	731,991	677,571
Total health and social services	14,493,610	14,668,483
Law, justice and public safety:		
Judicial	310,185	301,741
Correction	878,563	835,075
Probation and Paroles	7,102	6,772
Military	94,677	102,188
Bureau of Criminal Investigation	77,682	72,081
Safety	181,029	175,141
Total law, justice and public safety	1,549,238	1,492,998
Recreation and resources development:		
Agriculture	78,062	74,168
Tourist Development	24,258	18,452
Environment and Conservation	200,630	199,746
Economic and Community Development	226,577	183,841
Total recreation and resources development	529,527	476,207
Regulation of business and professions:		
Commerce and Insurance	77,054	74,347
Financial Institutions	15,491	14,169
Total regulation of business and professions	92,545	88,516
Intergovernmental revenue sharing	606,979	557,102
Total expenditures by function and department	$ 17,796,222	$ 17,797,954

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>

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 POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2005	**2006**	**2007**	**2008**
Expenses				
Governmental activities:				
General government	$ 596,016	$ 705,897	$ 738,897	$ 837,250
Education	5,158,369	5,449,613	5,884,841	6,464,564
Health and social services (4)	11,522,061	10,170,957	10,448,373	11,125,967
Law, justice, and public safety	1,090,779	1,214,957	1,221,175	1,325,500
Recreation and resources development (1)	423,342	466,689	485,852	613,902
Regulation of business and professions	113,902	86,945	129,107	123,391
Transportation	698,450	671,641	835,751	808,591
Intergovernmental revenue sharing	683,925	738,349	815,832	842,096
Interest on long-term debt	42,902	49,460	50,003	51,086
Payments to fiduciary fund			25,950	
Total governmental activities expenses	20,329,746	19,554,508	20,635,781	22,192,347
Business-type activities:				
Employment security (2)	476,646	452,043	467,327	541,573
Insurance programs	430,568	471,032	413,483	469,491
Loan programs	1,909	1,487	1,473	1,655
Other	2,498	2,496	2,595	2,744
Total business-type activities expenses	911,621	927,058	884,878	1,015,463
Total primary government expenses	$ 21,241,367	$ 20,481,566	$ 21,520,659	$ 23,207,810
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 380,679	$ 375,640	$ 524,306	$ 672,892
Education	13,568	26,785	34,819	35,405
Health and social services	1,027,602	692,186	521,508	548,570
Law, justice, and public safety	316,337	374,715	130,885	117,536
Recreation and resources development	140,227	138,970	153,048	142,128
Regulation of business and professions	115,556	124,435	142,805	143,646
Transportation	15,494	15,118	22,542	18,778
Operating grants and contributions (3)	8,777,283	8,314,981	8,481,473	8,612,838
Capital grants and contributions	520,090	615,584	708,384	600,404
Total governmental activities program revenues	11,306,836	10,678,414	10,719,770	10,892,197
Business-type activities:				
Charges for services:				
Employment security	463,385	381,600	356,064	413,741
Insurance programs	462,441	479,515	438,275	480,803
Loan programs	12,878	12,970	13,803	15,137
Other	2,593	2,803	2,644	2,324
Operating grants and contributions (3)	100,536	131,043	116,569	124,576
Total business-type activities program revenues	1,041,833	1,007,931	927,355	1,036,581
Total primary government program revenues	$ 12,348,669	$ 11,686,345	$ 11,647,125	$ 11,928,778
Net (Expense)/Revenue				
Governmental activities	$ (9,022,910)	$ (8,876,094)	$ (9,916,011)	$ (11,300,150)
Business-type activities	130,212	80,873	42,477	21,118
Total primary government net expense	$ (8,892,698)	$ (8,795,221)	$ (9,873,534)	$ (11,279,032)

Schedule 1

(continued on next page)

FOR THE FISCAL YEAR ENDED JUNE 30,					
2009	2010	2011	2012	2013	2014
$ 988,309	$ 1,078,294	$ 1,048,423	$ 942,465	$ 987,800	$ 959,641
6,520,569	6,893,801	7,127,705	7,018,189	7,083,806	7,383,077
11,697,900	12,849,335	13,739,733	13,952,342	14,079,899	13,912,421
1,338,869	1,365,134	1,436,045	1,567,730	1,539,288	1,612,248
538,386	499,080	606,317	646,494	554,421	646,781
126,003	132,784	127,887	126,395	158,228	158,644
979,454	1,010,029	911,666	1,012,399	1,062,091	1,126,744
810,063	874,094	825,777	851,535	844,628	897,312
51,977	60,566	63,555	62,119	71,933	67,520
	19,747	63,114	58,453	22,386	827
23,051,530	24,782,864	25,950,222	26,238,121	26,404,480	26,765,215
1,427,713	2,135,537	1,613,716	1,232,324	750,529	451,470
514,065	557,371	552,626	540,746	544,250	541,205
1,345	1,406	1,561	1,757	1,577	1,469
2,265	1,385	25	620	163	76
1,945,388	2,695,699	2,167,928	1,775,447	1,296,519	994,220
$ 24,996,918	$ 27,478,563	$ 28,118,150	$ 28,013,568	$ 27,700,999	$ 27,759,435
$ 753,066	$ 778,352	$ 856,264	$ 673,945	$ 775,135	$ 812,528
35,124	44,813	50,052	56,898	85,722	73,276
615,871	499,694	724,971	772,850	714,788	756,038
122,064	121,201	120,137	125,879	139,622	140,123
142,657	141,278	139,302	151,545	155,422	145,675
151,095	148,788	149,090	168,590	154,896	165,611
15,936	28,322	29,769	29,601	35,470	31,863
9,758,691	12,076,579	12,677,291	11,897,517	11,697,733	11,355,859
592,719	782,188	901,798	903,281	772,061	762,251
12,187,223	14,621,215	15,648,674	14,780,106	14,530,849	14,243,224
585,668	710,113	754,108	769,446	632,408	370,752
504,130	525,662	547,207	542,756	569,982	598,209
15,684	16,584	17,350	15,600	12,450	8,897
1,543	1,043	206	133	231	221
508,249	1,482,113	1,035,693	749,005	327,928	134,026
1,615,274	2,735,515	2,354,564	2,076,940	1,542,999	1,112,105
$ 13,802,497	$ 17,356,730	$ 18,003,238	$ 16,857,046	$ 16,073,848	$ 15,355,329
$ (10,864,307)	$ (10,161,649)	$ (10,301,548)	$ (11,458,015)	$ (11,873,631)	$ (12,521,991)
(330,114)	39,816	186,636	301,493	246,480	117,885
$ (11,194,421)	$ (10,121,833)	$ (10,114,912)	$ (11,156,522)	$ (11,627,151)	$ (12,404,106)

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

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2005	2006	2007	2008
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Sales and use	$ 6,099,159	$ 6,540,224	$ 6,819,570	$ 6,851,481
Fuel	846,826	851,362	867,520	865,181
Business (5)	2,311,448	2,507,653	2,799,751	2,913,227
Other	514,938	598,827	734,026	734,029
Grants and contributions not restricted to specific programs	46,807			
Unrestricted investment earnings	30,361	81,287	113,940	120,523
Miscellaneous	209,226	185,466	250,344	275,499
Contributions to permanent funds	468	369	270	239
Transfers	(21,062)	(22,783)	(5,028)	(4,110)
Total governmental activities	10,038,171	10,742,405	11,580,393	11,756,069
Business-type activities:				
Transfers	21,062	22,783	5,028	4,110
Total business-type activities	21,062	22,783	5,028	4,110
Total primary government general revenues and other changes in net position	$ 10,059,233	$ 10,765,188	$ 11,585,421	$ 11,760,179
Changes in Net Position				
Governmental activities	$ 1,015,261	$ 1,866,311	$ 1,664,382	$ 455,919
Business-type activities	151,274	103,656	47,505	25,228
Total primary government	$ 1,166,535	$ 1,969,967	$ 1,711,887	$ 481,147

(1) 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.

(2) 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.

(3) 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.

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

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

Schedule 1

FOR THE FISCAL YEAR ENDED JUNE 30,					
2009	**2010**	**2011**	**2012**	**2013**	**2014**
$ 6,326,857	$ 6,170,977	$ 6,461,461	$ 6,884,762	$ 7,018,128	$ 7,276,443
817,873	874,511	846,384	842,133	834,956	843,164
2,671,226	2,944,465	3,536,200	3,926,566	4,122,814	3,948,253
563,501	504,750	525,192	608,762	648,193	641,244
42,883	7,245	4,602	772	4,144	7,079
226,907	195,414	217,630	253,489	282,705	221,138
217	196	180	174	180	547
(3,541)	(3,608)	(2,134)	(4,655)	(4,256)	(4,622)
10,645,923	10,693,950	11,589,515	12,512,003	12,906,864	12,933,246
3,541	3,608	2,134	4,655	4,256	4,622
3,541	3,608	2,134	4,655	4,256	4,622
$ 10,649,464	$ 10,697,558	$ 11,591,649	$ 12,516,658	$ 12,911,120	$ 12,937,868
$ (218,384)	$ 532,301	$ 1,287,967	$ 1,053,988	$ 1,033,233	$ 411,255
(326,573)	43,424	188,770	306,148	250,736	122,507
$ (544,957)	$ 575,725	$ 1,476,737	$ 1,360,136	$ 1,283,969	$ 533,762

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

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2005	**2006**	**2007**	**2008**
Governmental activities				
Net investment in capital assets	$ 19,406,978	$ 20,204,007	$ 21,078,481	$ 21,796,151
Restricted	580,840	725,209	792,542	864,270
Unrestricted (1)(2)	1,306,226	2,204,315	2,964,957	2,631,478
Total governmental activities net position	21,294,044	23,133,531	24,835,980	25,291,899
Business-type activities				
Net investment in capital assets	-	-	-	51
Unrestricted	1,511,189	1,614,845	1,643,706	1,668,883
Total business-type activities net position	1,511,189	1,614,845	1,643,706	1,668,934
Primary Government				
Net investment in capital assets	19,406,978	20,204,007	21,078,481	21,796,202
Restricted	580,840	725,209	792,542	864,270
Unrestricted	2,817,415	3,819,160	4,608,663	4,300,361
Total primary government net position	$ 22,805,233	$ 24,748,376	$ 26,479,686	$ 26,960,833

(1) The increase in unrestricted net position between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net position 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.

(2) The decrease in unrestricted net position 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,					
	2009	2010	2011	2012	2013	2014
	$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523
	965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324
	1,495,656	1,284,192	1,330,947	1,183,704	1,458,291	1,299,446
	25,036,800	25,569,101	26,856,959	27,985,116	28,978,083	29,397,293
	-	-	-	-	-	-
	1,342,361	1,385,785	1,574,664	1,880,812	2,134,924	2,264,747
	1,342,361	1,385,785	1,574,664	1,880,812	2,134,924	2,264,747
	22,575,852	23,360,007	24,346,493	25,628,600	26,326,451	26,855,523
	965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324
	2,838,017	2,669,977	2,905,611	3,064,516	3,593,215	3,564,193
	$ 26,379,161	$ 26,954,886	$ 28,431,623	$ 29,865,928	$ 31,113,007	$ 31,662,040

Schedule 3

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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	$ 19,343	$ 18,609	$ 21,349	$ 21,075
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	100,942	63,192	73,346	68,331
Committed	N/A	N/A	N/A	N/A	N/A	N/A	235,301	286,918	355,546	281,969
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	1,179,652	1,250,677	1,585,964	1,138,496
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	507,501	698,663	476,264	567,286
Total general fund							$ 2,042,739	$ 2,318,059	$ 2,512,469	$ 2,077,157
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	$ 144,426	$ 147,468	$ 150,579	$ 153,004
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	951,222	980,972	990,317	1,024,350
Committed	N/A	N/A	N/A	N/A	N/A	N/A	191,557	344,696	398,864	396,298
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	710,582	672,610	575,300	759,845
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A				
Total all other governmental funds							$ 1,997,787	$ 2,145,746	$ 2,115,060	$ 2,333,497

(1) The schedule was changed due to the implementation of GASB 54, which reclassified 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.

Schedule 4

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,									
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Revenues										
Taxes	$ 9,819,155	$ 10,488,650	$ 11,249,773	$ 11,333,507	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198	$ 12,605,171	$ 12,762,694
Licenses, fines, fees, and permits	624,694	637,522	660,888	672,486	677,766	675,009	693,702	731,752	725,785	727,158
Interest on investments	46,222	102,075	178,080	127,152	23,964	36,443	45,089	17,411	35,987	67,117
Federal [(2)]	8,988,687	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256	12,085,185	11,750,878
Departmental services	2,360,891	2,238,968	2,233,450	2,339,870	2,352,198	2,195,707	2,335,508	2,077,429	1,933,141	1,994,334
Other	502,074	491,064	537,816	570,634	535,534	519,936	513,919	595,305	630,355	604,336
Total revenues	22,341,723	22,527,011	23,623,309	23,850,685	23,978,950	26,344,100	28,072,953	28,036,351	28,015,624	27,906,517
Expenditures										
Current:										
General government	425,243	530,637	555,545	617,056	581,364	558,013	563,195	575,919	538,243	553,807
Education	5,100,147	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619	6,875,325	7,182,444
Health and social services	12,518,297	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403	14,873,339	14,807,999	14,668,483	14,493,610
Law, justice, and public safety	1,109,819	1,216,756	1,275,402	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766	1,499,252	1,555,028
Recreation and resources development	491,681	544,744	525,885	707,866	599,885	555,717	682,531	705,043	655,168	711,526
Regulation of business and professions	119,620	92,888	134,955	129,688	131,614	139,200	136,644	135,877	164,673	165,238
Transportation	1,411,906	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822	1,882,068	1,952,887	1,864,946	1,753,581
Intergovernmental revenue sharing	683,925	738,349	815,832	842,096	810,063	874,094	825,777	851,535	844,628	897,312
Debt service:										
Principal	89,474	86,532	81,790	79,107	83,960	101,804	112,234	115,935	274,858	142,643
Interest	43,455	49,319	50,363	51,872	52,110	64,344	68,496	65,471	76,041	75,155
Debt issuance costs	2,159	1,082	1,173	980	4,362	4,837	4,363	4,793	2,659	1,452
Capital outlay	119,730	253,229	343,712	359,118	472,451	485,937	391,519	483,279	515,999	491,077
Total expenditures	22,115,456	21,617,892	22,764,346	24,141,752	24,850,865	26,601,596	27,919,427	28,056,123	27,980,275	28,022,873
Revenues over (under) expenditures	226,267	909,119	858,963	(291,067)	(871,915)	(257,496)	153,526	(19,772)	35,349	(116,356)
Other Financing Sources (Uses)										
Bonds and commercial paper issued	52,979	228,409	196,290	340,021	601,664	415,033	307,318	637,868	290,178	91,281
Commercial paper redeemed		(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	1,061	1,335
Premium on bond sale		2,485	2,049	2,760	30,147	26,358	11,132	37,069		
Refunding bonds issued [(3) (4)]	355,053				91,536	43,985	43,014	464,809	25,713	
Refunding bond premium [(3) (4)]	31,929				10,670		2,122	88,775	11,672	
Refunding payment to escrow [(3) (4)]	(386,261)				(101,707)	(43,985)	(44,816)	(552,898)	(25,473)	
Other						21,146	52,741			
Proceeds from pledged revenue								58,453	22,183	472
Transfers in [(1)]	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701	1,361,860	1,561,780
Transfers out [(1)]	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)	(1,545,068)	(1,763,423)
Total other financing sources (uses)	450	48,391	13,680	169,015	299,864	259,814	108,907	454,876	142,126	(108,555)
Net Change in Fund Balances	$ 226,717	$ 957,510	$ 872,643	$ (122,052)	$ (572,051)	$ 2,318	$ 262,433	$ 435,104	$ 177,475	$ (224,911)
Debt Service as a Percentage of Noncapital Expenditures	0.6241%	0.6241%	0.6566%	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	1.3059%	0.8036%

(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 to escrow.

(4) The state issued approximately $500 million less in refunding bonds in FY 2013 than in the prior year resulting in significant decreases to refunding bonds issued, premiums and payments to 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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Auto dealers	$ 9,444	$ 9,429	$ 9,389	$ 9,503	$ 7,938	$ 6,727	$ 7,674	$ 8,437	$ 9,285	$ 9,825
Purchases from manufacturers	4,150	4,803	4,679	4,745	4,497	3,492	3,657	4,013	4,053	4,072
Miscellaneous durable goods	14,183	15,845	17,209	17,441	16,348	13,748	14,497	15,588	16,377	16,800
Eating and drinking places	7,454	7,960	8,465	8,880	8,974	8,841	9,057	9,509	10,201	10,565
Food stores	7,937	8,196	8,419	8,731	8,601	8,823	8,886	9,218	9,689	10,049
Liquor stores	458	495	548	594	636	657	685	728	793	840
Hotels and motels	1,881	2,044	2,218	2,355	2,313	2,039	2,067	2,333	2,489	2,510
Other retail and service	24,286	25,806	27,134	28,303	28,236	26,801	27,310	28,748	30,182	31,032
Miscellaneous nondurable goods	6,521	7,024	7,293	7,758	7,784	7,365	7,646	7,990	8,425	8,729
Transportation, communication	6,410	6,682	7,353	7,689	7,910	7,729	6,923	7,089	6,566	6,330
Total taxable sales	$ 82,724	$ 88,284	$ 92,707	$ 95,999	$ 93,237	$ 86,222	$ 88,402	$ 93,653	$ 98,060	$ 100,752

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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
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%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%
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	3.50%	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	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
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)	2.75%	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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retail:										
Building materials	$ 363,952	$ 405,812	$ 423,160	$ 391,271	$ 333,737	$ 311,332	$ 316,016	$ 355,263	$ 354,513	$ 371,086
General merchandise	735,074	767,584	820,549	829,576	810,503	799,387	817,350	840,896	836,055	845,407
Food stores	494,466	508,497	526,981	529,977	520,280	510,104	517,420	539,402	546,972	555,692
Auto dealers and service stations	815,985	817,689	856,109	835,035	672,112	690,797	760,119	830,875	869,748	933,751
Apparel and accessory stores	185,683	194,946	200,131	200,745	191,132	191,110	194,172	205,480	215,308	217,170
Furniture and home furnishings	222,089	238,475	246,569	244,312	215,352	207,398	214,575	224,096	221,025	228,231
Eating and drinking places	518,689	547,547	585,490	605,544	596,893	598,562	615,741	653,210	681,255	706,095
Miscellaneous retail stores	508,694	550,340	580,936	597,649	568,197	560,527	578,884	613,097	637,761	664,927
Total retail	3,844,632	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319	4,362,637	4,522,359
Services:										
Hotels and lodging places	131,675	142,333	154,081	160,909	146,253	137,973	144,129	160,868	164,403	175,227
Personal services	49,818	49,375	51,099	51,151	46,564	46,777	46,923	47,932	49,145	49,724
Business services	218,799	234,810	245,387	254,506	239,143	224,044	236,982	249,083	260,000	273,397
Auto repair, services, and parking	159,935	163,710	174,680	173,481	157,972	153,781	160,268	176,923	172,698	178,693
Miscellaneous repair services	24,873	27,100	28,387	28,441	25,321	22,801	23,189	24,384	25,636	26,807
Motion pictures	22,851	22,282	22,178	21,498	21,512	19,803	17,794	18,972	18,323	18,900
Amusement services	50,854	54,629	59,578	59,636	58,225	57,636	60,071	63,922	69,280	73,891
Health services	11,139	11,710	13,123	13,676	14,228	14,305	13,683	15,122	10,750	15,463
Other services	31,025	34,282	34,400	37,740	43,434	36,802	40,752	42,200	37,140	40,659
Total services	700,969	740,231	782,913	801,038	752,652	713,922	743,791	799,406	807,375	852,761
Non-retail, non-services:										
Agriculture, forestry, fishing	5,968	6,920	7,261	7,451	7,381	7,312	7,259	7,257	7,096	7,304
Mining	5,073	5,635	6,302	7,117	6,126	5,933	5,741	6,491	5,814	6,765
Construction	42,640	48,540	54,075	59,119	52,415	44,038	48,503	49,782	51,094	54,483
Manufacturing	289,494	312,570	305,558	299,223	256,995	225,530	241,844	255,062	256,157	264,955
Transportation	36,239	42,825	46,688	53,866	69,930	34,556	38,345	43,525	40,728	29,009
Communications	385,544	442,837	457,116	475,675	477,281	443,576	430,847	416,347	387,780	379,013
Electric, gas, and sanitary services	174,794	194,574	203,789	215,552	236,692	215,020	237,479	239,531	239,441	245,644
Wholesale trade	349,023	418,607	451,777	450,898	393,100	361,217	398,111	438,113	436,411	447,524
Finance, insurance, real estate	11,037	12,899	17,830	17,908	12,981	17,766	14,027	13,847	14,620	15,207
Total non-retail, non-services	1,299,812	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955	1,439,141	1,449,904
County Clerk	112,753	114,767	126,081	125,355	101,136	110,328	120,986	134,188	133,101	143,818
Consumer Use Tax	5,313	7,545	5,071	4,641	5,250	4,322	4,695	6,334	4,293	5,636
Flood Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	(2,649)	N/A	N/A	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(121)	N/A	N/A
Unclassified	N/A	N/A	N/A	N/A	N/A	N/A	N/A	208,275	258,465	279,555
Grand Total	$ 5,963,479	$ 6,378,840	$ 6,704,386	$ 6,751,952	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,880,356	$ 7,005,012	$ 7,254,033

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.
The 2012 report differed from the 2013 report in that it did not include Unclassified as a category. However, the 2013 report included the amount for 2012 and 2013. FY 2012 grand total was revised to include this amount.

Schedule 8

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,									
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Governmental activities debt:										
General obligation bonds	$ 1,044,830	$ 1,096,765	$ 1,115,488	$ 1,175,403	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458
General obligation commercial paper	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366
Capital leases	1,229	3,619	3,943	11,743	10,810	16,301	15,503	14,666	13,790	21,798
Total governmental activities debt	1,214,634	1,245,009	1,250,255	1,427,772	1,726,060	1,946,511	1,983,928	2,325,038	2,401,566	2,342,622
Business-type activities debt:										
General obligation bonds	5,232	3,378	2,534	1,655						
Total business-type activities debt	5,232	3,378	2,534	1,655						
Total primary government debt	$ 1,219,866	$ 1,248,387	$ 1,252,789	$ 1,429,427	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038	$ 2,401,566	$ 2,342,622
Debt Ratios										
Personal income	$ 184,637,000	$ 195,085,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	N/A
Ratio of total debt to personal income	0.66%	0.64%	0.61%	0.67%	0.79%	0.87%	0.85%	0.96%	0.94%	
Population	5,963	6,039	6,157	6,215	6,296	6,346	6,403	6,456	6,496	N/A
Net general bonded debt per capita	$ 205	$ 206	$ 203	$ 228	$ 270	$ 304	$ 307	$ 358	$ 368	
General Bonded Debt:										
General obligation bonds	$ 1,050,062	$ 1,100,143	$ 1,118,022	$ 1,177,058	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458
General obligation commercial paper	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366
Assets restricted for debt principal					(14,509)					
Total net bonded debt	$ 1,218,637	$ 1,244,768	$ 1,248,846	$ 1,417,684	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,387,776	$ 2,320,824
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%	41.09%	41.65%	43.11%	42.55%

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)

Debt Capacity(1)

State tax revenues allocated for FYE June 30, 2013 to:		
General fund	$ 5,401,932 *	
Debt service fund	402,200 *	
Highway fund	685,207 *	
Total allocated revenues		$ 6,489,339
Legal debt service limit (10% of total allocated revenues)		648,934
Less: maximum annual debt service at June 30, 2014		227,401
Legal debt service margin		$ 421,533

* Obtained from State of Tennessee Budget , Fiscal Year 2014-2015

Debt Capacity- Ten Year Trend(1)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	$ 594,778	$ 628,010	$ 673,748	$ 673,070	$ 525,905	$ 489,075	$ 557,098	$ 641,583	$ 686,288	$ 648,934
Total net debt service applicable to limit	155,215	148,033	145,975	145,721	154,803	186,684	203,866	209,820	243,779	227,401
Legal debt service margin	$ 439,563	$ 479,977	$ 527,773	$ 527,349	$ 371,102	$ 302,391	$ 353,232	$ 431,763	$ 442,509	$ 421,533
Legal debt service margin as a percentage of the debt limit	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%	63.41%	67.30%	64.48%	64.96%

(1) Prior to July 1, 2013, in order to issue debt, the state had to have accumulated 150% of the amount necessary to pay annual interest and principal on debt obligations. As of July 1, 2013, the debt capacity test will be calculated as shown under the debt capacity heading. The debt capacity test is based on the allocated tax revenues of the immediately preceding fiscal year.

Pledged Revenues(2)

	Collections for Fiscal Year 2014		Fiscal Year 2014
	Portion Pledged	All Governmental Fund Types	Pledged Amount
Gasoline tax	25%	$ 616,606	$ 154,152
Petroleum products fee	100%	63,244	63,244
Motor vehicle registration fee	50%	218,703	109,352
Franchise tax	100%	660,721	660,721
		$ 1,559,274	$ 987,469

(2) This pledge of "Special Taxes" is made for general obligation bonds issued prior to July 1, 2013. The final maturity of such bonds is October 1, 2032. Thereafter (or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013) this pledge of special taxes will expire. All state general obligation bonds and notes constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state.

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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403 (est)	6,456 (est)	6,496 (est)
Total personal income	$ 174,727,000	$ 184,567,000	$ 195,656,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000
Per capita personal income	$ 29,761	$ 31,127	$ 32,474	$ 33,746	$ 34,995	$ 35,065	$ 36,489	$ 38,233	$ 39,682	$ 40,734
Unemployment rate	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%	9.4%	9.1%	8.0%	8.2%

Source: Population from www.census.gov
All other from the University of Tennessee Economic Report to the Governor

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION - EMPLOYMENT BY INDUSTRY
PRIOR YEAR AND NINE YEARS AGO

	2013			2004		
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	583,400	1	21.17%	587,900	1	21.73%
Government	417,500	2	15.15%	415,000	2	15.34%
Education and Health Services	401,500	3	14.57%	320,700	4	11.85%
Professional and Business Services	348,600	4	12.65%	302,300	5	11.17%
Manufacturing	320,300	5	11.62%	411,800	3	15.22%
Leisure and Hospitality	289,000	6	10.49%	253,600	6	9.37%
Financial Activities	139,600	7	5.07%	141,900	7	5.24%
Natural Resources, Mining, and Construction	108,500	8	3.94%	121,300	8	4.48%
Other Services	104,800	9	3.80%	101,700	9	3.76%
Information	42,100	10	1.53%	49,500	10	1.83%
Total	2,755,300		100.00%	2,705,700		100.00%
	Calendar Year 2013			Calendar Year 2004		
Total State Employment	2,818,360			2,733,850		

Source: An Economic Report to the Governor of the State of Tennessee January 2014
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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government	4,394	4,671	4,964	5,040	4,947	4,866	4,786	4,705	4,703	4,327
Education	1,028	1,025	1,070	1,206	1,157	1,193	1,154	1,128	1,259	1,118
Health and social services (1)	20,431	21,246	21,208	20,990	19,704	19,241	17,917	17,453	17,036	16,735
Law, justice and public safety	10,922	10,987	10,843	11,004	10,530	10,629	10,534	10,592	10,940	11,249
Recreation and resources development	3,757	3,846	3,885	3,901	3,698	3,640	3,564	3,515	3,458	3,431
Regulation of business and professions	718	738	776	754	708	717	714	706	711	724
Transportation	4,454	4,448	4,380	4,294	4,167	4,326	3,940	3,809	3,678	3,439
Total	45,704	46,961	47,126	47,189	44,911	44,612	42,609	41,908	41,785	41,023

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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government										
Motor pool vehicles	6,689	7,067	7,276	7,392	7,562	7,536	7,621	6,530	6,280	6,181
Buildings	108	107	107	107	107	107	109	110	110	97
Machinery and equipment	3,634	3,637	3,586	3,528	3,166	3,888	4,061	4,121	5,895	6,772
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	244	219	209	240	242	260	249	307	229	222
Health and social services										
Buildings	342	340	339	329	320	320	316	314	330	346
Machinery and equipment	2,031	2,142	2,303	2,443	2,462	2,856	2,600	2,862	3,020	3,357
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	19	19	20	20
Armories	86	86	86	83	83	83	83	83	83	83
Machinery and equipment	2,352	2,532	2,586	3,103	3,156	3,732	4,424	4,506	5,246	6,441
Recreation and resources development										
Acreage of state parks	164,251	164,399	164,537	165,486	173,878	163,032	173,382	191,563	184,521	188,573
Machinery and equipment	2,295	2,476	2,543	2,729	2,736	2,949	2,912	3,075	3,220	3,198
Regulation of business and professions										
Machinery and equipment	93	104	138	147	140	148	146	151	169	230
Transportation										
State highways (in miles)	14,151	14,163	13,835	13,887	13,882	13,871	13,867	13,877	13,884	13,898
Bridges, state and local highways	19,646	19,432	19,515	19,563	19,536	19,595	19,595	19,659	19,729	19,746
Facilities	122	122	122	122	122	122	122	122	122	122
Buildings	710	713	717	708	708	708	754	754	754	755

STATE OF TENNESSEE
OPERATING INFORMATION - OPERATING INDICATORS
FOR THE LAST TEN FISCAL YEARS

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government										
Tax returns processed (1)	2,013,809	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798	3,538,518	3,670,716	3,914,540	4,682,702
New corporate charters registered	12,103	11,807	11,726	10,745	11,073	11,724	9,717	9,618	9,702	9,781
Investment return on total portfolio	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%	0.12%	0.12%	0.11%	0.12%
Residential and commercial property reappraisals completed	1,441,168	554,798	336,050	255,250	511,050	677,720	525,516	185,965	1,495,789	640,264
Education										
Number of public schools (K-12)	1,693	1,699	1,714	1,718	1,736	1,736	1,736	1,784	1,797	1,823
Enrollment of public schools (K-12)	976,574	991,489	925,898	929,543	930,525	933,703	934,246	935,317	993,256	993,841
Number of high school graduates from public schools	51,436	53,960	54,191	57,486	60,371	62,526	62,147	62,157	62,019	N/A
Health and social services										
TennCare enrollees	1,213,800	1,187,500	1,191,233	1,208,871	1,233,208	1,199,611	1,208,527	1,213,521	1,187,082	1,271,151
Food stamp recipients	833,687	870,304	861,979	902,500	1,094,500	1,044,900	1,290,200	1,200,000	1,200,000	1,280,000
Percentage of population (4)	13.98%	14.41%	14.00%	14.52%	17.38%	16.60%	20.33%	18.74%	18.59%	19.70%
Temporary assistance recipients	72,676	70,108	64,684	60,000	60,000	58,000	61,500	57,000	57,000	57,000
Percentage of population (4)	1.22%	1.16%	1.05%	0.97%	0.95%	0.92%	0.97%	0.89%	0.88%	0.88%
Children in state custody (2)	10,467	9,700	9,048	8,149	7,202	7,336	7,870	8,533	8,960	8,552
Percentage of population (4)	0.18%	0.16%	0.15%	0.13%	0.11%	0.12%	0.12%	0.13%	0.14%	0.13%
Mental health institutes average daily census	888	845	808	780	688	575	538	517	480	479
Law, justice and public safety										
Correctional institutions average daily census	19,141	19,119	26,573	26,998	27,325	27,164	27,782	29,231	29,654	29,758
Department of Safety citations issued	453,630	472,465	403,363	380,586	358,104	347,571	301,394	340,575	381,588	419,122
Drivers licenses issued	1,351,241	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722	1,409,342	1,714,905	1,734,205	1,741,379
Recreation and resources development										
Hunting/fishing licenses and boats registered	733,554	690,426 (est.)	718,397 (est.)	690,313	707,000	689,935	547,660	586,839	538,971	569,447
Wetland acres acquired	782	3,308 (est.)	891 (est.)	3,602	2,327	79	559	1,604	1,127	1,598
Number of visitors to state parks	27,604,112	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662	30,282,836	31,036,603	29,881,059	32,063,100
Air pollution monitoring sites	86	87	86	78	89	93	32	32	41	40
Regulation of business and professions										
Fire safety inspections		18,418	34,976	39,518	34,241	37,920	34,539	27,058	25,601	27,724
Consumer affairs written complaints		5,528	5,420	5,797	5,481	6,240	5,818	5,541	5,407	5,447
Transportation										
Lane miles resurfaced (3)	2,188	1,632	2,408	1,968	2,893	2,261	2,317	2,298	2,596	2,447
HELP program services provided	148,805	154,362	128,006	130,062	108,460	112,438	116,865	130,941	118,773	124,823

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, or 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) N/A indicates 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)
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
2013	619,399	432,636		52,859
2014	650,337	464,961		56,462

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
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
2013	265,206	94,419		8,511
2014	183,140	94,419		8,469

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)
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
2013	85,725	28,733		4,343
2014	74,084	28,733		6,014

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)
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	180,529	100,110		14,928
2012	218,283	74,071		14,780
2013	232,344	77,254		17,575
2014	180,748	77,254		19,641

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)
2005	$ 92,599	$ 83,221	$ 312	$ 2,824
2006	101,586	85,040	2,242	2,221
2007	108,864	90,643	2,070	2,895
2008	122,334	98,105	1,889	5,172
2009	137,173	91,775	1,699	9,489
2010	159,993	85,322	1,399	9,502
2011	169,479	97,996	1,399	9,229
2012	177,436	77,520	1,399	9,142
2013	192,055	79,860		9,926
2014	115,941	79,860		12,028

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
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
2013	97,174	29,959		4,237
2014	75,307	29,959		4,241

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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)
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
2013	110,217	36,914		3,479
2014	93,241	36,914		4,079

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)
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		
2013	10,647	6,900		
2014	9,151	6,900		

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)
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
2013	36,895	21,983		351
2014	32,676	21,983		374

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)
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		
2013	14,918	10,871		
2014	13,749	10,871		

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)
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
2013	11,377	8,887		45
2014	11,513	8,887		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)
2005	$ 9,416	$ 12,057		$ 17
2006	9,943	12,204		17
2007	10,077	13,194		17
2008	10,903	13,986		18
2009	11,755	13,824		14
2010	14,406	12,463		18
2011	15,413	14,098		18
2012	15,296	11,467		18
2013	15,792	11,326		112
2014	15,232	11,326		127

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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)
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		
2013	14,062	10,359		
2014	14,036	10,359		

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)
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
2013	30,199	14,592		73
2014	28,533	14,592		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)
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	16,997		323
2011	20,532	19,098		153
2012	21,580	15,571		153
2013	21,902	15,619		145
2014	21,902	15,619		141

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)
2005	$ 7,702	$ 10,958		
2006	8,471	11,147		
2007	9,191	12,256		$ 212
2008	9,423	13,199		209
2009	10,140	12,678		209
2010	10,798	13,247		209
2011	12,141	13,291		43
2012	13,934	12,069		43
2013	12,654	12,970		41
2014	17,593	12,970		40

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)
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
2013	39,705	31,281		357
2014	36,221	31,281		358

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)
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
2013	44,992	20,887		178
2014	35,680	20,887		171

(continued on next 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)
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
2013	25,995	15,577		16
2014	25,256	15,577		

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)
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
2013	23,157	17,227		97
2014	21,112	17,227		94

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 **Schedule 16**
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, 2014

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 282	$ 11,245	$ 29,695	$ 4,008	$ 6,288
University of Tennessee- Chattanooga	300	8,138	24,256	3,100	5,900
University of Tennessee- Martin	380	8,024	21,968	2,571	4,570
Austin Peay State University	274	7,462	22,678	2,643	5,526
East Tennessee State University	180	7,985	25,151	2,940	4,398
Middle Tennessee State University	408	8,188	25,252	3,050	4,363
Tennessee State University	178	7,224	20,580	2,978	3,255
Tennessee Technological University	58	8,017	23,767	4,764	3,176
University of Memphis	490	8,973	14,829	4,150	4,180
Chattanooga State Technical Community College		4,027	19,345		
Cleveland State Community College		3,985	19,303		
Columbia State Community College		3,973	19,291		
Dyersburg State Community College		4,001	19,319		
Jackson State Community College		3,987	19,305		
Motlow State Community College		3,978	19,296		
Nashville State Technical Community College		3,927	19,245		
Northeast State Technical Community College		3,989	19,307		
Pellissippi State Technical Community College	30	4,041	19,359		
Roane State Community College		4,005	19,323		
Southwest Tennessee Community College		4,017	19,335		
Volunteer State Community College		3,975	19,293		
Walters State Community College		3,990	19,308		

Source: Comptroller of the Treasury,
Division of State and Local Finance

STATE OF TENNESSEE **Schedule 17**
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2014
(expressed in thousands)

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 635,140	$ 87,549	$ 722,689
Austin Peay State University	84,601	8,046	92,647
East Tennessee State University	145,207	463	145,670
Middle Tennessee State University	215,777	26,143	241,920
Tennessee State University	31,697		31,697
Tennessee Technological University	44,296	3,829	48,125
University of Memphis	95,461	12,240	107,701
Chattanooga State Technical Community College	2,919		2,919
Cleveland State Community College	323		323
Columbia State Community College	1,236		1,236
Nashville State Technical Community College	489		489
Northeast State Technical Community College	236		236
Pellissippi State Technical Community College	1,143		1,143
Roane State Community College	830		830
Southwest Tennessee Community College	2,203		2,203
Walters State Community College	553		553
	$ 1,262,111	$ 138,270	$ 1,400,381

Source: Comptroller of the Treasury,
Division of State and Local Finance

SECURITIES & EXCHANGE COMMISSION DISCLOSURES

ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Larry B. Martin, 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
Centralized Accounting
Departmental Accounting
General Ledger
Payroll
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.

Special Acknowledgement

The Department of Finance and Administration, Division of Accounts staff are indebted to Jan I. Sylvis for her guidance and constant supervision during the CAFR preparation processes throughout the past 20 years.

Tennessee Comptroller of the Treasury

State of Tennessee
Single Audit Report

For the Year Ended June 30, 2014

Division of State Audit

Justin P. Wilson, Comptroller

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

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

March 24, 2015

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 thirty-first *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2014. 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 $14.3 billion. We noted instances of noncompliance that resulted in a qualified opinion on compliance for five of the state's twenty-seven 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, 2014, has been issued under a separate cover. In accordance with the standards applicable to financial audits contained in generally accepted government auditing standards, we are issuing our report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. We noted no internal control deficiencies that we considered to be material weaknesses in internal control over financial reporting. We noted three internal control deficiencies that we considered to be significant deficiencies in internal control over financial reporting. We noted no instances of noncompliance that we considered to be material to the state's basic financial statements. The three significant deficiencies in internal control over financial reporting are described in Section II of the Schedule of Findings and Questioned Costs.

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

Sincerely,

Deborah V. Loveless

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

State of Tennessee
Single Audit Report
For the Year Ended June 30, 2014

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Selected Statistical Data

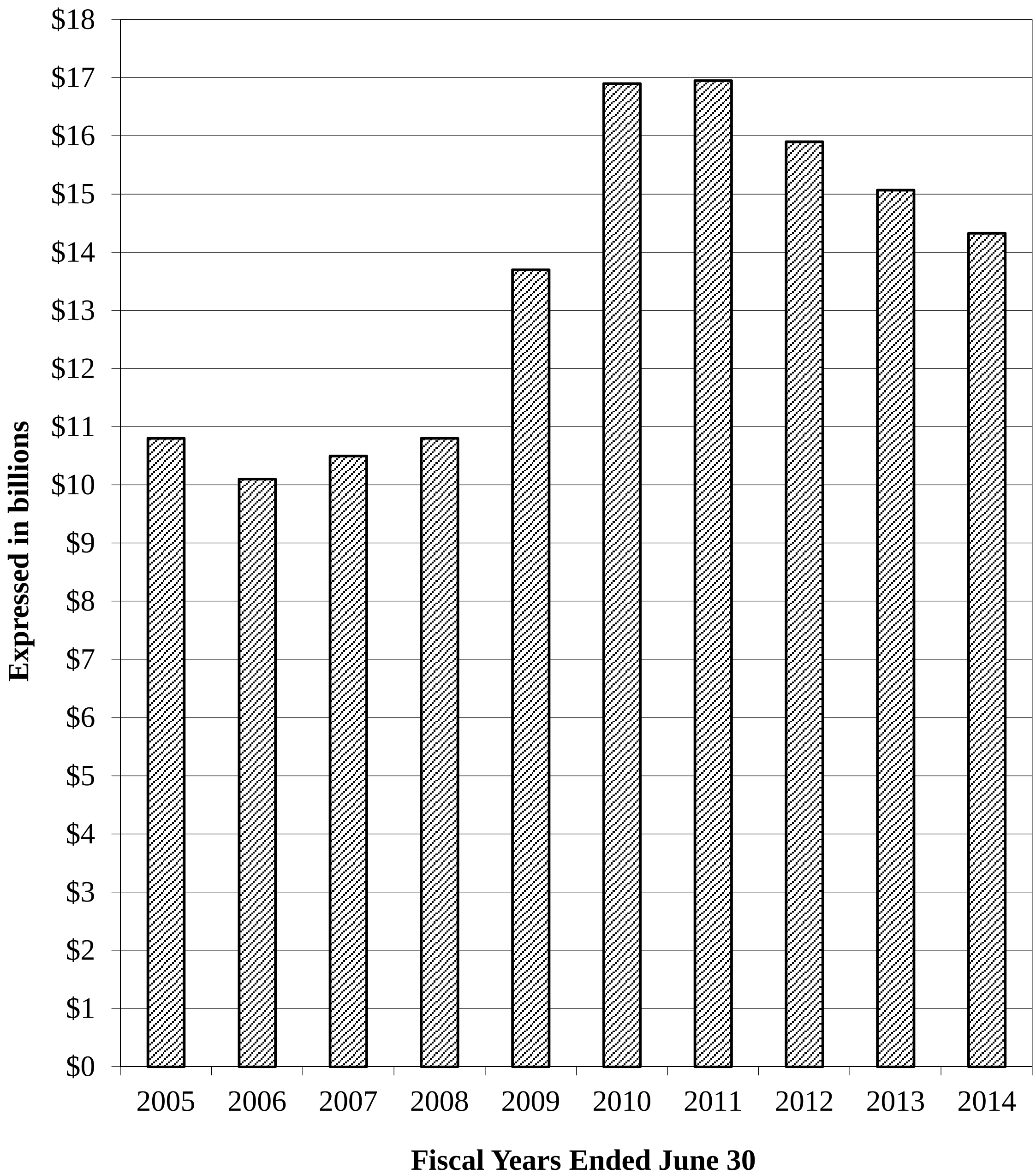
Total Federal Expenditures – Ten-Year Summary

Expenditures by Awarding Agency

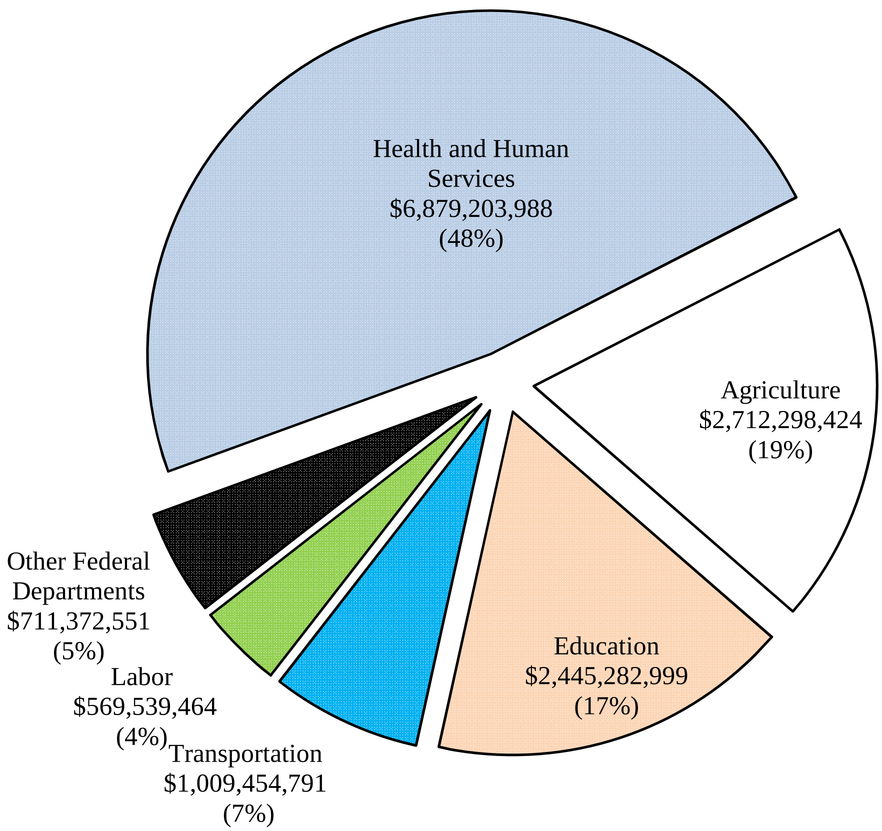
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

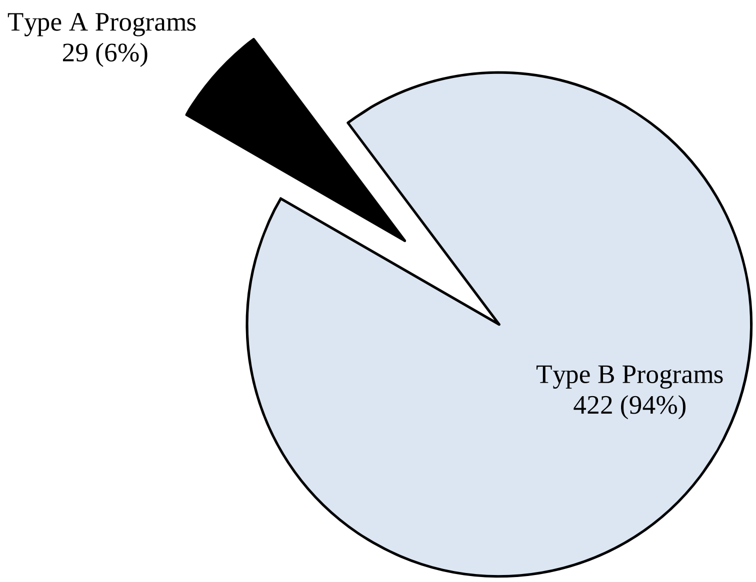
Total Federal Expenditures - Ten-Year Summary



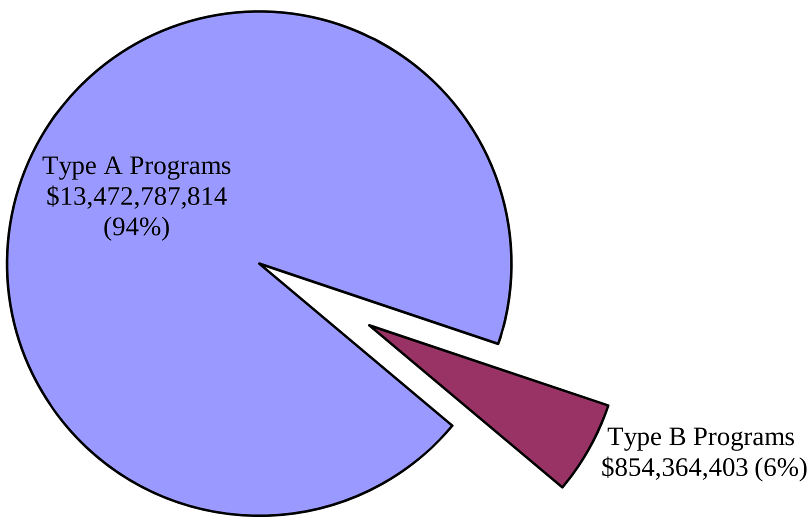
Expenditures by Awarding Agency
July 1, 2013, through June 30, 2014



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, 2014, the Type A program threshold for the State of Tennessee was $30,000,000. Those federal programs with expenditures below the Type A threshold are labeled Type B programs.

Auditor's Reports

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

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

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

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

The Honorable Bill Haslam, Governor
Members of the General Assembly

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Tennessee's basic financial statements, and have issued our report thereon dated December 19, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the schedule of findings and questioned costs as items 2014-001 through 2014-003 that we consider to be significant deficiencies.

Compliance and Other Matters

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

The State of Tennessee's Response to Findings

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

Purpose of this Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 19, 2014

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

The Honorable Bill Haslam, Governor
Members of the General Assembly

Report on Compliance for Each Major Federal Program

We have audited the State of Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Tennessee's major federal programs for the year ended June 30, 2014. The State of Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on the Supplemental Nutrition Assistance Program (SNAP) Cluster

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the State of Tennessee with the SNAP Cluster as described in finding number 2014-019 for Reporting. Consequently, we were unable to determine whether the State of Tennessee complied with this compliance requirement applicable to the SNAP Cluster.

Qualified Opinion on the Supplemental Nutrition Assistance Program (SNAP) Cluster

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the State of Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the SNAP Cluster for the year ended June 30, 2014.

Basis for Qualified Opinion on CFDA 10.558 Child and Adult Care Food Program, CFDA 17.225 Unemployment Insurance, CFDA 84.002 Adult Education - Basic Grants to States, and CFDA 84.287 Twenty-First Century Community Learning Centers

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

Finding #	CFDA #	Program or Cluster Name	Compliance Requirement(s)
2014-021	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
2014-022	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
2014-024	10.558	Child and Adult Care Food Program	Eligibility Subrecipient Monitoring
2014-025	10.558	Child and Adult Care Food Program	Eligibility
2014-026	10.558	Child and Adult Care Food Program	Eligibility
2014-027	10.558	Child and Adult Care Food Program	Eligibility
2014-028	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
2014-039	17.225	Unemployment Insurance	Eligibility
2014-042	17.225	Unemployment Insurance	Eligibility
2014-044	17.225	Unemployment Insurance	Special Tests and Provisions
2014-046	17.225	Unemployment Insurance	Special Tests and Provisions
2014-047	17.225	Unemployment Insurance	Special Tests and Provisions
2014-048	17.225	Unemployment Insurance	Special Tests and Provisions
2014-051	84.002	Adult Education - Basic Grants to States	Matching, Level of Effort, Earmarking, Subrecipient Monitoring
2014-053	84.002	Adult Education - Basic Grants to States	Subrecipient Monitoring

2014-011	84.287	Twenty-First Century Community Learning Centers	Subrecipient Monitoring

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

Qualified Opinion on CFDA 10.558 Child and Adult Care Food Program, CFDA 17.225 Unemployment Insurance, CFDA 84.002 Adult Education - Basic Grants to States, and CFDA 84.287 Twenty-First Century Community Learning Centers

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion in the preceding paragraph, the State of Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs described in the preceding paragraph for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of Tennessee complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-004 through 2014-008, 2014-011 through 2014-016, 2014-018, 2014-020 through 2014-023, 2014-027 through 2014-035, 2014-043 through 2014-045, 2014-049, 2014-050, 2014-052, 2014-054 through 2014-058, and 2014-060 through 2014-065. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-011, 2014-012, 2014-017, 2014-019 through 2014-022, 2014-024 through 2014-026, 2014-036, 2014-037, 2014-039, 2014-041, 2014-042, 2014-044, 2014-046 through 2014-049, 2014-051 through 2014-053, and 2014-056 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 2014-006 through 2014-011, 2014-013, 2014-016 through 2014-018, 2014-021, 2014-023, 2014-027, 2014-028, 2014-031, 2014-033 through 2014-035, 2014-038, 2014-040, 2014-043 through 2014-045, 2014-050, 2014-054, 2014-055, 2014-057 through 2014-060, and 2014-063 through 2014-065 to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Tennessee's basic financial statements. We issued our report thereon dated December 19, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
March 24, 2015

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, 2014

Section I – Summary of Auditor's Results

Financial Statements

- We issued an unmodified opinion on the basic financial statements.
- We identified no material weaknesses in internal control over financial reporting.
- We identified significant deficiencies in internal control over financial reporting.
- We identified no instances of noncompliance considered to be material to the basic financial statements.

Federal Awards

- We identified material weaknesses in internal control over major programs.
- We identified significant deficiencies in internal control over major programs.
- We issued a qualified opinion for CFDA 10.558 Child and Adult Care Food Program, CFDA 17.225 Unemployment Insurance, CFDA 84.002 Adult Education - Basic Grants to States, CFDA 84.287 Twenty-First Century Community Learning Centers, and the Supplemental Nutrition Assistance Program (SNAP) Cluster. We issued unmodified opinions for each of the other major federal programs.
- We disclosed audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed in OMB Circular A-133, Section 520(b), was $30,000,000.
- The State of Tennessee does not qualify as a low-risk auditee under OMB Circular A-133, Section 530.

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

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

CFDA Number	Name of Major Federal Program or Cluster
10.558	Child and Adult Care Food Program
17.225	Unemployment Insurance*
84.002	Adult Education - Basic Grants to States
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants
84.395	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants*
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.658	Foster Care - Title IV-E*
93.659	Adoption Assistance*
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
-	Student Financial Assistance Cluster
-	Supplemental Nutrition Assistance Program (SNAP) Cluster
-	Child Nutrition Cluster
-	Community Development Block Grants - State-Administered CDBG Cluster
-	Housing Voucher Cluster
-	Workforce Investment Act Cluster
-	Highway Planning and Construction Cluster*
-	Special Education Cluster (IDEA)
-	School Improvement Grants Cluster*
-	Temporary Assistance for Needy Families (TANF) Cluster
-	Child Care and Development Fund (CCDF) Cluster
-	Medicaid Cluster*
-	Disability Insurance/Supplemental Security Income (SSI) Cluster

*Program includes ARRA funding.

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section II – Financial Statement Findings

Finding Number	2014-001
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Significant Deficiency
Compliance Requirement	N/A
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Finance and Administration has not consistently implemented internal controls in one specific area

The Department of Finance and Administration did not consistently design and monitor internal controls in one area. Inconsistent implementation of internal controls increases the risk of fraud or error.

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

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in one specific area. In addition, management should ensure that these controls include ongoing monitoring of their effectiveness and should take all other steps available to establish or improve any compensating controls until these conditions are remedied. Finally, management should ensure the conditions associated with this finding are adequately identified and assessed in the department's documented risk assessment.

Management's Comment

We concur. All of the recommended actions have been completed.

Finding Number	2014-002
CFDA Number	20.106, 20.205, 20.500, 20.505, 20.509, 20.516, 20.600, 20.607, and 20.616
Program Name	Airport Improvement Program Highway Planning and Construction Cluster Federal Transit_Capital Investment Grants Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research Formula Grants for Rural Areas Job Access and Reverse Commute Program State and Community Highway Safety Alcohol Open Container Requirements National Priority Safety Programs
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Years	2013 and 2014
Finding Type	Significant Deficiency
Compliance Requirement	N/A
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Transportation materially understated the Schedule of Expenditures of Federal Awards

Background and Criteria

As a condition of receiving federal funding, regulations require the state to prepare an annual Schedule of Expenditures of Federal Awards (SEFA) detailing the value and type of federal assistance received each year by Catalog of Federal Domestic Assistance (CFDA) number. According to Part 3 of Office of Management and Budget Circular A-133, "Compliance Supplement," Section N, the reported amounts on the SEFA should be supported by accounting records and fairly presented in accordance with the American Recovery and Reinvestment Act of 2009 and program requirements.

The Department of Finance and Administration, which manages financial reporting for the State of Tennessee, issues instructions for preparing the SEFA based on the Edison accounting system. These instructions state, "Amounts reported on the SEFA must be reconciled with the Edison report Schedule of Grant Activity and with the general ledger." The Edison report lists assistance received either directly or indirectly from the federal government. The instructions also specify that the SEFA expenditure amounts should be prepared using the accrual basis of accounting.

Within the Department of Transportation (DOT), the Finance Office compiles, prepares, and submits the SEFA to the Department of Finance and Administration.

Condition

During our review, we generated the same Edison report that DOT's Finance Office management used to prepare the SEFA and then compared our results to the amounts on the submitted SEFA. We found that management had understated the SEFA by a total of $14,309,280. Below is a chart showing the understatements by CFDA number:

CFDA	Program Name	Revised	Original	Difference
20.106	Airport Improvement Program	$16,806,166	$16,069,759	$736,407
20.205	Highway Planning and Construction	$919,330,758	$908,772,344	$10,558,414
20.500	Federal Transit_Capital Investment Grants	$1,278,667	$1,174,906	$103,761
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	$1,365,493	$1,170,287	$195,206
20.509	Formula Grants for Rural Areas	$20,420,548	$18,236,087	$2,184,461
20.516	Job Access and Reverse Commute Program	$1,216,738	$1,191,855	$24,883
20.600	State and Community Highway Safety	$5,524,442	$5,423,396	$101,046
20.607	Alcohol Open Container Requirements	$20,914,059	$20,568,847	$345,212
20.616	National Priority Safety Programs	$3,484,704	$3,424,814	$59,890
	Total Difference:			*$14,309,280*

Cause

Three primary causes contributed to this condition. First, we determined that DOT's Finance Office management originally ran the Edison report Schedule of Grant Activity on August 13, 2014, but did not rerun the report prior to submitting the SEFA on September 19, 2014. In earlier fiscal years, Finance Office management had rerun the report before submission in order to verify that no changes had occurred.

Second, Finance Office management explained that unlike in previous years, the Department of Finance and Administration required the posting of accrual entries after the deadline for doing so had passed. The unexpected accrual entries accounted for $13,855,049 of the $14,309,280 understatement. According to Finance Office management, they did not think about the impact the additional accruals would have on the SEFA. Management also provided us with supporting documentation illustrating that the Department of Finance and Administration had approved some of the accrual entries before the SEFA submission deadline and some after the deadline. We present the following timeline of events:

Date	Action
July 25, 2014	Department of Finance and Administration's accrual entry deadline.
August 13, 2014	DOT's Finance Office management originally ran the Edison report Schedule of Grant Activity.
August 25, 2014, through September 3, 2014	The Department of Finance and Administration approved $6,223,170 in accrual entries before the SEFA deadline.
September 19, 2014	Finance Office management submitted the SEFA.
September 19, 2014	Department of Finance and Administration's SEFA submission deadline.
September 29, 2014, through September 30, 2014	The Department of Finance and Administration approved $7,631,879 in accrual entries after the SEFA deadline.
October 31, 2014	We ran the Edison report Schedule of Grant Activity.
November 3, 2014	Finance Office management reran the Edison report Schedule of Grant Activity, following discussions with us.
November 5, 2014	Finance Office management submitted a corrected SEFA.

Third, Finance Office management said that $28,356 in refunds was not attached to contracts until September 5, 2014, and therefore did not appear on the original Edison report Schedule of Grant Activity. The department could not provide an explanation for the remaining difference of $482,587.

Effect

Due to inadequate controls, DOT's Finance Office management submitted a SEFA with material misstatements totaling $14,309,280, of which $10,558,414 related to the Highway Planning and Construction program (the major federal program under audit). We calculated a performance materiality level for the Highway Planning and Construction program of $5,393,142.

Recommendation

DOT's Finance Office management must implement additional policies and procedures that will ensure the accuracy of the SEFA amounts sent to the Department of Finance and Administration. These policies and procedures should provide assurance that the SEFA includes all applicable accruals and should require management to rerun the Edison report Schedule of Grant Activity prior to SEFA submission.

Management's Comment

We concur. The Finance Office will re-run the Edison report Schedule of Grant Activity prior to submission to the Department of Finance and Administration. We will re-run the report after submission if additional accruals are recorded. If necessary, we will update and re-submit the Schedule of Expenditures of Federal Awards.

Finding Number	2014-003
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of the Treasury
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Significant Deficiency
Compliance Requirement	N/A
Questioned Costs	N/A
Repeat Finding	N/A

The Tennessee Consolidated Retirement System does not have sufficient controls to ensure the accuracy of census data received from employers

Condition

Based on our interviews with management, we determined that the Tennessee Consolidated Retirement System does not currently have procedures to verify underlying payroll records of participating employers in the cost-sharing pension plan.

Criteria

The recently effective accounting standard, *Financial Reporting for Pension Plans* (GASB 67), requires pension plans to report total pension liability in the footnotes to the financial statements of cost-sharing pension plans. The calculation of the total pension liability for cost-sharing plans is dependent on the completeness and accuracy of the underlying census data of the members of that plan.

Plan management is responsible for designing, implementing and maintaining a system of internal control related to amounts reported in the financial statements. A complete system of internal control related to the total pension liability calculation includes procedures to verify the underlying payroll records to ensure completeness and accuracy of the data, and the lack of such procedures constitutes a control deficiency. This fact is emphasized in the American Institute of Certified Public Accountants (AICPA) whitepaper *Single-Employer and Cost-sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements*: "the absence of effective management processes and controls by the plan to . . . verify the underlying payroll records of participating employer census data in a single-employer or cost-sharing plan is a deficiency in internal control over financial reporting."

Cause

Prior to the issuance of GASB 67 and the related AICPA whitepaper, management had not considered the verification of census data received from employers to be essential.

Effect

This control deficiency increases the risk of misstatement in the footnotes to the financial statements.

Recommendation

Management should ensure procedures are implemented to verify the census data received from employers agrees with the underlying payroll records of the participating employers.

Management's Comment

Management concurs. The Tennessee Consolidated Retirement System (TCRS) was created in 1972 and it has been the long-term practice that local governments participating in TCRS were responsible for the accurate reporting of census data of their participants to the retirement system, particularly since the local government is ultimately responsible for the pension cost of their employees. While this has been the historical practice, the American Institute of Certified Public Accountants (AICPA) highlighted a need to change this practice in February 2014 with the issuance of a whitepaper titled *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements.* The whitepaper was published by the AICPA as a result of the Governmental Accounting Standards Board (GASB) issuing statements 67 and 68 that changed the financial reporting standards for defined benefit pension plans and employers.

The late publishing of the AICPA white paper just four months before the close of the fiscal year and confusion over the specific requirements has caused difficulty within the industry to meet the full requirements of the paper. As a result, it was difficult, if not impossible for TCRS to comply with the parameters of the white paper for the full fiscal year. In addition, TCRS did not have the personnel within the department's budget to enhance the internal controls of the census data of the employers within TCRS by a direct audit of the data.

This finding specifically addresses the census data of teachers in Local Education Agencies (LEAs) participating in the cost-sharing plan. However, we believe all entities within the TCRS should be held to the same standard for accuracy of the census data. While it was not possible to comply with the requirements in fiscal year 2014, the Treasury Department is committed to enhancing our internal controls of the census data reported to TCRS by employers through the practice of audits. During fiscal year 2015, the Treasury Department will reallocate resources from other programs on a temporary basis and begin the auditing of the census data. For fiscal year 2016, the Treasury Department will request additional positions and resources in the department's budget to fully implement a new audit plan to confirm the reasonableness of the census data submitted by employers.

Section III – Federal Award Findings and Questioned Costs

Finding Number	2014-004
CFDA Number	93.645, 93.658, 93.659, and 93.778
Program Name	Stephanie Tubbs Jones Child Welfare Services Program Foster Care Title IV-E Adoption Assistance Title IV-E Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	1101TN1400, 1201TN1400, 1301TNCWSS, 1201TN1404, 1201TN1401, 1301TN1401, 1401TN1401, 1101TN1403, 1101TN1405, 1301TN1407, 1401TN1407, 05-1405TN5MAP, 05-1305TN5MAP
Federal Award Year	2013 and 2014
Finding Type	Noncompliance
Compliance Requirement	Allowable costs/cost principles
Questioned Costs	\$13,857 (93.645) \$18,506 (93.658) \$542 (93.659) \$117,092 (93.778)
Repeat Finding	N/A

The Department of Children's Services charged federal programs for settlements for alleged violations of law, resulting in federal questioned costs of \$149,997

Condition

Auditors tested a sample of 44 transactions from the population of costs funded through the department's cost allocation plan. Two of the 44 transactions, totaling \$445,948, were for costs related to settlements of alleged violations of law. These costs were funded as shown:

	CFDA	Questioned Costs Federal	State	Total	Total Costs
Guardianship Assistance[1]	93.090	$ -	$ -	$ -	$ 249
Stephanie Tubbs Jones Child Welfare Services Program	93.645	13,857	5,389	19,246	19,246
Foster Care	93.658	18,506	18,507	37,013	37,013
Adoption Assistance	93.659	542	542	1,084	1,084
Social Services Block Grant (SSBG)[2]	93.667	-	-	-	20,479
Chafee Foster Care Independence Program[3]	93.674	-	-	-	2
Medical Assistance Program[4]	93.778	117,092	63,424	180,516	180,516
State Funding		-	-	-	187,359
Totals		$149,997	$87,862	$237,859	$445,948

Since management believed these costs were allowable, the condition noted is not an isolated case. Because the sample was drawn from a universe of transactions that allocated to numerous federal programs with varying costs basis, we do not believe a valid projection of the impact on individual federal programs is practical.

Criteria

OMB Circular A-87, Attachment B, Paragraph 16 states

> Fines, penalties, damages, and other settlements resulting from violations (or alleged violations) of, or failure of the governmental unit to comply with, Federal, State, local, or Indian tribal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

Since management believed that the costs were allowable, we contacted the federal agency program contact for the foster care and adoption assistance programs named in Appendix III of the OMB Circular A-133 Compliance Supplement for further guidance. The federal agency program contact responded that the costs were not allowable.

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[1] Office of Management and Budget (OMB) Circular A-133, Section 510(a)(4) requires an audit finding for "known questioned costs which are greater than $10,000 for a Federal program which is not audited as a major program." Since this program is not a major program and the costs are less than $10,000 the costs are not questioned in this finding.

[2] OMB Circular A-133 Compliance Supplement, Part 4, CFDA 93.667, III – Compliance Requirements, B – "Allowable Costs/Cost Principles" states that "SSBG is exempt from the provisions of the OMB cost principles circulars." Because the requirements of OMB Circular A-87 do not apply to SSBG, the costs are not questioned.

[3] See footnote 1.

[4] The department billed these costs to the Division of Health Care Finance and Administration in the Department of Finance and Administration. The division paid $180,516 to the department and billed the federal government the federal share of $117,092.

Cause

Management believed the costs to be allowable for federal funding.

Effect

Assigning unallowable costs to federal programs could result in refunds being requested by the grantor.

Recommendation

Department of Children's Services

If the Department of Children's Services wishes to continue to bill the Division of Health Care Finance and Administration for the costs described in the finding, the department should seek written authorization from the division to do so. Otherwise, the department should refund the division the costs billed.

If the department wants to pursue federal funding for the other costs questioned in this finding, the department should ask the federal Administration for Children and Families for written authorization to claim federal funds for these costs. Otherwise, the department should refund the federal share of the costs to the federal government.

Division of Health Care Finance and Administration

If the Division of Health Care Finance and Administration wants to fund the costs discussed in this finding with Medical Assistance Program funds, they should ask the Department of Health and Human Services for written authorization to use federal funds for these costs. Otherwise, the division should request a refund from the Department of Children's Services and refund the federal share of the costs to the federal government.

Managements' Comments

Department of Children's Services

We concur. The Department of Children's Services has refunded the charges outlined in this finding to the Division of Health Care Finance and Administration and to the Administration for Children and Families. The department will ensure that these costs will not be charged to the Federal Government in the future.

Division of Health Care Finance and Administration

We concur. The Division of Health Care Finance and Administration will process the appropriate refunding of federal funding as outlined in the finding. We will work with the Department of Children's Services (DCS) to ensure that the costs identified in the finding are not included in DCS expenditures funded with federal participation in the future.

Finding Number	2014-005
CFDA Number	93.658 and 93.659
Program Name	Foster Care Title IV-E Adoption Assistance Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	1201TN1404, 1201TN1401, 1301TN1401, 1401TN1401, 1101TN1403, 1101TN1405, 1301TN1407, 1401TN1407
Federal Award Year	2014
Finding Type	Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Children's Services did not include all program costs on federal quarterly reports

Condition

In Edison, for the quarters ended December 31, 2013; March 31, 2014; and June 30, 2014, the department recorded expenditures totaling $2,498,886 for the Foster Care program and $2,706,717 for the Adoption Assistance program in new Project IDs that were not included in the expenditure amounts reported on the related CB-496 reports. The federal share of these amounts was $1,631,523 for the foster care program and $1,767,215 for the adoption assistance program.

Criteria

The instructions for the completion of the CB-496 form state that the amounts reported

> must be actual, verifiable transactions supported by readily available accounting records and source documentation or an approved cost allocation plan or an indirect rate agreement, as applicable.

Cause

Department staff overlooked including the new Project IDs' expenditures in the amounts reported on the CB-496 form.

Effect

Not including expenditures from all Project IDs associated with the Foster Care and Adoption Assistance programs understated the expenditures reported to the federal government for the quarters ending December 31, 2013; March 31, 2014; and June 30, 2014. Understating expenditures could result in inaccurate or inconsistent information being provided to decision makers.

Recommendation

The Assistant Commissioner for Finance and Budget should ensure fiscal staff include expenditures from all Foster Care and Adoption Assistance program Project IDs on the CB-496 report.

Management's Comment

We do not concur. The department properly reported these expenditures in September 2014 as allowed for prior quarter adjustment as stated by CB-496, Instructions for Prior Quarter Adjustment rules, which state the following:

> In accordance with Section 1132 of the Act and Federal regulations at 45 CFR Part 95 Subpart A, increasing prior quarter adjustments must be reported by the IV-E agency and received by this agency within 2 years of the last day of the fiscal quarter in which the expenditure was made.

Per CB-496, instructions:

> Prior Quarter Adjustments (Columns C and D). These include the Total and the Federal share of expenditures made in or allocated to a previous quarter that were either unreported or incorrectly reported on an earlier report. A "Prior Quarter" is any quarter that ended prior to the start of the current quarter for which expenditures are being reported and for which Federal funds are being claimed in these columns.

The context of the criteria stated in the finding was referring to not reporting estimates as expenditures. The following are the complete instructions related to this criteria:

> Expenditure estimates are not acceptable in these columns. "Advances" of funds to another State or Tribal agency, a local agency or a private entity are not considered expenditures for these purposes. The amounts reported in these columns must be actual, verifiable transactions supported by readily available accounting records and source documentation or an approved cost allocation plan or an indirect rate agreement, as applicable.

Auditor's Comment

We agree that the Department of Children's Services has a two-year window to correct mistakes on the CB-496 reports. However, we do not agree that this absolves the department from the responsibility to accurately report expenditures in the quarter they are made.

Finding Number	2014-006
CFDA Number	93.659
Program Name	Adoption Assistance Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	1101TN1405, 1301TN1405, 1301TN1407, 1401TN1407
Federal Award Year	2013 and 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$946.68
Repeat Finding	N/A

Payments were made for an ineligible individual

Condition

During the audit period, the Department of Children's Services made Title IV-E adoption assistance payments on behalf of an ineligible individual. This resulted in questioned costs.

We selected a random sample of 40 adoption assistance case files from a population of 7,115 files for the year ended June 30, 2014. For one of the 40 files sampled (3%), we found that for three months during the audit period, Title IV-E funding had been made on behalf of an ineligible individual, over the age of 18. This individual did not have a mental or physical disability warranting continuation of the adoption assistance, nor was there documentation that the individual was participating in any of the activities listed in the Title 42, *United States Code*, Section 675(8)(B)(iv) that would allow adoption assistance to continue beyond the 18th birthday.

Questioned costs for the condition described totaled $1,431.52. Federal questioned costs were $946.68. The remaining $484.84 was state matching funds. The total federal dollars associated with the 40 cases examined was $159,621.33. The total federal dollars paid for the population was $38,117,721.87.

Criteria

42 U.S.C. 673(a)(4) states that

> . . . a payment may not be made . . . to parents or relative guardians with respect to a child—
> (i) who has attained—
> (I) 18 years of age . . . [unless the individual meets the criteria in 42 U.S.C. 675(8)(B)(iv)]; 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.

42 U.S.C. 675(8)(B)(iv) also allows adoption assistance to continue beyond the 18th birthday if the individual is

(I) completing secondary education or a program leading to an equivalent credential;

(II) enrolled in an institution which provides post-secondary or vocational education;

(III) participating in a program or activity designed to promote, or remove barriers to, employment;

(IV) employed for at least 80 hours per month; or

(IV) incapable of doing any of the activities described in subclauses (I) through (IV) due to a medical condition, which incapability is supported by regularly updated information in the case plan of the child.

Cause

The eligibility determination in the Tennessee Family and Child Tracking System (TFACTS) that covered the time period of the unallowable payments indicated that the individual was eligible for federal funding. Management stated that during the time the payments were made, a defect had been identified in the TFACTS system that resulted in incorrect eligibility decisions being made in certain situations. According to the Program Manager, although there was a temporary workaround in TFACTS to correct eligibility decisions in similar cases like this one, the correction did not occur. According to the Program Manager the defect that necessitated the workaround was corrected in the TFACTS system in February 2014.

Effect

Not correcting the eligibility determination in TFACTS resulted in the improper federal funding of the adoption assistance payments.

Recommendation

The Program Manager should work with the appropriate Office of Information Systems staff to correct the eligibility determination in TFACTS. Once corrections are completed, the Director of Revenue Maximization should make adjusting entries in Edison and refund the unallowable costs to the federal government.

Management's Comment

We concur. Prior to enhancements to our SACWIS system (TFACTS) in February 2014, there was an identified defect that resulted in some incorrect eligibility decisions being made for some clients. A "workaround" to correct the system's determinations in these situations of error was implemented but did not occur timely in this unique case.

With the system enhancements in February of last year, the identified defect was resolved and any other similar errors should be corrected. TFACTS now encompasses all factors related to determining eligibility for clients, including annual redeterminations of clients after the age of 18; there is no longer a practice or need to make these determinations on paper. It is our expectation that this error should be remedied for future audits. The federal cost related to this finding has been refunded.

Finding Number	2014-007
CFDA Number	14.228
Program Name	Community Development Block Grant – State Administered Cluster
Federal Agency	Department of Housing and Urban Development
State Agency	Department of Economic and Community Development
Grant/Contract No.	B-09-DC-47-0001, B-10-DC-47-0001, B-11-DC-47-0001, B-12-DC-47-0001, B-13-DC-47-0001
Federal Award Year	2009 through 2013
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	N/A

Subrecipients not monitored for audit requirements

Background

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

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

As the pass-through entity, the department is responsible for the oversight and monitoring of the subrecipients' compliance with federal regulations. One such requirement, under the oversight and monitoring function, is to ensure that subrecipients who expend $500,000 or more in federal subawards receive the required Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, audit.

Based on discussion with the Director of Federal Programs and Director of Internal Audit, the department currently reviews a subrecipient audit report at the inception and close of the subrecipient's contract with the department. The department can contract with subrecipients annually or for periods up to four years. In addition, according to the Director of Federal Programs, program staff also review a subrecipient's audit reports as part of the grant application; however, these subrecipient audits may not be performed based on OMB Circular A-133 audit requirements, which require the auditor to perform testwork on the subrecipient's compliance with federal regulations. According to the Director of Internal Audit, once a subrecipient contract is closed, the Division of Internal Audit obtains the subrecipient's most recent audit report to verify that the audit was completed, but does not follow up on any findings noted.

Condition

During the preparation of our testwork, we requested a list of all subrecipients who expended $500,000 or more in federal funds; however, the Director of Federal Programs explained that they do not actively track subrecipients' expenditures for the purpose of monitoring. Therefore, to get a population of subrecipients who expended more than $500,000 in federal funding, we summarized the CDBG expenditures. Based on this summary, we identified a population of 38 subrecipients that expended at least $500,000 in CDBG federal funding from the department for the fiscal year ended June 30, 2014. We tested a nonstatistical random sample of 21 of those 38 subrecipients (55%) to determine if the department met the Circular's audit requirements. We found that the department failed to ensure that its subrecipients obtained the required A-133 audits. Additionally, the department failed to obtain and review the annual audits for all 21 of the subrecipients tested (100%).

OMB Circular A-133 also requires the pass-through entity to follow up on any findings noted in the subrecipient's audit report; however, before our testwork commenced, the department informed us that department staff did not perform the required follow-up, which includes issuing a management decision and ensuring proper corrective action was taken by the subrecipient. We reviewed the 21 subrecipients' A-133 audits, located in the Tennessee Comptroller's Automated Reporting System or the Federal Audit Clearinghouse, to determine whether the audits contained findings, and, if so, how many. We determined that one of the 21 audits (4.8%) reported one A-133 audit finding. Therefore, the department failed to perform the required follow-up on one subrecipient audit finding.

As noted in the background section of the finding, the department obtains subrecipient audit reports at the inception and close of the contract. According to the Director of Internal Audit, rather than enforcing the subrecipients to submit annual audit reports to the division as required by their contracts, the division obtains copies of subrecipient audit reports (only at the close of the contract) from the Office of the Comptroller of the Treasury Division of Local Government Audit instead.

Criteria

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

> Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes: . . .
>
> (4) Ensure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

> (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

According to the Grant Contract between the department and subrecipient, section D.16. Annual Report and Audit:

> The grantee shall prepare and submit, within nine (9) months after the close of the reporting period, an annual report of its activities funded under this Grant Contract to the commissioner or head of the Granting agency, the TN COT, and the Commissioner of F&A.

Cause

The department:

1. was unaware of all of the OMB Circular A-133 requirements, such as required audits for every year the subrecipient had expenditures of federal awards of $500,000 or more, performing follow-up of subrecipients' audit findings, issuing management decisions, and ensuring subrecipients took corrective actions; and

2. does not track or monitor the subrecipients' expenditures to determine when or which subrecipients reach the audit requirement thresholds, and therefore staff did not review annual audits.

Effect

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

Recommendation

The Department of Economic and Community Development's Director of Federal Programs should develop procedures to identify subrecipients who expend $500,000 or more in federal funds. The Director should ensure that department staff obtain the required annual audit reports directly from identified subrecipients as specified in the subrecipient contracts. In addition, the Director should ensure that department staff review the subrecipients' audit reports and follow up on any audit findings, which includes issuing management decisions, as needed, and ensuring subrecipients take corrective action.

Management's Comment

We concur. We agree that as a pass-through for federal funds, ECD has not always reviewed each subrecipient's aggregate annual expenditures to verify that they receive, where required, annual audit reports in accordance with the ***U.S. Office of Management and Budget (OMB) Circular A-133***. While we understand the requirement for reviewing annual audits have not been met in all years for every grantee, we feel that existing compensating controls have been established.

First, the subrecipients of our Community Development Block Grants (CDBG) with very few exceptions are counties and municipalities required by statute (***TCA 4-3-304(4)(C)*** and ***TCA 6-56-105)*** to undergo annual audits by the Local Government Audit arm of the Office of the Comptroller of the Treasury or by an approved independent certified public accounting firm. We rely on their competence as auditors. Of our 457 current approved grant contracts, only 14 subrecipients (3%) are not counties or municipalities required by statute to have ***OMB Circular A-133*** compliant audits.

Second, we as a state agency do not currently have any method of verifying with a certainty that any of the municipalities or counties have reached the minimum threshold of $500,000 (recently changed to $750,000 as of September 2015) requiring an ***OMB Circular A-133*** audit. We do not have access to financial data on all funds the grantees may have received during the fiscal year from other state agencies or directly from the federal government. We only have knowledge of funds granted to our subrecipients by this specific agency. Therefore, our reliance on a procedure that is based on our limited access to financial data may be less than useful. However, we now have a process in place to review the amount of our disbursements of federal funds to grantees quarterly to determine whether they have reached the minimum threshold.

Third, we review the most recent annual audits at the beginning of each grant application process, again during the *Risk Assessment* process and again at the conclusion of each contract. Contracts typically last three years leaving one year potentially inadequately reviewed.

Fourth, we alert each subrecipient of CDBG grant funds multiple times that they are responsible for compliance with ***OMB Circular A-133***. In addition to specific contract terms, subrecipients must sign a *Statement of Assurances* acknowledging their agreement to comply with all ***OMB Circular A-133*** requirements.

Fifth, we conduct grant monitoring procedures during the course of the contract period in accordance with **OMB Circular A-133** Core Criteria and with HUD grant requirements.

Last, we currently include certain "management's decision" follow-up procedures to audit findings with our management's consideration of findings when preparing our *Risk Assessment Forms* required in accordance with the ***Central Procurement Office Policy 2013-007.*** We have relied on the auditors of the municipalities and counties to address prior audit findings as one of their standard audit practices.

We will, however, comply with this requirement. We will expand procedures going forward by reviewing our subrecipients' annual audits for every fiscal year. We will require Corrective Action Plans for any findings noted and follow up with a management decision on the adequacy of the Corrective Action Plan to resolve their findings.

Auditor's Comment

As noted in the finding above, the department has not complied with the subrecipient monitoring requirements set forth in the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Section 400(d). The procedures that the department has described do not meet the subrecipient monitoring requirements.

Finding Number	2014-008
CFDA Number	84.010
Program Name	Title I Grants to Local Educational Agencies
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S010A120042, S010A130042
Federal Award Year	2012 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$15,512
Repeat Finding	2013-004

Payroll expenditures were incorrectly charged to the Title I Part A program

Background

Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," Attachment B, paragraph 8.h., establishes standards for documenting employee time and effort when payroll expenditures are charged to federal awards. Specifically, employees that work solely on one federal award (single cost objective employees) must prepare, at least semi-annually, certifications that meet federal requirements. Employees that work on a federal award and on other federal or state awards and activities (multiple cost objective employees) must prepare, at least monthly, personnel activity reports (or equivalent documentation) that meet certain federal requirements. The Tennessee Department of Education (the department) has a process by which it consolidates administrative program funds originally authorized by the Elementary and Secondary Education Act of 1965 (ESEA). The department consolidates these funds to administer various ESEA programs (for example, English Language Acquisition State Grants and Improving Teacher Quality State Grants).

As noted in the prior audits, the department did not adhere to federal requirements prescribed by OMB Circular A-87 and the United States Department of Education for documenting and charging payroll expenditures to various federal awards. During fiscal year 2014, management initiated corrective action and made improvements to the time and effort documentation process, including revising the personnel activity report process; conducting training for department personnel; and adopting a new policy on preparing, tracking, and validating journal entries. Despite these improvements, the department still did not ensure that payroll expenditures were charged based on the captured time and effort documentation.

Condition

We tested a population of 73 department employees whose payroll expenditures, totaling $1,741,736.36, were fully or partially funded by consolidated state administrative funds and then charged to federal programs for fiscal year 2014. For all 73 employees, we examined all payroll transactions paid from July 1, 2013, through June 30, 2014. Department employees are paid bimonthly. We found that, for 5 of 73 employees tested (7%), the department incorrectly charged federal programs based on the employees' time and effort documentation we reviewed.

- For one employee who worked on non-federal program activities, the department did not reclassify payroll expenditures that were improperly charged to federal grants. This employee's payroll expenditures should have been charged to state funding sources. The department overcharged the Title I Part A program $1,416, resulting in federal questioned costs.
- Four employees' payroll expenditures were charged to the wrong federal program because the department's fiscal staff did not make the necessary correcting journal entries in accordance with the employees' time and effort documentation. The department overcharged the Title I Part A program $14,096, resulting in federal questioned costs.

The total amount of all federal questioned costs noted in this finding is $15,512. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program. The questioned costs represent 1% of the expenditures tested; 99% of the expenditures tested were allowable and adequately supported. On December 11, 2014, the Fiscal Director corrected this issue by reversing the payroll that was inappropriately charged to the Title I Part A program.

Criteria

OMB Circular A-87, Attachment B, Section (8)(h)(4)-(5), states, "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. . . . They must account for the total activity for which each employee is compensated."

Cause

The department implemented a new automated time and effort documentation process in March 2014. Four of the five issues noted above occurred in July, August, and October 2013. For the one remaining issue, we determined that an error occurred within the automated process, resulting in the overcharge to the federal grant.

Effect

When time and effort is not properly documented in accordance with federal requirements, management's risk that federal programs will be incorrectly charged for services not performed increases. We reviewed management's annual risk assessment and determined that management addressed the risk that time and effort documentation will not be prepared to support salary or benefit costs.

Recommendation

The department should monitor their newly implemented time and effort documentation process to ensure that staff supports the payroll expenditures charged to federal awards with timely, adequate documentation prepared in accordance with federal requirements. The department's fiscal staff should also perform a prompt and adequate review of the time and effort documentation and make corrections when necessary. Finally, the department's annual risk assessment should be updated to reflect any new controls the department adds to the time and effort documentation process.

Management's Comment

We concur. As noted in the finding, the department implemented a new technology enabled time and effort documentation process in March 2014. The one error noted in the finding that occurred after the implementation date was the result of an error in converting the data into the new system, which has since been corrected. The costs questioned in the audit finding represent only 0.9% ($15,512/ $1,741,736.36) of the total payroll expenditures tested. This was a compliance rate of 99.1%. The department will continue to monitor the new process to ensure it is accurately charging employee compensation to federal programs.

Finding Number	2014-009
CFDA Number	84.010, 84.367, 84.377, and 84.388
Program Name	Title I Grants to Local Educational Agencies Improving Teacher Quality State Grants School Improvement Grants Cluster
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S010A100042, S010A110042, S010A120042, S010A130042, S367A110040, S367A120040 S367A130040, S377A090043, S377A100043, S377A110043, S388A090043
Federal Award Year	2009 through 2014
Finding Type	Significant Deficiency
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	N/A

The department did not have evidence of an independent review for performance reviews performed on local educational agencies

Background

The Tennessee Department of Education (the department) administers federal funding to local educational agencies (LEAs). This funding is provided by various federal grants, including the following:

- Title I Grants to Local Education Agencies (Title I, Part A),
- Improving Teacher Quality State Grants (ITQ), and
- School Improvement Grants (SIG).

Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, requires the department to monitor the local educational agencies' use of federal funds through reporting, site visits, regular contact, or other means to provide reasonable assurance that LEAs administer the funds in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

Title I, Part A and ITQ Performance Reviews

To determine that the department fulfilled its monitoring responsibilities, we reviewed all 16 local educational agencies in which department staff conducted a performance review during fiscal year ended June 30, 2013. For 3 of 16 performance reviews tested (19%), management could not provide sufficient evidence that they evaluated/analyzed the performance reviews to ensure monitoring efforts were adequate to identify whether local educational agencies had properly used federal funds.

SIG Programmatic Monitoring

For all six local educational agencies that received SIG funds, we reviewed milestone reports that were completed during fiscal year 2013 as part of the department's programmatic subrecipient monitoring activities. The milestone reports were prepared and made available to the former Director of School Improvement; however, we could not find evidence that the former director reviewed the reports to ensure the monitoring activities were sufficient.

Risk Assessment Did Not Include Independent Review

In their 2013 Financial Integrity Act Risk Assessment, the department included the risk that "subrecipients of federal awards are not monitored in accordance with the requirements of A-133"; however, the control activities identified, which describe the department's monitoring process, do not include an independent review of monitoring reports.

Criteria

According to Title 34, Section 80.40(a), *Code of Federal Regulations*, "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

An independent review of monitoring activities and reports is an important internal control to ensure that monitoring activities are sufficient to identify when local educational agencies are noncompliant with federal regulations and program requirements.

Cause

According to the Executive Director of Local Finance, each performance review for Title I, Part A and ITQ grants was reviewed by a member of management; however, each review was transmitted electronically, so there would be no physical document to sign. The Executive Director of Local Finance and the Executive Director of Planning and Monitoring both disclosed that there is no evidence of management's review, such as emails or electronic tracking, since the emails used to transfer the information were lost due to the state's email retention policy. Staff did not print or otherwise retain the information.

According to the current Director of School Improvement in the Division of Consolidated Planning and Monitoring, the former director, who is no longer with the department, did not require independent reviews of the SIG program review documents. The current director stated that the former director had access to the monitoring reports, but she was not aware of a formal process that involved a management-level review of the reports.

Effect

Without an independent review of subrecipient monitoring activities and reports, the department cannot ensure that the monitoring staff properly carried out its subrecipient monitoring responsibilities. When subrecipients are not adequately monitored, it increases the risk that subrecipients may use federal funds for activities and costs that are unallowed or unsupported.

Recommendation

The department should ensure its internal controls over the subrecipient monitoring process include an independent and documented review of monitoring activities and reports to ensure that subrecipient monitoring is carried out in compliance with federal regulations.

Management's Comment

We concur. The department's Office of Consolidated Planning and Monitoring has developed new procedures and processes to require management review and sign-off of subrecipient monitoring reports.

Finding Number	2014-010
CFDA Number	84.010, 84.027, 84.173, 84.287, 84.367, 84.377, 84.388, and 84.395
Program Name	Title I Grants to Local Educational Agencies Special Education Cluster (IDEA) Twenty-First Century Community Learning Centers Improving Teacher Quality State Grants School Improvement Grants Cluster State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S010A100042, S010A110042, S010A120042, S010A130042, H027A070052, H027A080052, H027A090052, H027A100052, H027A110052, H027A120052, H027A130052, H173A110095, H173A120095, H173A130095, S287C100043, S0287C110043, S287C120043, S367A110040, S367A120040, S367A130040, S377A090043, S377A100043, S377A110043, S388A090043, S395A100032, 91Z-PS111-3R001
Federal Award Year	2007 through 2014
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	2013-002

The Tennessee Department of Education and the Achievement School District did not provide adequate internal controls in two specific areas

The Tennessee Department of Education and the Achievement School District did not design and monitor internal controls in two specific areas. Ineffective implementation of internal controls increases the risk of error. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the office with detailed information regarding the specific conditions we identified, as well as our criteria and recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in the two areas. Management should implement effective controls to ensure compliance with applicable requirements; assign staff 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 and the Achievement School District (ASD) recognize the importance of strong internal controls. The department and the ASD are actively working to improve controls in the two areas cited in the finding.

Finding Number	2014-011
CFDA Number	84.287
Program Name	Twenty-First Century Community Learning Centers
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S287C100043, S287C110043, S287C120043
Federal Award Year	2010 through 2013
Finding Type	Significant Deficiency, Material Weakness, and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles - Significant Deficiency and Noncompliance Cash Management - Significant Deficiency and Noncompliance Subrecipient Monitoring - Material Weakness and Noncompliance
Questioned Costs	$40,852
Repeat Finding	N/A

The department did not effectively monitor subrecipients responsible for administering the 21st Century Community Learning Centers program, and as a result, program subrecipients were reimbursed for costs that did not comply with federal program requirements

Background

The Tennessee Department of Education (the department) spent over $22,400,000 on the 21st Century Community Learning Centers (21st CCLC) program during the fiscal year ended June 30, 2014. The 21st CCLC is a federal program to establish or expand community learning centers that provide kindergarten through high school students with academic enrichment opportunities designed to complement the students' regular academic program. Community learning centers must also offer literacy and related educational development to these students' families. The centers, which can be located in elementary or secondary schools, non-profit organizations, community resource agencies, churches, or other similarly accessible facilities, provide a range of high-quality services to support student learning and development including tutoring and mentoring; homework help; academic enrichment (such as hands-on science or technology programs); community service opportunities; and music, arts, sports, and cultural activities. At the same time, centers help working parents by providing a safe environment for students during times when school is not in session.

To administer the 21st CCLC program statewide, the department awards program funds through a competitive process to local educational agencies; community-based organizations; churches; other public or private entities; or associations of two or more of such agencies, organizations, or entities. These entities complete grant applications and submit them to the department. Once awarded funds, the entities submit reimbursement requests to the department for the costs incurred to provide these services to students, and the department reimburses them. Based on the accounting records, these entities received over $21,900,000 (97%) of the total federal awards during fiscal year ended June 30, 2014.

To ensure the entities administer the 21st CCLC program in accordance with federal requirements, the department is required to conduct annual site visits to each entity and conduct programmatic and fiscal monitoring.

Condition

For fiscal year ended June 30, 2014, the department awarded 21st CCLC grants to 90 subrecipients to administer the program statewide. To determine if the department conducted these reviews in accordance with its program manual, we requested documentation of the onsite monitoring performed during fiscal year 2014. Based on testwork performed, we found that the department did not perform onsite monitoring reviews for 87 of 90 subrecipients (97%), and did not identify that subrecipients claimed reimbursements for unallowable and unsupported expenditures.

From a population of 1,894 administrative and programmatic expenditure transactions, totaling $22,443,677, we selected a nonstatistical, random sample of 69 expenditure transactions, totaling $2,367,308. Of the 69, 44 expenditure transactions were reimbursements to subrecipients (the remaining 25 expenditure transactions were the department's administrative costs). Because the department did not monitor 97% of its subrecipients during the fiscal year, we conducted a detailed review of these expenditure transactions to determine if the subrecipients appropriately charged costs to the program. Based on the testwork performed, we found that for 15 of 44 expenditure transactions tested (34%), the department reimbursed the subrecipients for the following expenditure types that did not comply with federal program requirements:

Expenditure Issues	Questioned Cost Amount
Entertainment Expenditures	$30,721
Non-Program Related Expenditures	2,883
Travel Expenditures	690
Unsupported Expenditures	6,558
Total	**$40,852**

The entertainment expenditures included items such as Memphis Grizzlies tickets, a trip to the Smoky Mountains, and inflatable equipment and snow cone machine rentals. Also, subrecipients purchased a floral arrangement, food, and voice lessons, which we determined did not comply with the federal program's objectives. We found travel expenditures that did not comply with the State of Tennessee Comprehensive Travel Regulations, as required by the subrecipients' contract with the department. One subrecipient billed the department for a trip to the Smoky Mountains seven months before taking the trip. Finally, subrecipients could not provide supporting documentation for some of the expenditures; therefore, we could not determine if these expenditures met federal program requirements. We questioned the total $40,852 for these unallowable or unsupported expenditure transactions. The questioned costs represent 2% of the expenditures tested; 98% of the expenditures tested were allowable and adequately supported.

Criteria

- Subrecipient Monitoring: According to Title 2, Part 215, Section 51 of the *Code of Federal Regulations*, "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award." Additionally, the "Reporting/Program Monitoring" section of the department's 21st CCLC program manual states,

  > TDOE monitors grantees on an annual basis regarding program compliance. Grantees receive an annual, on-site fiscal and program monitoring visit from Center for Extended Learning staff. The process will include site visits and observations by Department of Education staff, as well as interviews with program personnel. Program staff may be asked for written documentation supporting the various indicators. The instrument will be scored and the rater will provide an explanation for the scores in the rater's comments area of each category. Program staff may ask questions and ask for clarification or feedback regarding improvements needed.

- Entertainment Costs: 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.

- Non-Program Related Costs: According to Section A.2, under "Scope of Services," of the department's grant contract, the subrecipients (centers) shall provide:

  - Core educational services: The Center will offer high quality services in core academic areas (reading, mathematics, science, etc.)
  - Enrichment and support activities: The Center will offer enrichment and support activities such as health and nutrition, technology, recreation, etc.
  - Community involvement: The Center will establish and maintain partnerships within the community that continue to increase levels of community collaboration in planning, implementing and sustaining programs….

- Travel Costs: According to Section C.4, "Travel Compensation," of the department's grant contract, "Reimbursement to the Grantee for travel, meals, or lodging shall be subject to amounts and limitations specified in the 'State Comprehensive Travel Regulations'."

- Unsupported Costs: The "Reimbursement Requests" section of the department's 21st Century Community Learning Centers program manual states, "Receipts, invoices and billing statements should be kept on file and available for state review as needed or requested."

Cause

According to management, the inadequate oversight over subrecipients' invoices and reimbursements resulted from a shortage of staff, and as a result, they could not properly monitor subrecipients to ensure programs funds were spent appropriately.

Effect

Without a program review of subrecipients, the department cannot ensure that the subrecipients properly carried out program requirements. When subrecipients are not adequately monitored, it increases the risk of subrecipients using federal funds for activities and costs that are unallowed under the grant guidelines. Without adequate procedures to ensure that the department's reimbursements to subrecipients are made based on proper supporting documentation, the department increases its risk of noncompliance and misappropriation of federal funds.

Recommendation

The department should evaluate and implement an appropriate subrecipient monitoring program for all 21st CCLC subrecipients to ensure the subrecipients are administering the program effectively and spending grant funds based on allowable cost guidelines. In addition, the department should ensure that the subrecipients' reimbursements are based on the program's objectives, are permitted under federal requirements, and are properly supported and approved.

Management's Comment

We partially concur with the finding. We concur that non-program related expenditures, travel expenditures not in compliance with State of Tennessee Comprehensive Travel Regulations, and unsupported expenditures should not have been charged to the program.

We do not concur with the questioned cost items classified as "entertainment expenditures" in the finding. Under 20 United States Code section 7175-(a)-(7), recreational activities are an allowable use of 21st Century Community Learning Centers (21stCCLC) program funds. It is the position of the department that the questioned cost classified as "entertainment expenditures" cited in the finding were recreational and provided an educational experience to the children who participated in the activities.

To improve its subrecipient monitoring, the department has employed an additional staff person in the 21stCCLC program office who will conduct subrecipient monitoring. The 21stCCLC program office will also collaborate with other divisions in the department who conduct subrecipient monitoring to provide additional coverage for subrecipients. As a result of the audit issues, the department placed significant emphasis on allowable program costs in training provided to subrecipients in September 2014. Additional training is scheduled for March 2015 and September 2015. The department will review allowable costs and the importance of maintaining supporting documentation during these training sessions. The department will also be providing training on the new federal *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* in February 2015. The training will be videotaped and will be available as a future training resource. The department will also update its 21^{st}CCLC program manual to include information on subrecipient monitoring and will include subrecipient monitoring in its strategic plan for the 21^{st}CCLC program.

As noted in the finding, the questioned cost cited is only 1.7% ($40,852/$2,367,308) of the expenditures tested during the audit. Thus, 98.3% of the expenditures were allowable and adequately supported.

Finding Number	2014-012
CFDA Number	84.287
Program Name	Twenty-First Century Community Learning Centers
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S287C110043 and S287C110043-11A
Federal Award Year	2011 and 2012
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Period of Availability of Federal Funds
Questioned Costs	$239,617
Repeat Finding	N/A

21st Century Community Learning Centers expenditures were obligated outside the period of availability

Background

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

Like most federal programs, federal funding for the 21st CCLC program is only available to the department and its subrecipients for a limited time. Each year, the Tennessee Department of Education (the department) receives a Grant Award Notification from the United States Department of Education (US ED) outlining the 21st CCLC award amount and the period of availability (federal funding period). During fiscal year ended June 30, 2012, the department received a $21,081,223 grant, award number S287C110043, which had a period of availability of July 1, 2011, through September 30, 2012. The original period of availability was 15 months; however, as stated in the Tydings Amendment (20 USC 1225[b]), funds unobligated by September 30, 2012, can be used for an additional 12 months. Based on the Tydings Amendment, the period of availability for award number S287C110043 was July 1, 2011, through September 30, 2013, or 27 months. On September 27, 2012, US ED granted the department an additional $28,154, under this grant award, which had the same period of availability as the original award. With the additional award, the department's award totaled $21,109,377 for fiscal year ended June 30, 2012.

Conditions

Sample A

We selected a nonstatistical random sample of 60 expenditure transactions from a population of 1,151 expenditures, totaling $4,609,032, that occurred after the end of the period of availability for four federal program grants received in the fiscal year ended June 30, 2012. This population included 326 21st CCLC expenditure transactions, totaling $3,646,140.

For 1 of 60 expenditures tested (2%), the expenditure was for payroll charged to the 21st CCLC program, but the payroll period occurred after the period of availability ended on September 30, 2013. Upon further investigation, the Fiscal Director discovered that the department charged the employee's payroll to award number S287C110043 for work performed from October 1, 2013, through December 15, 2013. The payroll charged for this period totaled $23,295.22, which represents federal questioned costs.

Additionally, for 7 of 60 expenditures tested (12%), we found that these expenditures were reimbursements to 21st CCLC subrecipients for expenditures that were obligated after September 30, 2013. These expenditures were also charged to award number S287C110043. These payments totaled $196,241.82, which represents federal questioned costs.

<u>Sample B</u>

We selected a nonstatistical random sample of 69 21st CCLC expenditures, totaling $2,367,308, from a population of 1,894 administrative and programmatic expenditure transactions, totaling $22,443,677. We found that 2 of 69 expenditure items (3%) occurred outside the period of availability. These two items were reimbursements to subrecipients, who had obligated the funds after September 30, 2013. These payments totaled $20,080.31, which represents federal questioned costs.

<u>Management Failed to Track Allocations and Inform Subrecipients of Award Information</u>

Furthermore, based on discussion with program management, the department does not have internal controls in place to track federal award allocations. We reviewed the grant award letters for the subrecipients noted above (subawards), and the grant letters included the amount of the award; however, the letters did not contain any information about the federal award that funded the subaward or the award's period of availability.

<u>**Criteria**</u>

- 34 CFR 80.23, "Period of availability of funds," states,

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

- Additionally, 34 CFR 80.23 states that "a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period." Therefore, the period of liquidation for the 21st CCLC grant, award number S287C110043, was September 30, 2013, through December 30, 2013.

- In regard to payroll obligations, 34 CFR 76.707 states that an obligation for personal services by an employee of the state is made when the services are performed.

- 34 CFR 76.302 states, "A State shall notify a subgrantee [subrecipient] in writing of: (a) The amount of the subgrant; (b) The period during which the subgrantee may obligate the funds; and (c) The Federal requirements that apply to the subgrant."

Cause

Based on discussion with the current Director of Extended Learning Programs (current director), and the Fiscal Director, it appears that the former Director of Extended Learning Programs (former director) believed that all expenditures could be obligated through the liquidation period (in this case through December 2013.) She instructed fiscal staff to pay any expenditures occurring before December 30, 2013 and charge them to the grant, even if these expenditures were obligated after September 30, 2013, the end of the period of availability. The current director believes the former director gave this instruction because she received an email from an Education Program Specialist with US ED that stated, "The date the sub-grantee contract was signed (assuming it was within the program performance period, prior to September 30th) is considered the date of obligation. Therefore, the funds are able to be dispersed until December 30th." The *21st Community Learning Centers Non-Regulatory Guidance*, dated February 2003, however, contains the following: "An obligation does not occur when an SEA [state educational agency] makes a local grant award. Obligation of 21st CCLC funds only occurs when funds are committed to specific activities by an SEA or local grantee." Additionally, the 2014 Office of Management and Budget's *Circular A-133 Compliance Supplement* contains similar language: "The act of an SEA or other grantee awarding Federal funds to an LEA [local educational agency] or other eligible entity within a State does not constitute an obligation for purposes of this compliance requirement [Period of Availability]."

Effect

When the department does not have proper internal controls in place over awarding funds to subrecipients or determining the timing of obligations to ensure subrecipient reimbursements are charged to the proper grant award, it increases the risk that the department is expending federal funds for expenditures obligated outside the period of availability. Those funds should revert to the federal awarding agency, US ED. This could result in the refunds/reimbursements to the US ED for expenditures that were obligated and paid outside this time period.

Known Questioned Costs

Questioned Costs for Sample A		
Expenditure Type	**Obligation Date(s)**	**Amount**
Payroll	10/1/13-12/15/13	$23,295
Reimbursement Request 1	10/1/13-10/31/13	$32,777
Reimbursement Request 2	10/1/13-10/31/13	$76,804
Reimbursement Request 3	10/1/13-10/31/13	$23,094
Reimbursement Request 4	10/1/13-10/31/13	$39,593
Reimbursement Request 5	11/1/13-11/30/13	$5,835
Reimbursement Request 6	10/1/13-10/31/13	$14,537
Reimbursement Request 7	11/1/13-11/30/13	$3,602
	Total Questioned Costs	**$219,537**

Questioned Costs for Sample B		
Expenditure Type	**Obligation Date(s)**	**Amount**
Reimbursement Request 1	10/1/13-10/31/13	$15,738
Reimbursement Request 2	10/1/13-10/31/13	$4,342
	Total Questioned Costs	**$20,080**

Total Questioned Costs for Sample A and Sample B **$239,617**

The questioned costs represent 4% of the expenditures tested; 96% of the expenditures tested were expended within the period of availability. On November 13, 2014, the Fiscal Director corrected the payroll issue by moving $23,295 to a grant award with an open period of availability. Additionally, on January 26, 2015, the Fiscal Director moved the remaining $216,322 in questioned costs to a grant award with an open period of availability.

Recommendation

The department should ensure that proper internal controls are in place to ensure subawards to subrecipients include proper federal award information, department staff and subrecipients are informed of the time period for obligating grant funds, and that department staff and subrecipients ultimately charge the funds to the appropriate federal awards. These controls should be established to ensure that all federal award amounts received are properly tracked and allocated so that the department can ensure the funds are obligated before the end of the period of availability and liquidated before the end of the liquidation period.

Management's Comment

The department partially concurs with the finding. Department staff was aware of the period of availability issue for these funds, and because the period of availability was ending, staff sought counsel from the program contact with the federal awarding agency. As noted in the finding, based on the written communication received, the understanding of the department's 21st

Century Community Learning Centers (21^{st}CCLC) coordinator was the obligation date was the date the funds were awarded to a subrecipient and any expenditures incurred through December 31, 2013 could be charged to the award.

We believe it is important to emphasize these were allowable costs for the 21^{st}CCLC program. The issue raised in the finding relates to the applicable federal award to which the expenditures should have been charged. In regard to the use of $23,295 in funds from the federal award in question for employee compensation incurred after September 30, 2013, the department moved the expenditures to a 21^{st}CCLC award for which the period of availability was open for the period when the employee worked. In regard to the $216,322 in questioned cost associated with reimbursements to subrecipients, the department has also moved these expenditures to a 21^{st}CCLC federal award with a period of availability that was open when the expenditures were incurred.

Subsequent to the occurrence of this issue, the department employed a new 21^{st}CCLC coordinator. The new coordinator is knowledgeable of the period of availability requirements for federal awards. The 21^{st}CCLC coordinator will ensure correct information on period of availability will be shared with subrecipients in future communication and training.

Finding Number	2014-013
CFDA Number	84.388
Program Name	School Improvement Grants Cluster
Federal Agency	Department of Education
State Agency	Department of Education
Grant/Contract No.	S388A090043A
Federal Award Year	2009
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$34,471
Repeat Finding	2013-003

The Achievement School District reimbursed charter management organizations for costs that did not comply with federal program requirements

Background

School Improvement Grants

The School Improvement Grants program is federally funded by the United States Department of Education to disburse funds to priority schools, which are the lowest-performing 5 percent of all schools in Tennessee in terms of academic achievement. The objective of the program is to dramatically turn around the academic achievement of students in these schools through the successful implementation of school intervention models.

Achievement School District

Created by Section 49-1-614, *Tennessee Code Annotated*, the Achievement School District (ASD) is a state takeover school district. According to Section 49-1-614, ASD operates as a local educational agency where persistently low-achieving schools are placed for at least five years after they are removed from their current local educational agency. ASD began its first year of operation during the 2012 – 2013 school year. During fiscal year 2014, the district was responsible for 11 schools with School Improvement Grants funding: five schools were managed directly by ASD, and six schools were managed by nonprofit charter management organizations (CMOs) via contract with ASD.

Payment Process

The CMOs submit invoices to ASD, based on incurred expenditures, to manage their schools. In return, the ASD submits reimbursement requests to the department for incurred expenditures, which include the ASD's payments to CMOs.

Implementation of NetSuite

From July through September 2013, ASD processed their expenditure transactions in Edison, the state's accounting system. Beginning October 2013, ASD implemented its own accounting system, NetSuite. From this date forward, ASD processed its expenditure transactions in NetSuite, then submitted requests for reimbursement to the Tennessee Department of Education. The department received ASD's first request for reimbursement in March 2014.

Condition

We obtained a population of 2,459 expenditure transactions, totaling $29,601,348 that the department charged to the School Improvement Grants program from July 1, 2013 through June 30, 2014, a portion of which were ASD's expenditure transactions. We tested a nonstatistical random sample of 42 department expenditure transactions totaling $885,969. We identified and tested 10 ASD expenditure transactions processed in Edison, totaling $665,929. Additionally, we identified and tested 8 ASD requests for reimbursement, totaling $4,237,178 that ASD submitted to the department from March 2014 through June 2014. During our audit, we identified the following issues relating to ASD's payments to CMOs. We identified the same issues during the fiscal year 2013 audit.

ASD Paid CMOs for Unallowable Costs

We found that for two expenditure transactions (3%), ASD paid two CMOs for costs that were unallowable under federal regulations.

- For the first transaction, ASD paid the CMO for costs relating to trips to the zoo and laser tag; food such as candy, cookies, and cake; and flowers. ASD paid the CMO on July 23, 2013. Total federal questioned costs for these items were $1,827.
- For the second transaction, ASD paid another CMO for
  - salary costs that were paid on a previous invoice;
  - a vendor invoice that should not have been billed to the CMO; and
  - payroll expenditures that were not supported by either a semi-annual certification or a personnel activity report, as required by Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

ASD paid the CMO on July 22, 2013. Total federal questioned costs for these items were $29,696.

ASD Paid CMOs for Unsupported Costs

We also found that for three expenditure transactions (5%), ASD paid CMOs for costs that were not adequately supported. ASD did not request sufficient documentation prior to paying the invoice.

ASD paid one CMO for travel expenses to a professional development event, but we could not determine the purpose of the event and whether it met the program's objectives. We also could not find documentation for costs involving field trip transportation and therapy services. ASD paid the CMO on July 17, 2013. Federal questioned costs for these items were $883.

Additionally, ASD paid a CMO for office supplies and consulting services, but the supporting documentation we obtained did not agree with the invoice. Details were:

- ASD paid the CMO $19,893 for office supplies, but the actual vendor invoices totaled $19,629, resulting in a $264 overpayment. For this transaction, ASD paid the CMO on July 22, 2013.
- ASD paid the CMO $12,913 to a vendor offering consulting services, but according to the supporting documentation, the consultant should have received $11,113, resulting in an $1,800 overpayment. ASD paid the CMO on June 20, 2014.

The total federal questioned costs were $2,065.

Questioned costs are summarized below.

Criteria

The funding for the questioned costs identified above was authorized by the American Recovery and Reinvestment Act of 2009. According to Section 1604 of the American Recovery and Reinvestment Act of 2009 (ARRA), “none of the funds appropriated or otherwise made available in ARRA may be used by any State or local government, or any private entity, for any casino or other gambling establishment, aquarium, zoo, golf course, or swimming pool.” Therefore, transportation costs to the zoo are also unallowable.

Office of Management and Budget (OMB) 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.”

OMB Circular A-87, Attachment B, paragraph 8.h., establishes standards for documenting employee time and effort when payroll 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 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 (PARs) (or equivalent documentation) meeting certain federal requirements and must prepare the reports at least monthly.

As stated in the basic guidelines listed in OMB Circular A-87, to be allowable under federal awards, costs must be reasonable. To determine reasonableness, “the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.”

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

Cause

ASD put additional internal controls in place in January 2014 in response to the prior year audit finding. According to the Director of Federal Programs for the Achievement School District, the errors identified that occurred before January 2014 were due to a lack of sufficient controls over the CMO payment process at the time the CMOs invoiced ASD. Of the errors noted above, we found only one $1,800 error that occurred after January 2014.

Effect

When ASD does not consistently and thoroughly review CMO invoices to ensure that the costs are allowable and adequately supported, it increases the risk that it will pay CMOs for activities that are unallowable under federal program requirements.

Known Questioned Costs

CMO	Issue	Description	Reimbursement Date	Questioned Costs
1	Unallowable Costs	Zoo and Laser Quest	7/23/2013	$ 858
		Food and flowers	7/23/2013	$ 969
	Inadequate Supporting Documentation	Professional development event; field trip transportation; therapy services	7/23/2013	$ 883
2	Unallowable Costs	Duplicate Salary Request	7/22/2013	$ 6,207
		Invoice billed to ASD in error	7/22/2013	$ 62
		Inaccurate personnel activity reports	7/22/2013	$ 23,427
	Inadequate Supporting Documentation	Office Supplies Overpayment	7/22/2013	$ 265
		Consulting Services Overpayment	6/20/2014	$ 1,800
Total				**$ 34,471**

The questioned costs represent 0.7% of the expenditures tested; 99.3% of the expenditures tested were allowable and adequately supported. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

We recommend that the Achievement School District continually monitor its newly implemented internal controls to ensure that ASD expenditures charged to federal programs are allowable and properly supported prior to paying invoices.

The department should monitor ASD to assess the newly implemented internal controls to determine if the internal controls are operating effectively.

Management's Comment

We concur. As noted in the finding, only a small portion of the questioned cost ($1,800 of the $34,471) occurred after the Achievement School District (ASD) began more stringent oversight of reimbursement requests submitted by charter management organizations (CMOs). In total, the questioned cost represented only 0.7% ($34,471/$4,903,107) of the total expenditures tested during the audit. Thus, 99.3% of the expenditures tested were allowable and adequately supported. The ASD will continue to closely review reimbursement requests submitted by CMOs before making payment.

Finding Number	2014-014
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.	05-1405TN5021, 05-1305TN5021
Federal Award Year	2013 and 2014
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$23
Repeat Finding	2013-007

CoverKids paid two enrollees’ dental benefits at an incorrect rate, resulting in total questioned costs of $31

Background

As noted in the prior two audits, we reported that CoverKids paid enrollees’ dental benefits using an incorrect rate. During the current audit for the year ended June 30, 2014, the same type of problem reoccurred for two enrollees.

CoverKids’ dental benefits administrator uses the Windward system to administer dental plans, maintain enrollee information, and process dental claims. 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. The National Guardian Life contract defines an enrollee with an income at or above 150% of the Federal Poverty Level (FPL) as a “Group One” child. An enrollee with an income below 150% of the FPL is defined as a “Group Two”child and is subject to reduced copayments.

Condition

Testwork on Enrollees Receiving CoverKids Benefits

We tested a sample of 60 enrollees who received CoverKids benefits between July 1, 2013, and June 30, 2014, to determine if the enrollees were eligible for benefits and to determine if their benefits were calculated correctly and were in compliance with the requirements of the program. The tested benefits included monthly administrative fee payments and monthly dental premiums for each enrollee sampled during the audit period.

For 2 of 60 enrollees (3.3%), monthly dental premiums were paid at the incorrect rate. One enrollee’s FPL percentage should have placed her in Group Two; however, this enrollee was incorrectly listed in Group One during the entire audit period. The other enrollee’s FPL percentage changed during the audit period, which caused the enrollee to move from Group Two to Group One. When the new rate became effective, an adjustment was incorrectly made for the prior month to be paid at the new rate as well.

Criteria

According to "Payment Methodology" in Section C.3 of the National Guardian Life contract, "The Contractor shall be compensated based on the payment rates herein for units of services authorized by the State in a total amount not to exceed the Contract Maximum Liability established in Section C.1."

Cause

Per the director of CoverKids, one enrollee was classified in the incorrect plan group by the eligibility contractor's system, Children's Health Administrative System. The director also stated that the second enrollee's situation was a billing error with the dental benefits administrator's system that the administrator has corrected since being notified of the error.

Effect

Since CoverKids paid the incorrect dental premium rate for two enrollees, the total amount of questioned costs was $31 of a total of $33,198 tested. Federal questioned costs totaled $23, and the remaining $8 was state matching funds. The total amount of the population sampled was $41,122,567. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs exceed $10,000 for this condition.

Recommendation

CoverKids should continue its monthly reconciliation process to ensure the dental benefits administrator's Windward system agrees with the eligibility contractor's system. In addition, CoverKids should continue to perform post eligibility audits to review member eligibility data, such as plan identification numbers, effective dates, and termination dates, as well as to ensure monthly premium amounts are accurate.

Management's Comment

We concur. The CoverKids dental benefits manager (DBM) incorrectly billed CoverKids the wrong premium rate on two members.

For one member, the eligibility contractor provided the incorrect plan ID number for this member to the DBM, which resulted in the DBM billing the state the incorrect monthly premium rate. The member had reported updated income information to the eligibility contractor. When the eligibility contractor provided the member with a renewal form, the renewal form was not pre-populated with the updated income information previously supplied by the member. The member failed to recognize that the renewal form did not reflect their updated income information. When the member submitted the renewal form with the incorrect income information to the eligibility contractor, the eligibility contractor's system did not detect the income inconsistency. The eligibility contractor's system has been adjusted to detect income inconsistencies and pre-populate the renewal form with the updated income information that has been reported.

For the second member, when the member switched from one plan ID number to another, the DBM billed an incorrect amount for the month of October 2013. The DBM caught this error, and refunded the billed amount, but failed to submit a new bill for the corrected amount. The DBM has implemented controls internally to identify when the member switches from one plan ID number to another to ensure their financial team bills the state the correct monthly premium rate which coincides with the new plan ID number and not the prior plan ID number. The DBM has also implemented internal controls to ensure that the corrected amount is billed.

In August 2014, the HCFA Audit and Investigations Division partnered with CoverKids to begin the process of reviewing all the DBM invoices against the eligibility contractor's files. If a discrepancy is identified, only the portion of the invoice that is correct is paid. HCFA Audit and Investigations/CoverKids submits the discrepancy to the DBM and works on reaching a resolution. Only when a resolution to the discrepancy is reached is the amount related to the discrepancy paid. HCFA Audit and Investigations has reviewed all monthly invoices for calendar years 2012, 2013 and 2014. Currently the HCFA Audit and Investigations process looks for overpayments, and so it did not detect the underpayment for the second member. Effective March 31, 2015, HCFA Audit and Investigations will implement a process to look for underpayments for 2012, 2013, 2014 and 2015.

HCFA Audit and Investigations will begin reviewing the monthly invoices for calendar years 2009 through 2011 for underpayment and overpayment by May 31, 2015.

Finding Number	2014-015
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.	05-1405TN5MAP, 05-1305TN5MAP
Federal Award Year	2013 and 2014
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$154
Repeat Finding	N/A

TennCare paid an unsupported pharmacy claim and paid another pharmacy claim at the incorrect rate, resulting in total questioned costs of $236

Background

Health Care Finance and Administration (HCFA), a division of the Department of Finance and Administration, consists of several health care programs, including the Bureau of TennCare (which administers the Medical Assistance Program). TennCare serves certain Medicaid enrollees through a fee-for-service delivery system where TennCare pays some health care providers for each service (i.e., office visit, dental procedure, drug cost, etc.).

Condition

Unsupported Claim and Claim Paid Incorrectly

We tested a sample of 60 fee-for-service claims, paid by TennCare during the audit period, to determine the adequacy of documentation supporting the costs associated with these claims. We reviewed items such as medical records, service logs, office visit and procedure notes, and physician orders to determine if the claims were adequately supported. Of the 60 fee-for-service claims tested, two (3.3%) were in error. We were not able to obtain documentation supporting one pharmacy claim from the provider, and TennCare paid another pharmacy claim at an incorrect rate.

Criteria

Unsupported Claim

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

Claim Paid Incorrectly

According to Attachment 4.19B, Section 12.a.(1)(a) of TennCare's state plan, payments for drugs authorized under the program are the lesser of

- Average Wholesale Price (AWP) minus 13%, as described by an industry recognized resource such as Medi-Span or First Data Bank, plus the dispensing fee; or
- Maximum allowable cost (MAC) as published by TennCare or TennCare's Prescription Benefits Vendor, plus the dispensing fee; or
- The federal upper limit of the drug, if any, plus the dispensing fee; or
- The pharmacy providers' usual and customary charges to the cash paying public; or
- The Specialty Pharmacy rates will be set by a survey of competitive rates in an open network environment.

Cause

Unsupported Claim

The prescribing physician was unable to locate any medical records for the recipient to support the pharmacy claim for a narcotic pain reliever.

Claim Paid Incorrectly

HCFA's contracted Pharmacy Benefits Manager paid the incorrect rate due to a claims processing error. The prescription drug had a Maximum Allowable Cost (MAC) that was lower than the price billed; however, this price was not used. Based on our discussions with HCFA's Assistant Pharmacy Director, the MAC price should have been used for this drug. TennCare paid $2.37 per unit for the drug when the MAC price of $0.66984 per unit was available at the dispense date.

Effect

Unsupported Claim

We could not determine if the cost of the drug was allowable since the provider was unable to provide documentation supporting the pharmacy claim. Total questioned costs for the unsupported pharmacy claim were $1.13.

Claim Paid Incorrectly

Since TennCare paid the incorrect rate for the other pharmacy claim, total questioned costs for this pharmacy claim were $235.

Questioned Costs

The total amount of questioned costs for both pharmacy claims was $236 of a total of $77,364 tested. Federal questioned costs totaled $154. The remaining $82 was state matching funds. The total amount of the population sampled was $2,474,401,464. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs exceed $10,000 for this condition.

Recommendation

TennCare should evaluate existing controls to determine if they can be strengthened to prevent overpaying for drugs in the future. In addition, TennCare should evaluate the lack of support for the narcotic pain reliever for possible fraud.

Management's Comment

TennCare concurs with these findings.

Unsupported Claim

The claim for the narcotic pain reliever was evaluated for possible enrollee fraud. After checking the State of Tennessee's Controlled Substance Database for this specific enrollee, we found the following:

- In the past 6 months, there were 9 controlled substance prescriptions written, all for small quantities of either a codeine or hydrocodone with acetaminophen narcotic pain reliever, or for a cough syrup with codeine.
- It appears that these claims were all from ER providers.
- The claims did not have overlapping dates with respect to the quantities and days' supply of the prescriptions filled, so there was no evidence of doctor shopping and no evidence of fraud or abuse.

The State of Tennessee's Office of Inspector General was notified. They did not refer this case as TennCare fraud.

Beyond the specifics of this enrollee, TennCare takes proactive steps to avoid enrollee fraud in several different ways:

- TennCare requires benefit limits on the quantity allowed per month on short acting opiates.
- TennCare requires enrollees who fill prescriptions for controlled substances from multiple providers and pharmacies to fill all TennCare paid claims at one pharmacy (Lock-In program).

- TennCare requires our PBM to review monthly all enrollees who have seen at least 3 different prescribers and 3 different pharmacies for controlled substances. Those who meet this criterion are locked into a single pharmacy.
- TennCare re-reviews 50 enrollees per month who are currently locked into a pharmacy. If they are still going to other pharmacies and paying cash (per the State's CSDB), the enrollee is placed on Prior Authorization status for each controlled substance.
- TennCare requires in our provider agreements that providers take proactive steps necessary to avoid enrollee fraud. Pharmacies are required by contract to report any incidence of suspected enrollee fraud to OIG, and they are required by TN State pharmacy law to report any incidence of confirmed enrollee fraud to OIG.
- TennCare also requires in our agreements that providers maintain proper records.

Claim Paid Incorrectly

Regarding the overpaid claim where TennCare's Pharmacy Benefit Manager (PBM) reimbursed the claim with AWP pricing instead of MAC pricing, we agree that the claim resulted in an overpayment. We have taken steps to eliminate this adjudication error on the part of Magellan, our PBM vendor, and have taken further steps to identify any additional overpayments due to the provider being reimbursed improperly by Magellan. The particular claim was filled with ribavirin and we have not seen pricing issues with this product since July, 2014.

Finding Number	2014-016
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.	05-1405TN5MAP, 05-1305TN5MAP
Federal Award Year	2013 and 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

TennCare enrolled a provider into the Medicaid program without having all of the required disclosures

Condition

Medicaid providers offering services to beneficiaries must make certain disclosures to the state about persons with ownership or control interests. We examined the disclosures of a random sample of 40 TennCare providers from a population of 39,045 providers receiving Medicaid payments for the year ended June 30, 2014. Of the 40 providers tested, TennCare did not have the date of birth for one provider (2.5%) in order to verify the provider's eligibility with Medicaid requirements. The provider disclosure form that the Pharmacy Benefits Manager was using for individual providers did not require individuals with ownership or control interest to provide their dates of birth.

In their 2013 and 2014 Financial Integrity Act Risk Assessments, the Division of Health Care Finance and Administration included the risk that "provider registration files do not contain required information"; however, the controls identified did not prevent the issue noted above.

Criteria

According to Title 42, Section 455.104(b), of the *Code of Federal Regulations,* "What Disclosures Must Be Provided," the Medicaid agency must require that disclosing entities, fiscal agents, and managed care entities provide the following disclosures: "(1)(i) the name and address of any person (individual or corporation) with an ownership or control interest in the disclosing entity, fiscal agent, or managed care entity . . . (ii) date of birth and Social Security Number (in the case of an individual)."

Cause

The Pharmacy Benefits Manager was using a deficient disclosure form that allowed individual pharmacy providers to fully complete the form without providing their date of birth.

Effect

TennCare enrolled a provider in the Medicaid program without all of the required disclosures, increasing the risk that other ineligible providers could be enrolled in the program.

Recommendation

TennCare should ensure that the provider disclosure form is revised to require individuals with ownership or control interest to provide their dates of birth.

Management's Comment

TennCare concurs with this finding and agrees to:

- Instruct the PBM vendor to re-contact the pharmacy provider for a new disclosure to ensure that the exception is within regulations,
- Ensure that the provider disclosure form requires dates of birth on all disclosures, and
- Further our efforts to ensure that no additional risk exists when accepting new applications/agreements/disclosures and when accepting disclosures with changes to management and control of individual pharmacies and disclosing entities.

Finding Number	2014-017
CFDA Number	10.551, 10.558, 10.559, 10.561, 84.126, 93.558, 93.563, 93.575, 93.596, 93.667, and 96.001
Program Name	Supplemental Nutrition Assistance Program Cluster Child and Adult Care Food Program Child Nutrition Cluster Rehabilitation Services -Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Social Services Block Grant Disability Insurance/Social Security Insurance Cluster
Federal Agency	Department of Agriculture Department of Education Department of Health and Human Services Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 2014IN109945, H126A110063, H126A120063, H126A130063, G0802TNTANF, G0902TNTANF, G1002TNTANF, G1102TNTANF, G1202TNTANF, G1302TNTANF, G1402TNTANF, G0804TN4004, G1004TN4004, G1104TN4004, G1205TN4004, G1305TN4004, G1405TN4004, G1101TNCCDF, G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, G0901TNCCDF, G1201TNCCDF, G1301TNCCDF, G1401TNCCDF, G0901TNSOSR, G1001TNSOSR, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR, 04-12-04TNDI00, 04-13-04TNDI00, and 04-14-04TNDI000
Federal Award Year	2007 through 2014
Finding Type	Significant Deficiency - Eligibility Significant Deficiency - Other (10.551, 10.558, 10.559, 10.561, 84.126, 93.558, 93.563, 93.667, and 96.001) Material Weakness - Other (93.575 and 93.596)
Compliance Requirement	Eligibility Other
Questioned Costs	N/A
Repeat Finding	2013-012

The Department of Human Services did not provide adequate internal controls in three areas

The department did not design and monitor internal controls in specific areas. We observed three conditions in violation of state policies and/or industry-accepted best practices. Inconsistent implementation of internal controls increases the risk of fraud or errors.

For one of the three conditions, management stated that they were aware of it, and were actively engaged in resolving the situation.

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

Recommendation

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

Management's Comment

We concur in part.

We have delivered a confidential response to the detailed finding.

Finding Number	2014-018
CFDA Number	10.551 and 10.561
Program Name	Supplemental Nutrition Assistance Program Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services did not transmit all records of disqualified recipients to the United States Department of Agriculture within mandated time limits

Background

The Food and Nutrition Service (FNS) of the U.S. Department of Agriculture has established the electronic Disqualified Recipient System (eDRS) to collect information from all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands about individuals who have been disqualified from the Supplemental Nutrition Assistance Program (SNAP) for receiving benefits they were not entitled to. The Department of Human Services (DHS) uses the Claims Online Tracking System (COTS) to record and manage claims against disqualified SNAP recipients. COTS also contains records of individuals that have received benefits they were not entitled to, and accounts for the repayments those individuals make. Each month, DHS uses COTS to create a file of new and updated records of individuals disqualified from receiving SNAP benefits. The department then submits that file to FNS. FNS has established rules and criteria for submitting records of disqualified individuals, including the specific information to be submitted, and that at least 80% of records submitted must meet eDRS requirements, or the state could risk losing funding. To identify records with information that will be rejected by eDRS, the Department of Human Services created an automated process comparing the new and updated disqualification records to eDRS data standards. The process removes invalid records from the monthly submission to eDRS, and creates a report of those records, the COTS 425 DRS Transmission File Error Report, which posts electronically for district staff to review and correct the errors.

District staff identify correct information from the case file and submit corrections to information systems staff. Once systems staff update the records with the corrections, the record should transmit with the next submission to eDRS, and corrected records should not show on subsequent COTS 425 reports.

Condition

The Department of Human Services has not reported all SNAP disqualifications to FNS. First, management has not corrected errors identified on the COTS 425 report. Furthermore, the process logic used to identify invalid records is flawed.

We reviewed the department's process for reviewing the COTS 425 report to determine whether errors identified in the report were corrected. After reviewing the COTS 425 report, district staff should have submitted requests to correct the data to COTS information system support staff. However, we reviewed data change requests for the audit period. None of those requests related to correcting errors identified in the reports.

We noted in our review of the June, July, and August 2014 COTS 425 reports that over 200 disqualified claim errors had been carried forward from month to month, instead of being corrected within the expected 30 days. In fact, we were able to identify only one case that had been removed from the report.

A flaw in the process logic incorrectly removed approximately one quarter of disqualified claims from submission to eDRS. That logic compared only month and year of two key dates; if a disqualification "start date" and "decision date" both occurred in the same month, the system removed the record, and it was not submitted to eDRS.

Criteria

Title 7, *Code of Federal Regulations,* Part 273, Section 16(h)(3)(i), requires each state agency to report to FNS information concerning individuals disqualified for intentional program violations no later than 30 days after the disqualification took effect. The passage specifies that this information is provided to allow states to identify individuals disqualified in one state so that they do not then go to another state and receive benefits.

In addition, management stated that district directors should ensure the COTS 425 report is reviewed and should request corrections when necessary.

Cause

Management of the Department of Human Services has not assessed and addressed the risks associated with not correcting errors in the COTS system so that individuals who have been disqualified from receiving SNAP benefits for intentional program violations can be reported to eDRS appropriately. Management did not ensure that the automated process functioned effectively, nor did management ensure that district staff appropriately reviewed and corrected errors reported on the COTS 425 report.

Effect

When information about disqualified individuals is not loaded to eDRS within the specified time, the state is in violation of federal law, and disqualified individuals may apply for and receive benefits in another state. In addition, errors that go uncorrected affect the overall reliability of data in the COTS system, and the state could risk losing funding from the U.S. Department of Agriculture.

Recommendation

Management of the Department of Human Services should supervise and monitor staff to ensure that records identified in the COTS 425 report are corrected and resubmitted to eDRS in the subsequent month. In addition, management should correct its automated process to accurately remove records that eDRS does not accept, and to allow acceptable records to transmit.

Management's Comment

We concur in part.

The Department agrees that the review and correction process could be strengthened. However, the Department does have an error review process in place. It should be noted that the Department performed an audit in May 2014 to identify the automated process opportunities for improvement, prior to State Audit testwork. The Department does not agree that all records should be transmitted. Records that meet the criteria for submission are transmitted. The Department transmits disqualified recipients to the USDA's eDRS monthly, using a batch submission process with the mandated timeframes and meets the established performance standards. This process reduces the risk for disqualified individuals to access benefits in Tennessee and across the nation. Moving forward, the Department will take necessary corrective measures with employees who do not follow the process. This is being monitored by program integrity supervisory staff and is not a significant risk. It should be noted that COTS is a legacy system. COTS has been identified as a part of the Department's Enterprise System Modernization plan which is a part of the IT Roadmap. This modernization will make it easier to make changes in the system as opportunities to improve are identified.

Finding Number	2014-019
CFDA Number	10.551 and 10.561
Program Name	Supplemental Nutrition Assistance Program Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

Information submitted to the U.S. Department of Agriculture Food and Nutrition Service in the Status of Claims Against Households report is not periodically reconciled to detailed accounting records

Background

Title 7, *Code of Federal Regulations,* Part 273, Section 18(m), requires the Department of Human Services to create and maintain a system of records for monitoring repayment claims against households that have received more Supplemental Nutrition Assistance Payment (SNAP) benefits than they were entitled to. The department uses the Claims Online Tracking System (COTS) to manage records of individuals that have received benefits they were not entitled to, and accounts for the repayments those individuals make. Each month, the department must prepare a summary of claims information: new repayment claims, changes to existing repayment claims, and payments made against claims. The department must submit that information in the Status of Claims Against Households report (FNS 209) to the U.S. Department of Agriculture Food and Nutrition Service. In the Department of Human Services, staff in the Program Integrity and Fiscal Services divisions share responsibility for preparing this report.

Condition

The department's process to prepare the Status of Claims Against Households report did not include reconciling the data with the Fiscal Services Transaction Register (COTS 455A), the department's detailed register of repayments, maintained by the Information Technology Division. Instead, Fiscal Services Division staff transferred information from the system generated summary report (COTS 470A) to the Status of Claims Against Households form. Staff from the Program Integrity Division then reperformed the transfer, but did not verify the accuracy of the summary information to the detailed transaction register. In addition, management has not assessed and addressed the risks associated with failing to reconcile data submitted on the Status of Claims Against Households report with accounting records as required by federal regulations.

Criteria

The requirements in 7 CFR 273.18(m)(5) state, "On a quarterly basis, unless otherwise directed by us, your accounting system must reconcile summary balances reported to individual supporting records." When we discussed the lack of reconciliations with department staff, they acknowledged that they had not been performing reconciliations and agreed to do so in the future.

Cause

Although staff in both the Fiscal Services and Program Integrity divisions reported that they were aware of the Fiscal Services Transaction Register, they had not used it to reconcile the summary data reported on the Status of Claims Against Households report to the detailed accounting data. Instead, both divisions had relied solely on the system-generated summary report.

Effect

Without reconciliations, the department cannot ensure that the Status of Claims Against Households report agrees to actual transactions processed in COTS, and therefore the department cannot ensure that data reported to the U.S. Department of Agriculture is reliable. As a result, we were unable to test the Status of Claims Against Households report (FNS-209) as required.

Recommendation

Management of the Department of Human Services should require staff to reconcile data from the summary report to the detailed Fiscal Services Transaction Register before data is compiled into the quarterly Status of Claims Against Households report and submitted to the U.S. Department of Agriculture Food and Nutrition Service. In addition, management should ensure that the reconciliations are documented, reviewed, and maintained according to the department's documentation retention period. Management should also assess the risks identified in this finding in its annual risk assessment and ensure controls are in place and operating effectively to mitigate any risks identified.

Management's Comment

We concur in part.

The Department does not agree that COTS455A is the appropriate report to utilize in the reconciliation process. The COTS455A is a daily report that contains significant additional data that would hinder the reconciliation process. The Department currently reconciles daily bank deposits to COTS. The Department recognizes the need to strengthen the reconciliation process, including performing periodic reconciliations of the COTS470A to detailed data. The Department will develop a process for reconciling data included on the FNS 209 to detailed supporting documentation retention protocols.

The Department does not anticipate any significant risks to be identified in the reconciliation process. If issues related to this item are identified, it will be noted in the annual risk assessment process.

Finding Number	2014-020
CFDA Number	10.551 and 10.561
Program Name	Supplemental Nutrition Assistance Program Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services did not ensure Electronic Benefit Transfer cards were either recorded or properly recorded on the EBT Card Disbursement/Destruction Log

Background

The Supplemental Nutrition Assistance Program (SNAP) is a government assistance program to help low-income households pay for food. Electronic Benefit Transfer (EBT) is an electronic system used to deliver SNAP benefits to eligible recipients. Fidelity Information Systems, Inc. (FIS) issues benefits to recipients through an EBT payment card, which looks and operates like a debit card, and mails the cards to the recipients. When a household has no permanent residence, the card will be sent to a Department of Human Services' (DHS) county office. To maintain proper security over the EBT cards, the DHS *EBT Information & Instruction Manual* requires county office staff to record all EBT cards received on the county's EBT Card Disbursement/Destruction Log with proper fields completed.

Condition

We obtained the FIS monthly card issuance reports for fiscal year 2014, which contained a list of EBT cards mailed to SNAP recipients and DHS county offices. We randomly selected six months during fiscal year 2014 and then selected a nonstatistical, haphazard sample of 62 counties that were mailed EBT cards during the six months. We found for 47 of 62 counties tested (76%), the DHS EBT Program Specialist and EBT Program Manager did not ensure county staff properly recorded all cards received by the county for issuance. Specifically, we noted

- 3 county office staff did not maintain an EBT Card Disbursement/Destruction Log; and
- 44 county office staff did not record or properly record all the required information on the EBT Card Disbursement/Destruction Logs.

From our review, we found that 50 EBT benefit cards were not recorded on the logs tested; however, we were able to verify through the FIS system that the cards were properly disbursed to the clients.

While performing testwork, we also noted that when SNAP recipients fail to pick up their EBT cards, county staff failed to destroy the cards as required. We found that staff at one of the 47 counties destroyed seven EBT cards beyond the 45th day after receipt of the card. The staff destroyed the cards between 73 to 95 days late.

Given the problems identified during fieldwork, we also reviewed the Department of Human Services' January 2014 Financial Integrity Act Risk Assessment and determined that the Commissioner has not addressed these weaknesses in its risk assessment.

Criteria

According to Title 7, *Code of Federal Regulations*, Part 274, Section 5,

> (a) . . . The State agency shall maintain . . . accountability records for a period of three years . . . (c) . . . The State agency shall provide the following minimum security and control procedures for these documents:
>
> (i) Secured storage;
> (ii) Access limited to authorized personnel;
> (iii) Bulk inventory control records;
> (iv) Subsequent control records maintained through the point of issuance or use; and
> (v) Periodic review and validation of inventory controls and records by parties not otherwise involved in maintaining control records.

The *EBT Information & Instruction Manual* requires county offices to use the EBT Card Disbursement/Destruction Log to record receipt, release, and destruction of the EBT cards with proper fields completed. According to the manual in effect for the period July 2013 through March 2014,

> After presenting acceptable identification, the customers sign the HS-1868 [EBT Card Disbursement/Destruction Log] acknowledging receipt of the Benefit Security Card. The designated employee enters the date the card is issued and his or her initials. . . . If the customer fails to pick up his or her Benefit Security Card WITHIN AT LEAST 45 DAYS OF RECEIPT, the card must be destroyed. . . . The date the card is destroyed is logged on the HS-1868 [EBT Card Disbursement/Destruction Log] along with the initials of the designated employee and supervisor. . . . In addition, a Field Supervisor or Area Manager must follow-up and validate the designated employee's actions.

According to the manual effective for the period April 2014 through June 2014,

> After presenting acceptable identification, the clients sign the HS-3063 [EBT Card Disbursement/Destruction Log], acknowledging receipt of the EBT Card. The designated employee enters the date the card is released . . . If the client fails to pick up his or her EBT Card WITHIN 30 DAYS OF RECEIPT, the card must

> be destroyed. . . . The date the card is destroyed should be logged on the HS-3063 [EBT Card Disbursement/Destruction Log] . . . 8) Releasing/Destroying DE# = Employee DE# of personnel responsible for releasing cards to clients or destroying cards not picked [up.] Initials = Initials of witness to personnel who destroyed/released the card[.]

The manual also states

> . . . a Field Supervisor or Area Manager must follow-up and validate the designated employee's actions.

Cause

The DHS EBT Program Specialist and EBT Program Manager did not review the EBT Card Disbursement/Destruction Logs. The county office staff did not follow the *EBT Information & Instruction Manual*.

Effect

When the DHS EBT Program Manager does not ensure county office staff maintain an EBT Card Disbursement/Destruction Log and properly complete the log, the manager cannot ensure EBT cards are properly secured. This could lead to an increased risk of EBT benefit cards being lost, stolen, or misused.

Recommendation

The DHS EBT Program Specialist and EBT Program Manager should ensure all cards issued to the county office by FIS are recorded on the EBT Card Disbursement/Destruction Log with proper fields completed as specified by the current *EBT Information & Instruction Manual*. The EBT Program Manager should also ensure county office staff are trained on the proper way to document and track EBT cards and that staff comply with the current *EBT Information & Instruction Manual*.

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

Management's Comment

We concur in part.

The Department's Internal Audit unit identified this issue as an opportunity for improvement in FY 2014. The Department notified State Audit prior to their field work as a part of the normal reporting procedures to the Comptroller's Office. We do not agree that this was an issue throughout FY14. In the last quarter of FY14, the Department provided refresher training, reinforced expectations and realized immediate improvement. Additionally, the Department maintained logs in the majority of counties tested. Moving forward, the Department will take necessary corrective measures with employees who do not follow the process as required. This is being monitored by Family Assistance supervisory staff.

Auditor's Comment

We performed testwork subsequent to implementation of the department's new procedures in the last quarter of fiscal year 2014 and found this condition still existed.

Finding Number	2014-021
CFDA Number	10.558 and 10.559
Program Name	Child and Adult Care Food Program Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2014
Finding Type	Significant Deficiency (10.559) Material Weakness (10.558) Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	N/A

Management has not provided proper oversight through monitoring of the Child and Adult Care Food Program and the Summer Food Service Program for Children, resulting in numerous control and compliance deficiencies and federal questioned costs

Background

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

Condition

Based on our review of the programs and our review of the department's monitoring efforts, we determined that the subrecipient monitoring process is insufficient as evidenced by the numerous control and compliance deficiencies we identified. See Table below.

Criteria

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

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

Cause

Our audit of these major programs determined that DHS management had not ensured that 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 these federal programs. We detailed several noncompliance and control weaknesses in separate findings in this audit report that indicate that DHS management did not properly administer the program and did not provide adequate oversight of subrecipients through an effective subrecipient monitoring process. (See table 1 below.)

Table 1
Summary of CACFP and SFSP Findings

Program	**Finding**	**Finding Number**	**Questioned Costs**
CACFP	The Department of Human Services did not provide adequate internal controls in three areas*	2014-017	-
CACFP	DHS did not adequately perform subrecipient monitoring to ensure one subrecipient that participated in CACFP expended program funds and employed staff to conduct monitoring duties as required by federal and state regulations, resulting in questioned costs of $173,441	2014-022	$173,441
CACFP	Management did not ensure subrecipients correctly calculated claims for reimbursement for meals and administrative expenses	2014-023	$67,257
CACFP	Management did not ensure sponsoring organizations performed adequate monitoring of their feeding sites	2014-024	$312,176
CACFP	Management did not ensure subrecipients maintained complete eligibility applications and addendums	2014-025	$34,586
CACFP	Inadequate controls over subrecipient eligibility determinations	2014-026	$720,824
CACFP SFSP	DHS could not locate subrecipient provider agreements	2014-027	(SFSP) $11,154 (CACFP) -
CACFP	Management did not provide CACFP and the	2014-028	-

SFSP	SFSP subrecipients with required subaward information, did not perform risk assessments, and did not obtain corrective action plans		
SFSP	Management did not ensure SFSP subrecipients maintained adequate supporting documentation for meal claims filed for reimbursement	2014-029	$406,199
SFSP	DHS did not ensure SFSP subrecipients served and claimed meals according to meal patterns established by federal regulations	2014-030	$11
SFSP	Management did not perform a pre-approval visit, track and collect excess funds, and did not have controls to ensure sponsors did not over claim meals at individual feeding sites	2014-031	$136,873
SFSP	SFSP sponsor did not obtain eligibility forms	2014-032	-
		Total	**$1,862,521**

*The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated.* We provided the department with detailed information regarding the specific condition we identified. This finding had only one area related to CACFP. The other two areas did not deal with CACFP or SFSP.

Effect

DHS management has not effectively monitored the subrecipients and has not addressed weaknesses in critical functions of the CACFP and SFSP programs noted in the findings, which threatens the integrity of the programs. While we recognize that many of the corrective actions may take months, or longer, to implement, until significant progress is made, management cannot ensure that the department or its subrecipients properly administer these federal programs in compliance with the federal requirements. Without sufficient controls and oversight in the future, DHS

- will continue to make improper reimbursements to subrecipients;
- provide meals to ineligible participants;
- will not collect overpayments to subrecipients; and
- will continue to jeopardize federal funding because of noncompliance.

We are required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, to report on management's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance. We noted material weaknesses and significant deficiencies in internal control over compliance for the CACFP and Summer Food programs during fiscal year 2014. Because of the department's noncompliance with the subrecipient monitoring and eligibility requirements, requirements that have a direct and material effect on compliance on each major program, we have qualified our opinion on CACFP.

Recommendation

The Commissioner of the Department of Human Services should ensure that the recommendations in this report are implemented and should develop a timeline for all corrective action to address the findings in this report. The commissioner and top management should continue to evaluate its corrective action plan and timeline to ensure progress is made to correct all findings.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. It should be noted that the Department had already identified the Food Program as a key area for quality improvement. In spite of these challenges, the Department realized a nearly 60% decrease in questioned costs in the food programs since the last State Single Audit. In FY2013 State Single Audit report questioned costs totaled $4,334,385. In FY2014 State Single Audit report questioned costs totaled $1,842,008. While this decrease is favorable, it should be noted that due to inherent weaknesses in the design of the program, questioned costs could easily increase or decrease from year to year due to various factors. The issues noted regarding questioned costs are currently being recouped or are in the monitoring completion process. See chart at the end of the response; it is a snapshot of specific issues identified in the findings. It provides an overview of the specific corrective actions that have been/will be taken. However, the overall plan is all encompassing. The Department would like to note that subrecipient and sponsors are interchangeable. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually it would exceed the Department's resources and capacity. Meeting this demand would require an exponential increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

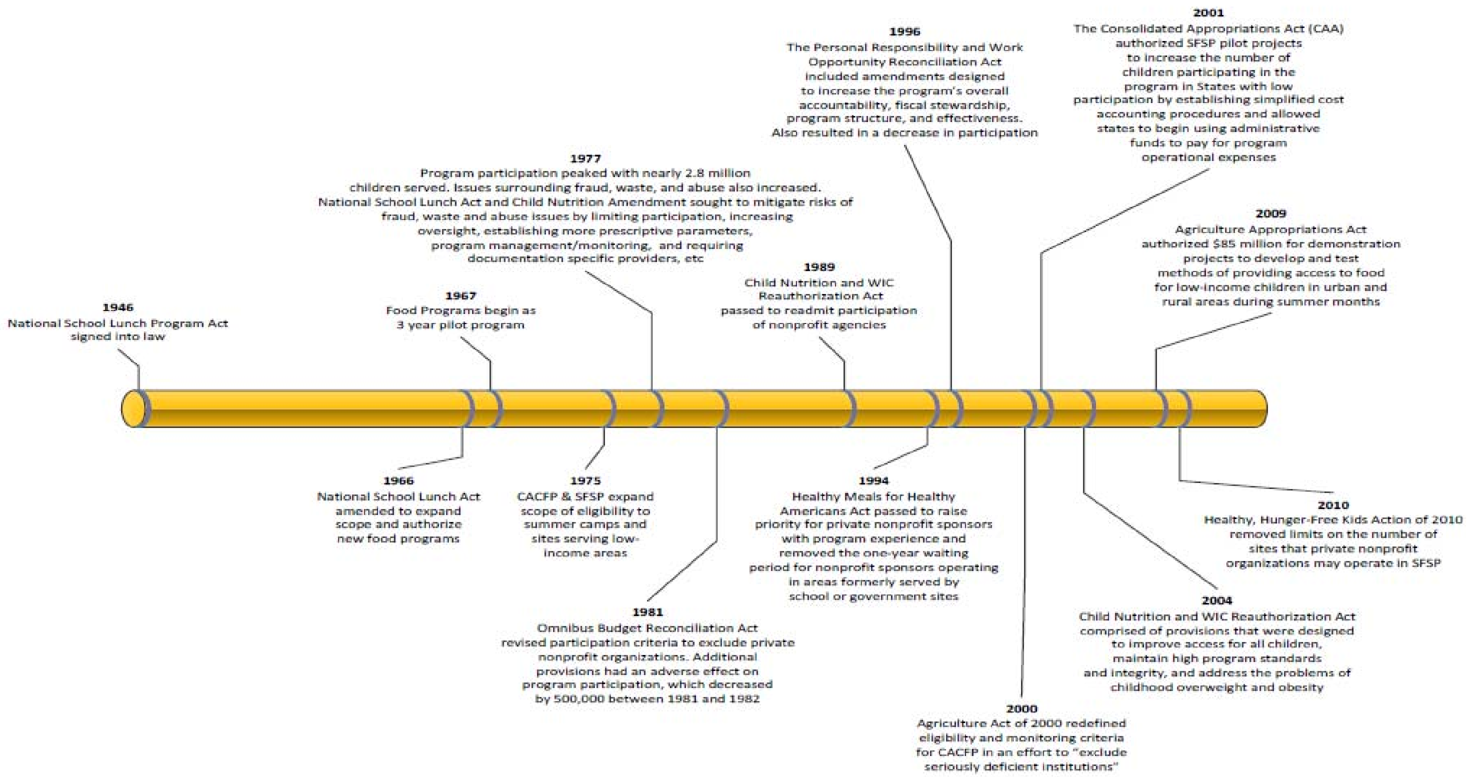
Due to the fact that hunger is a significant vulnerability that can be prevented, the program is designed to err on the side of feeding children and eligible adults while simultaneously maintaining a focus on program integrity. The Economic Research Service (ERS) of United States Department of Agriculture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

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

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

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

Child and Adult Care Food Program (CACFP) & Summer Food Service Program (SFSP) Historical Timeline



The Department is committed to transparency and this response is reflective of that commitment. The Department has been in close communication with State Audit and federal partners regarding the disposition of various aspects of the programs that create risk by virtue of its design. State Audit noted several findings based on their test work related to monitoring subrecipients. The test work performed by State Audit was similar to the test work that would have been performed by the Department's external program monitors had the same subrecipient (and review period) been included in the Department's audit plan. These differences in sample selections create a natural propensity for State Audit to note findings that have not been detected by the Department in the same audit year. To illustrate the point, the Department noted and reported findings for many subrecipients that the state auditors did not review in their audit test work. Perhaps a more meaningful review by the state auditors going forward, and one that should be discussed and vetted in joint strategy sessions between State Audit and the Department, would include focusing on the same entities the Department has reviewed and then Quality Assurance the Department's review/results.

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

Challenges

The Department of Human Services' Food Programs have most certainly been a benefit to children across the country, including Tennessee's children. The food programs remain relatively antiquated from a technology perspective. Some of the challenges include:

1. Highly paper driven process
2. Historical reluctance of the Department to modernize the program through technology
3. Volume of sponsors and feedings sites to manage and monitor
4. Tendency of long-term employees to not document institutional knowledge
5. Historical program leadership practice of developing corrective action plans for providers
6. Inherent vulnerability since inception at the federal level

Strategy

The Department's overall strategy for addressing the CACFP and SFSP State Audit findings, while maintaining focus on each program's mission, is threefold. The three key strategies:

1. Leverage technology,
2. Redefine DHS-Subrecipient paradigm, and
3. Workforce Development and Support Plan.

The first component of the Department's strategy is the need to leverage technology. The food programs are driven by a high volume of paperwork and manual processes. Inherent in this is the risk for human error. To offset this risk, the Department plans to apply technology solutions by considering the following opportunities:

Strategy One: Leverage Technology

- Web development for applications-submission process
- Developing/obtaining document management software solution
- Developing/obtaining case management software solution, reporting (programmatic, fiscal, monitoring and claims processing)
- Enhancing analytical capabilities of current applications

Strategy Two: Redefine DHS-Subrecipient Paradigm

The Department is committed to effective public partnerships. In order to realize the objectives of improving program integrity and having greater impact, it is necessary to establish a new paradigm to inform the parameters of the partnership. This process includes, but is not limited to, the following:

- Enlisting feedback from providers.
- Greater utilization of the DHS website for information dissemination. This will require partners to proactively monitor to ensure the ongoing compliance.
- Revisit current provider agreements to identify opportunities for improvement.
- Regular briefings with providers via technology and other meetings on trends on monitoring audit and technical assistance results.
- Enlisting high performing sponsors to assist in the development of a continuous quality improvement process.
- Implement annual requirement for partners to complete online in-service.

Strategy Three: Workforce Development and Support Plan

The Department is committed to developing a workforce development and support plan. This plan will involve the following:

- Talent management: this involves recruiting, developing, and retaining the most talented employees available. It drives agency results when leaders use the right data to align business and people strategies. The talent management process will include feedback from staff. The talent management process also involves the hiring supervisors to actively seek candidates with demonstrated abilities to excel in the required position tasks.

- Professional Development and Performance Management: considering the volume and manual nature of the food programs, staffing competencies that include attention to detail, integrity, and thoroughness are necessary with regard to program and program monitoring staff. Additionally, performance management tools will be utilized to create outcome driven goals that coincide with the accuracy and quality necessary to improve the food program area.
- Knowledge retention: this involves capturing knowledge in the organization so that it can be used later. It is a key component to ensuring that necessary information and skills continue irrespective of the individual. The Department is in the initial phases of creating knowledge retention plans that will detail all key processes and help with effective and efficient knowledge transfer.

It should be noted, the food program has a team of long-term staff members with institutional knowledge. However, as noted previously, knowledge has not always been documented and shared. It is also not uncommon to experience turnover when there is an increased focus on accountability and performance. This is something that the Department will need to anticipate and prepare for as the Department makes this transformational shift.

Immediate action steps to be taken (March 2015 - June 2016):

1. Controls within TFP will be monitored regularly, list of current edit checks will be maintained, and edit checks and list will be updated as needed.
2. Implement interim document scanning solution to assist primarily with the application process. This will be implemented to the extent possible within current technology capacities.
3. Implement low tech IT quick wins.
4. Request technical assistance from FNS.
5. Implement higher level of approval for cash advances.
6. Consult with FNS to enlist specific suggestions from federal OIG.
7. Pursue approval from FNS to implement criminal background check of sponsors and sites as a part of the application and approval process.
8. Consult with FNS on strengthening the Department's advance payment process for SFSP.
9. Pursue approval from FNS to limit number of sites per sponsor.
10. Implement annual requirement for participants to complete online training.
11. Host a joint strategy session with FNS and identified partners.
12. Raise awareness among subrecipients and others to report fraud, waste and abuse in the program.
13. The Department will partner with the Department of Human Resources and enlist identified program staff to participate in identification and the development of competencies required relative to the future skill set needed and program design.
14. Implement the *4 Disciplines of Execution* as outlined by Covey.
15. Train identified program staff in the *4 Disciplines of Execution.*
16. Implement a cadence of accountability to ensure fulfillment of the plan.
17. Implement annual requirement for staff to complete online training.
18. Enlist State Audit to provide more explicit and operational recommendations.

The Department has also identified recommendations for consideration by FNS that include but are not limited to:

- Consider a demonstration project to leverage SNAP funds to assist with SFSP.
- Consider creating a National Disqualification List (NDL) for SFSP, similar to the NDL for CACFP.
- Allow more flexibility for termination of subrecipients as long as the state can demonstrate compliance with Title VI.
- Provide more guidance on how to prevent disruption of services when terminating sponsors.

As a part of the Department's commitment to continuous quality improvement (CQI), a historical review of the program over several years will continue. To date, this process has identified a level of congruence between the findings identified by State Audit in this report and issues identified in national reports. However, it should be noted that there were some years when State Audit didn't review the program or reviewed the program and it yielded no findings. Given the inherent challenges noted in the program since its inception, it's unlikely that any review would yield no issues. This plan is indicative that few radical changes have been made in the operation of the program. Therefore, it is likely that State Audit changed their approach in more recent years. If State Audit continues to use this approach, the Department will utilize their audits as another tool in the CQI process. The history and inherent challenges of the programs suggest that findings, especially related to questioned costs, will continue on some level. It might be beneficial for the Department and State Audit to consider a joint strategy given this reality.

It should be noted that this plan is transformational and will likely be met by resistance or the need to preserve the status quo by some. This plan will include consultation with other states and sister agencies and is subject to change depending on availability of resources.

This corrective action plan will be included in the Department's current efforts to transform the food programs in a manner that realizes the fulfillment of improved program integrity and greater impact.

The Department invites any Tennessean who is interested in adding their strength toward efforts in transforming Tennessee's food programs and supports the commitment to the ideal that No Tennessee Child Should Go Hungry while also improving program integrity, please send an email to the DHS Webmaster or contact the DHS Public Information and Legislative Office.

Department of Human Services
Single Audit Findings
For the Year Ended
June 30, 2014

Program	Finding	Finding Number	Overall Corrective Action	Corrective Action Comments
CACFP	The Department of Human Services did not provide internal controls in three areas*	2014-017	LT	We have delivered a confidential response to the detailed finding.
CACFP	DHS did not adequately perform subrecipient monitoring to ensure one subrecipient that participated in CACFP expended program funds and employed staff to conduct monitoring duties as required by federal and state regulations, resulting in questioned costs of $173,441.	2014-022	RP	State Audit notified the Department of the finding near the end of their investigation of this entity. The point of notification was after State Audit turned the confidential report over to the district attorney. This did not allow the Department sufficient time to review the issue and develop a more detailed response. Additionally, State Audit notified the Department that the investigation was proceeding through the legal process and further communication with the entity should be halted regarding the reviewed time period. The Department will follow up with the entity as appropriate at the conclusion of the legal proceedings. It should be noted that the Department identified other issues with this entity prior to State Audit. The Department stands ready to assist the district attorney and State Audit as necessary throughout the process. Additionally, food program staff will evaluate and strengthen the budget review process for future entities. External program review staff will enhance the monitoring program to evaluate the budget review/approval process. While performing monitoring reviews, external program review staff will continue to ensure subrecipient agencies maintain adequate documentation for meals claimed; subrecipients are expected to maintain adequate documentation.
CACFP	Management did not ensure subrecipients correctly calculated claims for reimbursement for meals and administrative expenses.	2014-023	RP	The Department's external program review staff will continue to ensure subrecipient agencies correctly calculate claims for reimbursement. Subrecipients are expected to accurately calculate and document claims for reimbursement. The issues noted regarding questioned costs are currently being recouped or are in the monitoring completion process.
CACFP	Management did not ensure sponsoring organizations performed adequate monitoring of their feeding sites	2014-024	LT and RP	The Department program staff will improve information dissemination to sponsoring organizations to ensure they receive updated Sponsor review guide forms. Also, while performing monitoring reviews, the Department's external program review staff will continue to ensure sponsors have and use current forms. Sponsors are expected to perform site monitoring and ensure they utilize updated information. Sponsors will continue to be monitored for compliance with these expectations. Refer to narrative for more details.
CACFP	Management did not ensure subrecipients maintained complete eligibility applications and addendums	2014-025	RP	The Department's external program review staff will continue to ensure sponsors have maintained complete participant applications and addendums. Sponsors are expected to accurately determine and document participant eligibility. Sponsors will continue to be monitored for compliance with these expectations.
CACFP	Inadequate controls over subrecipient eligibility determinations	2014-026	LT and WDSP	The Department will develop an automated process for obtaining, scanning, and maintaining subrecipient eligibility documentation. The Department will also work to ensure program and external program review staff are effectively trained and continue to be held accountable for their work.
CACFP/ SFSP	DHS could not locate subrecipient provider agreements	2014-027	LT	The Department will implement an interim scanning solution to obtain and maintain provider agreements. As a long-term solution, the Department will develop and/or purchase a document management software solution. Regarding questioned costs in the finding, it should be noted additional costs for one entity were questioned by the Department in the course of its normal monitoring process. The questioned costs are currently being recouped or are in the monitoring completion process.

Department of Human Services
Single Audit Findings
For the Year Ended
June 30, 2014

Program	Finding	Finding Number	Overall Corrective Action	Corrective Action Comments
CACFP/ SFSP	Management did not provide CACFP and the SFSP subrecipients with required subaward information, did not perform risk assessments, and did not obtain corrective action plans.	2014-028	LT and WDSP	The Department's program staff will improve information dissemination to subrecipients to ensure they receive required subaward information. The Department's program and external program review staff will continue to work together to determine the subrecipients to be monitored based on the Code of Federal Regulations as outlined in the monitoring plan. Additionally, the Department has revised the process to collect CAPs from subrecipients. The Department will work to ensure program and external program review staff are effectively trained and continue to be held accountable for their work. Refer to narrative for more details.
SFSP	Management did not ensure SFSP subrecipients maintained adequate supporting documentation for meal claims filed for reimbursement.	2014-029	RP	The Department will work with FNS program staff to review the SFSP application process and strengthen it as needed. While performing monitoring reviews, external program review staff will continue to ensure subrecipient agencies maintain adequate documentation for meals claimed. Subrecipients will continue to be expected to maintain adequate documentation. The issues noted regarding questioned costs are currently being recouped or are in the monitoring completion process.
SFSP	DHS did not ensure SFSP subrecipients served and claimed meals according to meal patterns established by federal regulations	2014-030	LT and WDSP	The Department will work with FNS program staff and enhance analytical capabilities of current applications. Additionally, while performing monitoring reviews, external program review staff will continue to ensure subrecipient agencies claimed and served meals according to meal patterns. Subrecipients will continue to be expected to claim and serve meals according to meal patterns.
SFSP	Management did not perform a pre-approval visit, track and collect excess funds, and did not have controls to ensure sponsors did not over claim meals at individual feeding sites.	2014-031	LT and RP	The Department will enhance analytical capabilities of current applications to strengthen controls over sponsor oversight. The Department will also ensure program staff are effectively trained and continue to be held accountable for their work. The questioned costs are currently being recouped or are in the monitoring completion process.
SFSP	SFSP sponsor did not obtain eligibility forms	2014-032	RP	While performing monitoring reviews, external program review staff will continue to ensure sponsors have maintained complete participant income eligibility forms. Subrecipients will continue to be expected to obtain and maintain participant income eligibility forms.

* The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. The department was provided detailed information regarding the specific condition identified. This finding had only one area related to CACFP. The other two areas did not deal with CACFP or SFSP.

LT=	Leverage Technology
RP=	Redefine the DHS-Subrecipient Paradigm
WDSP=	Workforce Development and Support Plan

Finding Number	2014-022
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2010, 2012 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Subrecipient Monitoring
Questioned Costs	FY 2014 - $38,274 FY 2015 - $135,167
Repeat Finding	N/A

The Department of Human Services did not adequately perform subrecipient monitoring, as required by federal and state regulations, to ensure one subrecipient participating in the Child and Adult Care Food Program expended program funds and employed staff to conduct monitoring duties, resulting in questioned costs of $173,441

Background

The Department of Human Services operates the Child and Adult Care Food Program (CACFP) in partnership with the U.S. Department of Agriculture (USDA). The department contracts with subrecipients for administration over CACFP and for the delivery of meals to eligible participants. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is a sponsoring organization. Sponsoring organizations can either sponsor homes (residential) or centers (non-residential) that operate as feeding sites for eligible participants. The department reimburses the subrecipients to cover the administrative costs and costs of meals served. Because the department is a pass-through entity of federal funds to subrecipients, management of the department is responsible for monitoring the subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. Management relies on its External Program Review to perform monitoring to ensure subrecipients comply with federal program requirements.

Condition

Based on our review of the department's monitoring efforts, we determined the department did not have a sufficient subrecipient monitoring process in place to identify or prevent a high-risk subrecipient[5], who failed to follow federal regulations and state contract requirements from claiming and receiving reimbursement for unauthorized administrative expenses. This subrecipient is a non-profit sponsoring organization which oversees 216 homes and 120 centers. Specifically, we found Program Staff and External Monitoring did not sufficiently monitor the subrecipient's activities to ensure the following:

a) the subrecipient had an independent board of directors that met routinely and exercised adequate oversight of the program;

b) the subrecipient requested authorization from the department and an independent board of directors for bonuses to and salaries for subrecipient management;

c) that subrecipient management requested authorization for construction expenditures not included in the budget approved by Program Staff;

d) the subrecipient did not exceed the budgeted line-item amounts approved by Program Staff for expenses related to utility payments, equipment rental, technology services, administrative benefits, staff training, insurance, contracted monitoring, and other miscellaneous disbursements; and

e) the subrecipient hired staff to monitor the homes and centers under the subrecipient's administrative and fiscal responsibility.

We are questioning all unauthorized administration expenses totaling $38,274, paid to this subrecipient for fiscal year ended June 30, 2014, and $135,167 for fiscal year ended June 30, 2015, because the department did not ensure the subrecipient complied with federal program requirements. The table below provides details of the nature of unauthorized administrative expenses claimed by the subrecipient for reimbursement and paid by the department for the period October 1, 2008, through September 30, 2014.

[5] The USDA Food and Nutrition Services Southeast Regional Office (FNS SERO) staff released a Special Nutrition Programs Management Evaluation Report for Fiscal Year 2013. FNS SERO identified the department for not collecting adequate information and supporting documents to determine the allowability, necessity and reasonableness of all proposed expenditures on the subrecipient's budget.

Table
Unauthorized Administrative Expenses Claimed by Subrecipient and Paid by Department
For the Period October 1, 2008, through September 30, 2014

Condition	**State Fiscal Years**							
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Bonus	$43,855	$97,111	$107,301	$88,281	$82,667	$15,988	-	$435,203
Salary	-	$28,418	$32,959	$27,826	$23,659	$22,286	$35,628	$170,776
Construction	$278	$21,602	$5,305	-	-	-	-	$27,185
Other*	-	-	-	-	-	-	$99,539	$99,539
Total	**$44,133**	**$147,131**	**$145,565**	**$116,107**	**$106,326**	**$38,274**	**$135,167**	**$732,703**

* "Other" refers to the budgeted line-items specified in the condition (part d) above.

These matters that were brought to our attention during our review, were referred to our office's Financial and Compliance Investigations section and the results of its investigation will be presented in a separate report.

Given the problems identified during our fieldwork, we also reviewed the department's January 2014 Financial Integrity Act Risk Assessment. We determined management did not ensure that the department's annual risk assessment included the risks or mitigating controls associated with External Program Review not sufficiently monitoring subrecipients' activities.

<u>Criteria</u>

According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 6(f)(1)(iv), the department is to

> Require each sponsoring organization to submit an administrative budget with sufficiently detailed information concerning projected CACFP administrative earnings and expenses, as well as other non-Program funds to be used in Program administration, for the State agency to determine the allowability, necessity, and reasonableness of all proposed expenditures, and to assess the sponsoring organization's capability to manage Program funds.

a) According to the USDA's *Guidance for Management Plans and Budgets, A Child and Adult Care Food Program Handbook*, Part 1(B),

> An acceptable Board consists of a majority of the members whose livelihood is independent from and who holds no personal fiscal interest in the institution's activities and who are not related to each other or to its personnel.

In addition, 7 CFR Part 226.2 states,

> . . . in the case of a nonprofit organization, . . . a governing board which meets regularly and has the authority to hire and fire the institution's executive director.

b) According to the USDA's *Guidance for Management Plans and Budgets, A Child and Adult Care Food Program Handbook*, Part 2(F),

> . . . The following are examples that require the submission of a revised budget: . . . Changes to salaries and/or benefits. . . .

According to the *Internal Revenue Code,* Section 501 (c)(3),

> . . . The organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family. . .

c) According to the USDA's *Guidance for Management Plans and Budgets, A Child and Adult Care Food Program Handbook*, Part 2(A)(5),

> . . . . . . The following are examples of unallowable costs: . . . Costs that are not approved in the CACFP budget or a budget amendment. . . .

d) According to the USDA's *Guidance for Management Plans and Budgets, A Child and Adult Care Food Program Handbook*, Part 2(F),

> . . . . . . The following are examples that require the submission of a revised budget: . . . Line-item increases or decreases in dollar amount.

e) The *CACFP Policies and Procedures Manual* states,

> All participating institutions must accept final administrative and responsibility for their CACFP operations. A CACFP institution cannot contract out functions such as monitoring, corrective action and preparation of application materials. . .

Cause

The department did not have a sufficient subrecipient monitoring process which included reviewing the subrecipient's budgets, reviewing the appropriateness of the subrecipient's administrative expenses or ensuring subrecipient monitors are not contractors.

Effect

As a pass-through entity for CACFP, the department is responsible for ensuring subrecipients comply with federal and state requirements. Because External Program Monitors failed to monitor the activities of this subrecipient, the department reimbursed the subrecipient $732,703 in unauthorized and questionable expenses over the period October 1, 2008, through September 30, 2014.

Known Questioned Costs

We identified known questioned costs totaling $38,274 for fiscal year ended June 30, 2014. We also found $135,167 of unallowable costs for the July through September 2014 and related to the fiscal year which will end June 30, 2015. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner should ensure that Program Staff and external program monitors implement a subrecipient monitoring plan to ensure subrecipients follow federal and state regulations. This plan should include a proper review of budgets, ensuring the board of directors is independent and operating properly; subrecipient management does not award bonuses or raises without prior approval from the independent board of directors; subrecipient management has not contracted for the monitoring function; subrecipient management includes all salaries and bonuses in the budget for departmental approval; and subrecipients do not exceed the line items included in the budget, and if so, that subrecipients submit a revised budget for departmental approval.

In addition, management should identify all risks related to the issues noted in this finding on management's risk assessment, and establish controls to mitigate the risks.

Management's Comment

State Audit notified the Department of the finding near the end of their investigation of this entity. The point of notification was after State Audit turned the confidential report over to the district attorney. This did not allow the Department sufficient time to review the issue and develop a more detailed response. Additionally, State Audit notified the Department that the investigation was proceeding through the legal process and further communication with the entity should be halted regarding the reviewed time period. The Department will follow up with the entity as appropriate at the conclusion of the legal proceedings. The Department stands ready to assist the district attorney and State Audit as necessary throughout the process.

Finding Number	2014-023
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2010, 2012 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Cash Management Matching, Level of Effort, Earmarking
Questioned Costs	$67,258
Repeat Finding	N/A

The Department of Human Services did not ensure subrecipient agencies correctly calculated claims for reimbursement for meals and administrative expenses, resulting in $67,258 of questioned costs

Background

The Child and Adult Care Food Program (CACFP) is a year-round program funded by the U.S. Department of Agriculture (USDA) and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring subrecipients are eligible to participate in the program and that the subrecipients comply with federal requirements. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is a sponsoring organization. Institutions and sponsoring organizations submit meal reimbursement claims to DHS.

Sponsoring organizations can either sponsor homes (residential) or centers (non-residential) that operate as feeding sites for eligible participants. After sponsoring organizations receive reimbursement, they have five working days to disburse the funds to their sponsored sites. Sponsoring organizations of homes retain administrative expenses based on the prescribed federal calculation which considers the number of participating homes times an annually established administrative reimbursement rate set by USDA. The USDA also allows sponsoring organizations of centers to retain 15% of each sponsored center's reimbursement to cover administrative expenses.

Condition

We selected a nonstatistical, random sample of 65 sponsoring organizations' meal reimbursement claims from a population of 481 sponsoring organizations' meal reimbursement claims during fiscal year 2014. Based on our testwork, we noted that DHS did not ensure sponsoring organizations correctly calculated claims for reimbursement and/or for administrative expenses. Specifically, we noted for

- 18 of 65 meal reimbursement claims tested (28%), 8 sponsoring organizations did not ensure claims agreed to the supporting documentation for meals served; and
- 5 of 65 meal reimbursement claims tested (8%), 4 sponsoring organizations did not calculate and retain the correct administrative expense amount.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' January 2014 Financial Integrity Act Risk Assessment. We determined that management did not ensure the department's annual risk assessment included the risks associated with sponsoring organizations not maintaining accurate documentation and not calculating administrative expenses correctly.

Criteria

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

> Claims for Reimbursement shall report information in accordance with the financial management system established by the State agency, and in sufficient detail to justify the reimbursement claimed and to enable the State agency to provide the final Report of the Child and Adult Care Food Program (FNS 44) required under §226.7(d). In submitting a Claim for Reimbursement, each institution shall certify that the claim is correct and that records are available to support that claim.

For Sponsors of Child Care Centers, 7 CFR 226.6(f)(1)(iv), states

> . . .the administrative budget submitted by a sponsor of centers must demonstrate that the administrative costs to be charged to the Program do not exceed 15 percent of the meal reimbursements estimated or actually earned during the budget year, unless the State agency grants a waiver in accordance with §226.7(g).

For Sponsors of Child Care Homes, the CACFP *Policies and Procedures Manual* states

> Based on the Healthy, Hunger-Free Kids Act of 2010 (Public Law 111-296), administrative payments are determined by multiplying the number of homes submitting a claim for reimbursement by the appropriate annually adjusted administrative reimbursement rate.

Cause

There were three reasons why the sponsoring organizations' supporting documentation did not agree to the submitted meal reimbursement claims. See Table 1 below.

Table 1: Summary of Reasons for Errors in Claims for Reimbursement		
Reasons	**Sponsoring Organizations**	**Number of Incorrect Claims for Reimbursement**
Reason A: Sponsoring organizations submitted a claim for reimbursement based on estimated meal counts and instead of actual meals served	Sponsoring organization 1	1
	Sponsoring organization 2	1
Reason B: Sponsoring organizations stated calculations were incorrect either because of a lack of understanding about how to submit a meal reimbursement claim or because of human error	Sponsoring organization 1	1
	Sponsoring organization 2	3
	Sponsoring organization 3	4
	Sponsoring organization 4	1
	Sponsoring organization 5	1
	Sponsoring organization 6	2
	Sponsoring organization 7	2
Reason C: Sponsoring organization stated a system error caused the miscalculation*	Sponsoring Organization 8	2
Total Errors		**18**

*The system is owned and operated by the sponsoring organization and not DHS.

For the five administrative expense errors, because the sponsoring organizations submitted incorrect information on the meal reimbursement claims, they did not calculate and retain the correct administrative expense.

Effect

When the Director of Community Services and the Director of CACFP and Summer Food Service Program do not ensure sponsoring organizations' meal reimbursement claims agree to supporting documentation, they cannot ensure that reimbursements to sponsoring organizations are accurate and allowable or that related administrative costs are appropriately calculated based on the federal regulations.

Known Questioned Costs

For six of the 18 claims errors related to the sponsoring organizations' inadequate supporting documentation, we found DHS overpaid the organizations $65,726. These overpayments included $1,532 in related administrative costs. See Table 2 for details by sponsoring organization.

Table 2: Summary of Questioned Costs			
Sponsoring organization	**Unsupported Meal Reimbursement Claim**	**Inaccurate Administrative Expenses**	**Total**
Sponsoring organization 1	$41,049	$325	$41,374
Sponsoring organization 2	$19,471	$587	$20,058
Sponsoring organization 3	$2,687	$249	$2,936
Sponsoring organization 4	-	-	-
Sponsoring organization 5	$9	-	$9
Sponsoring organization 6	$38	-	$38
Sponsoring organization 7	$2,472	$371	$2,843
Sponsoring organization 8	-	-	-
Total Questioned Costs:	**$65,726**	**$1,532**	**$67,258**

Our testwork included a review of 65 sponsoring organizations' meal reimbursement claims totaling $6,168,031 from a population of 481 sponsoring organizations' meal reimbursement claims totaling $25,595,740 during fiscal year 2014. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner, the Director of Community Services, and the Director of CACFP and Summer Food Service Program should ensure that sponsoring organizations submit accurate and properly supported meal reimbursement claims. DHS management should also ensure sponsoring organizations correctly calculate and retain administrative expenses.

In addition, management should identify all risks related to the issues noted in this finding in management's risk assessment, and establish controls to mitigate the risks.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department's external program review staff will continue to ensure subrecipient agencies correctly calculate claims for reimbursement. Subrecipients are expected to accurately calculate and document claims for reimbursement. The issues noted regarding questioned costs are currently being recouped or are in the monitoring completion process. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually, it would exceed the Department's resources and capacity. Meeting this demand would require an exponential increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-024
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2010, 2012 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility Subrecipient Monitoring
Questioned Costs	$312,176
Repeat Finding	N/A

The Department of Human Services did not ensure that sponsoring organizations performed adequate monitoring of their feeding sites, resulting in the department's increased risk of awarding federal funds to ineligible sponsoring organizations

Background

The Child and Adult Care Food Program (CACFP) is a year-round program funded by the U.S. Department of Agriculture and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring subrecipients the department contracts with, to provide meals to eligible participants, are eligible and comply with federal requirements. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is a sponsoring organization. As part of the eligibility requirements, sponsoring organizations are required to perform monitoring reviews of sites to ensure they are carrying out the program as required by federal guidelines. DHS developed the CACFP Sponsor Review Guide form, which is a standardized monitoring review form for sponsoring organizations to use in order to document their monitoring of the feeding sites. Program staff relies on the department's External Program Review section (EPR) to review the DHS-developed monitoring review forms during the monitoring visits to determine if the sponsoring organizations completed the feeding site reviews.

Condition

We selected a nonstatistical, random sample of 56 CACFP subrecipients from a population of 591 CACFP subrecipients, for fiscal year ended June 30, 2014. Of the 56 subrecipients tested, 40 were institutions and 16 were sponsoring organizations. Based on our review of the monitoring forms, we noted that for 4 of 16 sponsoring organizations tested (25%), program staff did not ensure that the sponsoring organization actually performed monitoring, maintained sufficient documentation of the feeding site monitoring visits, or performed follow up to ensure corrective actions were taken. We found sponsoring organizations did not

- perform a review of new feeding sites within the first four weeks of program operation;
- review each of their sites three times during the year;
- observe a meal service during at least one of their unannounced monitoring reviews;
- perform reconciliations of sites' meal counts with enrollment and attendance records for a five-day period; and/or
- perform monitoring reviews on a regular cycle (a regular cycle is no more than six months between reviews).

We also found that sponsoring organizations did not ensure their sites corrected issues found in prior site reviews; had proper licensing or approval to operate; attended sponsor provided training, performed proper meal counts, complied with meal requirements related to menu selection and meal patterns, or retained proper records for meals.

We also found that the department's management had not sufficiently identified the risks associated with sponsoring organizations monitoring efforts or established related controls to ensure that sponsoring organizations performed the monitoring and maintained all required documentation.

<u>Criteria</u>

According to Title 7, *Code of Federal Regulations* (CFR), Part 226, Section 16(d)(4),

> (i) *Review elements*. Reviews that assess whether the facility corrected problems noted on the previous review(s), a reconciliation of the facility's meal counts with enrollment and attendance records for a five-day period . . . and an assessment of the facility's compliance with the Program requirements pertaining to:
>
> > (A) The meal pattern;
> > (B) Licensing or approval;
> > (C) Attendance at training;
> > (D) Meal counts;
> > (E) Menu and meal records . . .
>
> (ii) *Reconciliation of meal counts.* Reviews must examine the meal counts recorded by the facility for five consecutive days during the current and/or prior claiming period. . . .
>
> (iii) *Frequency and type of required facility reviews*. Sponsoring organizations must review each facility three times each year, except as described in paragraph (d)(4)(iv) of this section. In addition:
>
> > (A) At least two of the three reviews must be unannounced;

> (B) At least one unannounced review must include observation of a meal service;
> (C) At least one review must be made during each new facility's first four weeks of Program operations; and
> (D) Not more than six months may elapse between reviews . . .

Cause

Three sponsoring organizations used an outdated CACFP Sponsor Review Guide form rather than the current version the department provided or the sponsor used only a portion of the current form to document sponsored site monitoring reviews. The remaining sponsoring organization did not perform any site monitoring reviews during our audit period.

Effect

When the Interim Director of External Program Review does not ensure sponsoring organizations properly monitor their feeding sites, there is an increased risk that the department will not promptly identify sites that have not followed federal program eligibility requirements. Also, the department could contract and provide reimbursement to sponsoring organizations that are ineligible to participate in the program, which could result in the loss of federal funds.

Known Questioned Costs

We are questioning all funds DHS paid to the four sponsoring organizations during our audit period, totaling $312,176. We found that the 56 sponsors in our sample received $4,774,176 out of a population of $65,985,002. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner and the Interim Director of External Program Review should ensure that External Program Review staff perform their monitoring reviews with due diligence to ensure sponsoring organizations perform complete and adequate monitoring reviews of the feeding sites, using the most current and complete CACFP Sponsor Review Guide. The Director of Community Services and the Director of Child and Adult Care Food Programs and Summer Food Service Program should ensure that sponsoring organizations that do not follow federal requirements are not allowed to continue participating in the program. Management should also identify all risks related to sponsoring organizations' documentation of the eligibility verification process and establish controls to mitigate the risks.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department program staff will improve information dissemination to sponsoring organizations to ensure they receive updated Sponsor review guide forms. Also, while performing monitoring reviews, the Department's external program review staff will continue to ensure sponsors have and use current forms. Sponsors are expected to perform site monitoring and ensure they utilize updated information. Sponsors will continue to be monitored for compliance with these expectations. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually, it would exceed the Department's resources and capacity. Meeting this demand would require an exponential increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-025
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2010, 2012 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$34,586
Repeat Finding	2013-018

As noted in prior audits, the Department of Human Services did not ensure that subrecipients maintained complete applications and addendums as required by federal regulations

Background

The Child and Adult Care Food Program (CACFP) is a year-round program federally funded by the U.S. Department of Agriculture (USDA) and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring that subrecipients are eligible and comply with federal requirements. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is classified as a sponsoring organization. Sponsoring organizations can either sponsor homes (residential) or centers (non-residential). Feeding sites are actual locations where the institutions/sponsoring organization subrecipients serve meals to participants in a supervised setting. Although these subrecipients receive federal cash reimbursement for all meals served, they receive higher levels of reimbursement for meals served to participants who meet the income eligibility criteria published by the USDA's Food and Nutrition Services for meals served free or at reduced price.

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

As noted in the prior audit, DHS staff did not ensure CACFP subrecipients followed the federal requirements for determination of participants' eligibility, nor did DHS staff ensure the subrecipients maintained the required participant applications or addendums.

Condition

We selected five CACFP subrecipients with the highest expenditures and risk based on the department's subrecipient monitoring plan from a population of 591 subrecipients. We also selected a nonstatistical, random sample of 25 additional CACFP subrecipients from the remaining population of 586 subrecipients who participated in CACFP during fiscal year 2014. One subrecipient (Subrecipient 1) of the 30 subrecipients selected had not maintained documentation to support its determination of participants' eligibility for this program; therefore, we questioned all costs paid to the subrecipient. At each of the remaining 29 subrecipients, we haphazardly selected a nonstatistical sample of 10 participants for a total sample of 290 participants tested.[6] Based on our testwork, we found the following errors.

- For 19 of the 290 participants tested (7%), two subrecipients (Subrecipients 2 and 3) did not maintain eligibility applications or addendums for the participants.
- Of the remaining 271 participants tested, we found that for 9 participants (3%), 3 subrecipients did not properly document individual eligibility information on the application and/or addendum. Specifically,
    - one subrecipient (Subrecipient 4) did not determine one participant's eligibility correctly (the subrecipient made an incorrect determination that the participant was eligible for a free rate);
    - one subrecipient (Subrecipient 5) did not properly complete addendums for seven participants (the addendums were incorrectly completed for a family and are required to be completed by individual participant.); and
    - one subrecipient (Subrecipient 3) did not complete all parts of the application and the incorrect addendum was used for one participant (the application was incomplete and was not signed and dated by subrecipient staff to indicate review; the addendum was incorrectly completed for a family and is required to be completed by individual participant).

Given the problems identified during our fieldwork, we also reviewed the department's January 2014 Financial Integrity Act Risk Assessment. We determined management did not ensure that the department's annual risk assessment included the risks or mitigating controls associated with subrecipients not maintaining applications and addendums.

Criteria

According to Title 7, *Code of Federal Regulation* (CFR), Part 226, Section 23(e)(1)(i),

> For the purpose of determining eligibility for free and reduced price meals, institutions (other than emergency shelters and at-risk afterschool care centers) shall distribute applications for free and reduced price meals to the families of

[6] We could not determine the total participant population because Subrecipients 2 and 3 did not retain a complete listing of participants served at their location even though DHS requires the subrecipients to retain information on participants served by their organization.

> participants enrolled in the institution. . . . [I]f a child is a member of a SNAP or FDPIR household or is a TANF recipient, the child is automatically eligible to receive free Program meal benefits . . .

The *CACFP Policies and Procedures Manual* states,

> 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. All determinations must be based on the current USDA income guidelines for the same month that the applications are received. The determining official(s) must also sign and date each application.

7 CFR 226.15(e)(2) states,

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

<u>Cause</u>

Based on our discussion with Subrecipient 1's Director, flood damage destroyed all of her CACFP documentation. We questioned $3,133 paid to the subrecipient during fiscal year 2014.

Subrecipient 2's Director stated she obtained eligibility applications and addendums; however, the applications and addendums were stored on a laptop that was stolen. We questioned $11,159 paid to the subrecipient during fiscal year 2014.

Subrecipient 3's Executive Director stated that she was unaware that she was required to obtain eligibility applications and perform eligibility determination until DHS External Program Review monitors informed her of those requirements. We questioned $19,167 paid to the subrecipient during fiscal year 2014.

Subrecipient 4's Director could not provide a reason why she did not determine the participant's eligibility correctly. We questioned $1,127 paid the subrecipient on behalf of the participant with the incorrect eligibility determination.

Subrecipient 5's Director stated that the errors occurred because of a lack of knowledge about how to properly complete addendums. We were able to determine that the participants were eligible by reviewing their applications; therefore, we did not question the costs.

The Director of Community Services stated that the subrecipients did not acquire the necessary knowledge during the department-sponsored annual training workshop or during the technical training and assistance visits in which department staff instruct subrecipients on federal and state policies and procedures.

Effect

When the Director of Community Services and the Director of CACFP and Summer Food Service Program (SFSP) do not ensure subrecipients perform required eligibility determinations and maintain proper documentation to support eligibility determinations, the department will improperly reimburse subrecipients for ineligible participants or for participants whose eligibility is unsupported.

Summary of Known Questioned Costs

Based on the results of our samples, we questioned costs totaling $34,586 related to errors noted in this finding. See Table 1 below summarizing the questioned costs.

Summary of Known Questioned Costs	
Subrecipient	**Questioned Costs**
Subrecipient 1	$3,133
Subrecipient 2	$11,159
Subrecipient 3	$19,167
Subrecipient 4	$1,127
Subrecipient 5	-
Total Questioned Costs	**$34,586**

For the purpose of questioned costs analysis, our testwork included a review of 30 subrecipients representing $25,562,808 from a population of all 591 subrecipients for fiscal year 2014. Of the subrecipients in our population, only 502 received payments from DHS during fiscal year 2014, which represented $63,357,998. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner, the Director of Community Service, and the Director of CACFP and SFSP should ensure all subrecipients accurately determine participants' eligibility and complete and maintain applications and application addendums for all participants.

In addition, management should identify all risks related to the issues noted in this finding on management's risk assessment, and establish controls to mitigate the risks.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department's external program review staff will continue to ensure sponsors have maintained complete participant applications and addendums. Sponsors are expected to accurately determine and document participant eligibility. Sponsors will continue to be monitored for compliance with these expectations. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually, it would exceed the Department's resources and capacity. Meeting this demand would require an exponential increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-026
CFDA Number	10.558
Program Name	Child and Adult Care Food Program
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2010, 2012 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$720,824
Repeat Finding	N/A

The Department of Human Services has inadequate internal controls over subrecipient eligibility determination, which increased the risk of awarding money to ineligible subrecipients

Background

The Child and Adult Care Food Program (CACFP) is a year-round program funded by the U.S. Department of Agriculture and administered on the state level by the Department of Human Services (DHS). As a pass-through entity for CACFP, DHS is responsible for ensuring subrecipients are eligible for the program and comply with federal requirements. A subrecipient is an institution; however, if the subrecipient is administratively responsible for two or more feeding sites, it is a sponsoring organization. To participate in CACFP, each subrecipient sends an application, along with supporting documentation, such as their budget, to the department for approval. Program staff review the application and completes a CACFP Application Review Worksheet to document the review and approval of the subrecipient's eligibility to participate.

Condition

We selected a nonstatistical, random sample of 56 CACFP subrecipients from a population of 591 CACFP subrecipients. Based on our testwork, we noted that management could not provide a properly completed CACFP Application Review Worksheet for 11 of the 56 subrecipient files tested (20%). Management and program staff use the CACFP Application Review Worksheet to document their review and approval of the subrecipients' eligibility to participate in the program. Specifically, we found the following issues:

- For one subrecipient, program staff did not have the subrecipient's initial application or the CACFP Application Review Worksheet in the file to document that the subrecipient applied, and was properly reviewed and approved to participate in the program. We questioned all costs totaling $133,542 paid to this subrecipient because we could not determine if the subrecipient was eligible to participate in the program.
- For one subrecipient, we found that DHS program staff used the wrong form to evaluate and document their initial review of a new subrecipient. Staff used the CACFP Application Review Worksheet for Renewing Institutions instead of the form

designed specifically for new institutions. Although program staff failed to complete the proper form, staff ultimately provided enough documentation to support the subrecipients' eligibility, therefore, we did not question costs.

- For nine subrecipients, we found that DHS program staff failed to properly document their review of the subrecipients' applications and supporting documentation. Specifically, we noted DHS program staff
  - ➢ did not properly complete eight subrecipients' CACFP Application Review Worksheet for New Institutions or CACFP Application Review Worksheet for Renewing Institutions leaving at least one item on the worksheets unchecked and possibly unverified (even though the staff failed to complete the proper forms, program staff ultimately provided enough documentation to support the subrecipients' eligibility therefore we did not question costs); and
  - ➢ did not maintain one subrecipient's CACFP Application Review Worksheet for Renewing Institutions or the related supporting documentation. (We questioned all costs totaling $566,769 paid to this subrecipient because we could not determine if the subrecipient was eligible to participate in the program.)

In addition to our sample, we also noted that the department did not have a file for one subrecipient. The subrecipient files contain information such as the subrecipient's original application, renewal application, and proof of non-profit status.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' January 2014 Financial Integrity Act Risk Assessment. We determined that management did identify a risk of obtaining inadequate documentation from a federal program recipient to verify eligibility; however, the department did not mitigate its risk by establishing proper review and approval controls.

Criteria

According to the Delegated Purchase Authority, Attachment 2, Pre-Defined Vendor Selection Procedures,

> Pursuant to federal guidelines located at 7 CFR Part 226 and 7 CFR Part 225, as amended, the State must guarantee participation to all entities meeting said guidelines.

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

> *(1) Application Procedures for new institutions*. Each State agency must establish application procedures to determine the eligibility of new institutions under this part. . . . In addition, the State agency's application review procedures must ensure that the following information is included in a new institution's application:

(i) *Participant eligibility information . . .*
(ii) *Enrollment information . . .*
(iii) *Nondiscrimination statement . . .*
(iv) *Management plan . . .*
(v) *Budget . . .*
(vi) *Documentation of licensing/approval . . .*
(vii) *Documentation of tax-exempt status . . .*
(viii) *At-risk afterschool care centers . . .*
(ix) *Documentation of for-profit center eligibility . . .*
(x) *Preference for commodities/cash-in-lieu of commodities . . .*
(xi) *Providing benefits to unserved facilities or participants . . .*
(xii) *Presence on the National disqualified list . . .*
(xiii) *Ineligibility for other publicly funded programs . . .*
(xiv) *Information on criminal convictions . . .*
(xv) *Certification of truth of applications and submission of names and addresses . . .*
(xvi) *Outside employment policy . . .*
(xvii) *Bond . . .*
(xviii) *Compliance with performance standards . . . .*

(2) Application procedures for renewing institutions. Each State agency must establish application procedures to determine the eligibility of renewing institutions under this part. . . . In addition, the State agency's application review procedures must ensure that the following information is included in a renewing institution's application:

(i) *Management plan . . .*
(ii) *Presence on the National disqualified list . . .*
(iii) *Ineligibility for other publicly funded programs . . .*
(iv) *Information on criminal convictions . . .*
(v) *Certification of truth of applications and submission of names and addresses . . .*
(vi) *Outside employment policy . . .*
(vii) *Compliance with performance standards . . .*

Cause

According to the Director of Community Services and the Director of CACFP and Summer Food Service Program (SFSP), these documentation errors occurred because of high staff turnover in the program and relocation of program staff and files during the audit period.

Effect

Because the Director of Community Services and the Director of CACFP and SFSP did not ensure that the department's determination of subrecipients' eligibility was actually performed and adequately documented, we could not determine that the subrecipients were eligible to participate in the program.

Known Questioned Costs

We questioned $20,513 for the missing subrecipient file; this error was not a result of our sample testwork. Additional known questioned costs for fiscal year 2014 identified in our sample were $700,311 (the 56 subrecipients in our sample received $4,774,176 out of a population of $65,985,002). Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner, the Director of Community Services, and the Director of CACFP and SFSP should ensure that program staff retains all required eligibility documentation. In addition, the Directors should ensure that program staff properly determine eligibility and document the results of the subrecipients' eligibility determination on the prescribed worksheets prior to approving subrecipients to participate in the program. Management should also establish controls to mitigate the risks related to the issues noted in this finding and document the mitigating controls in management's risk assessment.

Management's Comment

We concur in part.

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

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-027
CFDA Number	10.558 and 10.559
Program Name	Child and Adult Care Food Program Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$11,154 (10.559)
Repeat Finding	N/A

The Department of Human Services could not locate provider agreements with Summer Food Service Program for Children and Child and Adult Care Food Program subrecipients, resulting in $11,154 of questioned costs for fiscal year 2014

Background

The Summer Food Service Program for Children (SFSP) and the Child and Adult Care Food Program (CACFP) operate in partnership with the U.S. Department of Agriculture (USDA), state agencies, and local organizations to provide free, reduced-price, and paid meals to eligible participants. The Department of Human Services (DHS) is responsible for both SFSP and CACFP in Tennessee.

SFSP operates during the summer months (May-September), while CACFP operates year-round. Because the state operates on a July 1 through June 30 fiscal year, our testwork for SFSP crosses two state fiscal years. Our audit scope was July 1, 2013, through June 30, 2014, and our SFSP testwork included the following periods:

- Summer 2013 (May through September 2013 with the months of July through September falling in our audit scope); and
- Summer 2014 (May through September 2014 with the months of May and June falling within our audit scope).

Organizations submit an application to the department annually in order to participate in SFSP and CACFP. DHS program staff review the applications to ensure that potential subrecipients meet the eligibility requirements implemented by the USDA Food and Nutrition Services. Once the Director of Community Services or the Director of CACFP and SFSP approves a subrecipient for participation in SFSP and/or CACFP, program staff ensure the subrecipient has a signed written agreement that describes the subrecipient's duties and responsibilities, as well as the federal regulations over the program. Food program staff use a standardized *Provider Agreement* to meet this requirement.

Condition

When we tested a nonstatistical, random sample of 120 SFSP subrecipients that participated in the summer 2013 and/or summer 2014 programs (60 from each summer) from a population of 212 SFSP subrecipients (105 subrecipients from the 2013 summer and 107 subrecipients from the 2014 summer), we found that for 4 of 120 SFSP subrecipients tested (3%), neither the Director of Community Services nor the Director of CACFP and SFSP could locate the subrecipients' *Provider Agreements.*

We tested a nonstatistical, random sample of 25 CACFP subrecipients from a population of 591 subrecipients who participated in CACFP from July 1, 2013, through June 30, 2014. In addition, we tested five CACFP subrecipients with the highest expenditures and risks based on the department's subrecipient monitoring plan. Based on our testwork, we found for 1 of 30 subrecipients tested (3%), neither the Director of Community Services nor the Director of CACFP and SFSP could locate the subrecipient's *Provider Agreement.*

We reviewed the DHS' January 2014 Financial Integrity Act Risk Assessment and determined that management did not ensure that the risks and mitigating controls associated with DHS' Food Program staff not maintaining required documentation while administering a federally funded program was included in its annual risk assessment.

Criteria

According to Title 7, *Code of Federal Regulations* (CFR), Part 225, Section 14(c),

> No applicant [SFSP] sponsor shall be eligible to participate in the Program unless it: . . . (7) Enters into a written agreement with the State agency upon approval of its application, as required in § 225.6(e).

In addition, 7 CFR 226.6(b)(4)(i), states

> The State agency must require each [CACFP] institution that has been approved for participation in the Program to enter into a permanent agreement governing the rights and responsibilities of each party.

Cause

The Director of Community Services stated that food program staff obtained *Provider Agreements* from the SFSP subrecipients, but the agreements were misfiled. In addition, the Director could not provide a reason why DHS did not have a *Provider Agreement* for the CACFP subrecipient.

Effect

When the Director of Community Services does not obtain and maintain *Provider Agreements*, the department cannot ensure that subrecipients are eligible to participate in the programs or provide evidence that subrecipients have legally committed to operate the food service programs in compliance with the requirements set forth in the *Code of Federal Regulations.*

Known Questioned Costs

We questioned $11,154 DHS paid to the subrecipients that did not have *Provider Agreements.* We listed the details by subrecipient below.

Subrecipient	Questioned Costs during Fiscal Year 2014
SFSP Subrecipient 1	$4,188
SFSP Subrecipient 2	$5,690
SFSP Subrecipient 3	$1,276
SFSP Subrecipient 4*	-
CACFP Subrecipient 1**	-
Total Questioned Costs	**$11,154**

*(We questioned $61,096 for fiscal year 2014 associated with this subrecipient in finding 2014-029 and did not report duplicated questioned costs in this finding.)
**(We questioned $11,159 for fiscal year 2014 associated with this subrecipient in finding 2014-025 and did not report duplicated questioned costs in this finding.)

Based on the results of our samples, we questioned costs totaling $11,154 related to the missing SFSP provider agreements. For the purpose of questioned costs analysis, we reviewed 120 subrecipients that DHS had approved to participate in the SFSP program during the summer of 2013 and/or the summer of 2014. Of these 120 subrecipients, only 78 subrecipients received payments from DHS during fiscal year 2014, which represented $10,892,950 from a total population of $12,748,510. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report known questioned costs greater than $10,000 for a type of compliance requirement for a major program.

Recommendation

The Commissioner, Director of Community Services, and the Director of CACFP and SFSP should ensure *Provider Agreements* are obtained for each subrecipient approved to participate in SFSP and CACFP. The Director of Community Services should also ensure the food programs division's filing system is sufficient to ensure that the agreements are maintained and readily available to management and auditors.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department will implement an interim scanning solution to obtain and maintain provider agreements. As a long-term solution, the Department will develop and/or purchase a document management software solution. Regarding questioned costs in this finding, it should be noted that for one of the entities with questioned costs identified by State Audit, the Department in the course of its normal monitoring process identified additional questioned costs. The questioned costs are currently being recouped or are in the monitoring completion process.

The Department recognizes the importance of the issue noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-028
CFDA Number	10.558 and 10.559
Program Name	Child and Adult Care Food Program Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	2013-013

Management did not provide Child and Adult Care Food Program and Summer Food Service Program for Children subrecipients with required subaward information, did not perform risk assessments, and did not obtain corrective action plans

Background

The Child and Adult Care Food Program (CACFP), the Summer Food Service Program for Children (SFSP), the Social Service Block Grant (SSBG), and the Low-Income Home Energy Assistance Program (LIHEAP) are federal grant programs. The U.S. Department of Agriculture administers the CACFP and SFSP programs at the federal level, while the U.S. Department of Health and Human Services administers the SSBG and LIHEAP programs at the federal level. The Department of Human Services (DHS) administers these programs at the state level by determining subrecipient eligibility; approving and notifying subrecipients of sub-award information; approving invoice claims; and assisting with technical issues.

Under the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* as the pass-through entity for CACFP, SFSP, SSBG, and LIHEAP, the department is responsible for monitoring its subrecipients that have been contracted to administer the federal programs. To accomplish the department's monitoring requirements, the department's External Program Review (EPR) section is responsible for performing site visits to monitor subrecipients for compliance with federal and state requirements. The department's Program Directors are responsible for formally notifying the subrecipients of all required federal program information.

For CACFP and SFSP, the department's Interim Director of External Program Review and the Program Directors decide which of the department's subrecipients to monitor each year based on risk assessments performed for each subrecipient. The *Code of Federal Regulations* also specifically requires DHS to monitor CACFP and SFSP subrecipients at least once every three years unless DHS has classified the subrecipient as high risk which automatically requires more frequent monitoring. The EPR section monitors all LIHEAP and SSGB subrecipients annually. If the monitors identify deficiencies during the monitoring review, subrecipients are required to complete a corrective action plan and submit it to the applicable departmental Program Manager.

If the deficiencies are considered significant, EPR or program staff will visit the subrecipient again within a year to ensure the subrecipients have taken appropriate corrective action.

Based on our testwork, we noted the following conditions for CACFP and SFSP.

Condition

CACFP and SFSP Program Managers failed to provide subrecipients with the required subaward information once approved to participate in the programs

We selected a nonstatistical, random sample of 68 subrecipients (15 SSBG, 17 CACFP, 31 SFSP and 5 LIHEAP) from a total population of 283 subrecipients that EPR monitored during fiscal year 2014 to determine whether DHS provided the subrecipients with approval letters that communicated required subaward information. We noted that for 34 of 68 subrecipients tested (50%), department staff could not provide approval letters to prove the staff communicated the required federal subaward information to subrecipients. Specifically, Program Directors did not provide three CACFP subrecipients with the program's Catalog of Federal Domestic Assistance (CFDA) number. The Program Directors did not provide 31 SFSP subrecipients with the CFDA title, the CFDA number, or the federal award project description.

Given the problems identified during our fieldwork, we also reviewed the department's January 2014 Financial Integrity Act Risk Assessment. We determined that management identified a risk associated notification of federal subaward information to subrecipients; however, the department did not include the mitigating control for this risk in the assessment.

Criteria

According to Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, subpart D, Section_.400 (d),

> A pass-through entity shall perform the following for the Federal awards it makes:
>
> > (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
> >
> > (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
> >
> > (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

> (4) Ensure that subrecipients expending $300,000 *($500,000 for fiscal years ending after December 31, 2003)* or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
>
> (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
>
> (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
>
> (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

Cause

The Director of CACFP and SFSP stated that program staff who are no longer employed by the department sent subrecipients approval letters that included subaward information as required by federal regulations; however, current program staff could not find the approval letters to support their claim.

Effect

When program staff do not provide subrecipients with the required federal information and/or maintain the documentation of this communication, there is an increased risk that subrecipients will not have sufficient information to ensure the pass-through federal awards are spent in accordance with applicable federal statutes, regulations, and terms and conditions of the federal award. Proper notification of CFDA numbers is important to ensure subrecipients are aware of the sources of their funding and related federal regulations.

Condition

Risk assessments for SFSP subrecipients were not documented

Based on management's described subrecipient risk assessment process, we asked management to provide us with the annual monitoring plan and supporting risk assessments; however, the Director of Community Services did not formally document risk assessments for SFSP subrecipients and could not provide them.

Criteria

In addition to OMB Circular A-133, Title 7, *Code of Federal Regulations* (CFR) Part 225, Section 7(d)(2) requires state agencies to review sponsors and sites to ensure compliance with program regulations. Also, in May 2013, the Central Procurement Office within the Department of General Services established subrecipient contract monitoring requirements in Policy 2013-007, which requires state agencies to assess risk for each subrecipient. The department developed its own *Policy 22- Subrecipient Annual Monitoring Plan*. According to the department's plan effective during fiscal year 2014,

> A risk assessment for each contracting agency has been completed and, with the exception of CACFP and SFSP, is on file with External Program Review. Due to the large number of contracts in those programs, the risk assessment instruments are maintained by the section administering the program.

Cause

The Director of Community Services stated that the determination of risk for each subrecipient involved a verbal conversation between herself and the Interim Director of EPR. According to the Director of Community Services, the department does determine, on an annual and on-going basis, the rotation of subrecipients to be monitored by the department; however, the department's assessment of each subrecipients' risk is not documented.

Effect

When the Director of Community Services does not properly document the basis of the risk assessment for SFSP subrecipients, the department cannot ensure that its monitoring activities are sufficient to mitigate subrecipients' risk of noncompliance, fraud, waste, and abuse. Without evidence of the assessment, we could not verify the department performed the risk assessment to determine the most effective monitoring plan.

Condition

CACFP and SFSP Program Managers failed to obtain required corrective action plans from subrecipients

We selected 68 subrecipients (15 SSBG, 17 CACFP, 31 SFSP, and 5 LIHEAP) from a total population of 283 subrecipients that the department monitored during fiscal year 2014. We noted that EPR staff required 37 subrecipients to submit corrective action plans for the deficiencies noted during the monitoring review. For 2 of the 37 subrecipients that required corrective action plans (5%), the Program Manager could not provide the subrecipients' corrective action plan as evidence the subrecipients made necessary corrective action. One subrecipient operated in the SFSP program, the other in the CACFP program. The CACFP subrecipient was cited with a serious deficiency and was required to turn in a corrective action plan, however, program staff allowed the subrecipient an indefinite deferral on providing the required corrective action plan. The Director of Community Services could not provide an explanation for why this occurred. The Director also could not provide a corrective action plan for the SFSP subrecipient, however, we confirmed that the department was able to recoup all overpaid funds cited in the EPR monitoring report for the SFSP subrecipient.

Management identified the risk of subrecipients not submitting corrective action plans in their risk assessment; however, management did not include the control in their risk assessment to mitigate this risk.

Criteria

According to Title 7 *Code of Federal Regulations* (CFR), Part 225, Section 11(f)(1),

> Whenever the State agency observes violations during the course of a site review, it shall require the sponsor to take corrective action. If the State agency finds a high level of meal service violations, the State agency shall require a specific immediate corrective action plan to be followed by the sponsor and shall either conduct a follow-up visit or in some other manner verify that the specified corrective action has been taken.

The CACFP Policies and Procedures Manual states,

> If program deficiencies are found, the institutions are required to complete, sign and return a corrective action plan that identifies the measures to be taken and the timetable for the completion of the measures.

In addition, 7 CFR 226.6 (c)(2)(iii)(A) states,

> The State agency must notify the institution's executive director and chairman of the board of directors that the institution has been determined to be seriously deficient. The notice must identify the responsible principals and responsible individuals and must be sent to those persons as well. The State agency may specify in the notice different corrective action, and time periods for completing the corrective action, for the institution and the responsible principals and responsible individuals. At the same time the notice is issued, the State agency must add the institution to the State agency list, along with the basis for the serious deficiency determination, and provide a copy of the notice to the appropriate FNSRO. The notice must also specify:
>
> (1) The serious deficiency(ies);
> (2) The actions to be taken to correct the serious deficiency(ies);
> (3) The time allotted to correct the serious deficiency(ies) in accordance with paragraph (c)(4) of this section . . .

Cause

Based on discussion with the Director of CACFP and SFSP, she believes the corrective action plans were obtained, but then misplaced.

Effect

When the Director of Community Services and the Director of CACFP and SFSP do not ensure subrecipients submit corrective action plans or do not maintain the corrective action plan on file, there is an increased risk that EPR monitors or program staff may fail to follow up on deficiencies noted during the monitoring visits to ensure corrective action is made.

Recommendation

The Commissioner should ensure the Director of Community Services and the Director of CACFP and SFSP follow federal and state subrecipient monitoring requirements. Specifically, we recommend the directors

- provide the subrecipients with the required federal award information at the time they approve the subrecipient;
- document their assessment of each SFSP subrecipient's risk of noncompliance with federal regulations; and
- obtain and maintain subrecipients' corrective action plans and follow up with subrecipients that do not submit the corrective action plan by the requested date and perform follow-up reviews to ensure subrecipients have implemented the corrective action plans.

The Commissioner should also document controls to mitigate the risks identified in management's risk assessment.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department's program staff will improve information dissemination to subrecipients to ensure they receive required subaward information. The Department's program and external program review staff will continue to work together to determine the subrecipients to be monitored based on the *Code of Federal Regulations* as outlined in the monitoring plan. Additionally, the Department has revised the process to collect CAPs from subrecipients. The Department will work to ensure program and external program review staff are effectively trained and continue to be held accountable for their work.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-029
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945 and 2014IN109945
Federal Award Year	2009 through 2014
Finding Type	Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles
Questioned Costs	FY 2014: $305,129 FY 2015: $101,070
Repeat Finding	N/A

The Department of Human Services did not ensure that Summer Food Service Program for Children subrecipients maintained adequate supporting documentation for meal claims filed for reimbursement, resulting in $406,199 of questioned costs

Background

The U.S. Department of Agriculture funds the Summer Food Service Program for Children (SFSP) through the Child Nutrition Cluster. The Department of Human Services (DHS) administers SFSP on the state level. Subrecipients, also known as sponsors, submit claims for reimbursements for eligible meals either through a paper claim or through the Tennessee Food Program information system. DHS does not require sponsors to submit supporting documentation when filing claims; however, sponsors are required to maintain all documentation to support their claims for a minimum of three years.

SFSP operates during the summer months (May through September). Because the state operates on a July 1 through June 30 fiscal year, our audit for SFSP crossed two state fiscal years. Our audit scope was July 1, 2013, through June 30, 2014, and our SFSP review included the following periods:

- Summer 2013 (May through September 2013 with the months of July through September falling within our audit scope); and
- Summer 2014 (May through September 2014 with the months of May and June falling within our audit scope).

Condition

We made site visits to 13 SFSP sponsors who participated in the summer 2013 and/or summer 2014 programs from a population of 212 SFSP sponsors (105 sponsors from the 2013 summer and 107 sponsors from the 2014 summer).

We tried to schedule a site visit to one sponsor (Sponsor 1) to obtain supporting documentation; however, neither we nor DHS could locate the sponsor. For the 13 sponsors we visited, we reviewed the meal reimbursement claims within the Tennessee Food Program information system and requested supporting documentation from the sponsors.

We noted that DHS did not ensure that two sponsors maintained supporting documentation for reimbursement claims filed with DHS. One sponsor (Sponsor 2) did not maintain complete documentation and another sponsor (Sponsor 3) could not provide any documentation of meals served for its entire duration of the program.

We also reviewed the DHS' January 2014 Financial Integrity Act Risk Assessment and determined that management did not ensure that the risks and mitigating controls associated with sponsors maintaining meal reimbursement documentation, as well as the department's ability to review the documentation, were included in its annual risk assessment.

Criteria

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

> Sponsors shall maintain accurate records which justify all costs and meals claimed. . . . The sponsor's records shall be available at all times for inspection and audit by representatives of the Secretary, the Comptroller General of the United States, and the State agency for a period of three years following the date of submission of the final claim for reimbursement for the fiscal year.

Cause

The department's External Program Review (EPR) contacted Sponsor 1 and made several requests for supporting documentation during fiscal year 2014. Sponsor 1 did not provide supporting documentation, and the department's EPR requested the sponsor to repay all funds paid totaling $280,707. When we wanted to contact Sponsor 1 to schedule a visit and request documentation, DHS could not provide current valid contact information or locate the sponsor. As of the end of fieldwork, DHS still had not recouped the funds overpaid to the sponsor.

Sponsor 2's Director did not have complete records and could not separate his records supporting the summer 2013 program meal reimbursement claims filed in Tennessee from claims filed in a neighboring state.

We scheduled a site visit with Sponsor 3 to review the meal reimbursement documentation. An EPR Monitor accompanied us on the site visit. Sponsor 3's Program Administrator stated that a busted pipe and a roof leak destroyed all her summer food program's supporting documentation the night before our scheduled visit; however, based on our inspection of the premises the next day, we did not detect any water damage to the building. The Administrator stated that the water damage was cleaned up shortly before our visit, and she disposed of the damaged supporting documentation in a trash dumpster. Based on our discussion with the Administrator and inspection of the premises, we could not verify whether the sponsor ever had documentation or even served meals to children.

<u>Effect</u>

When DHS cannot locate sponsors and does not ensure that sponsors maintain supporting documentation, DHS inappropriately reimburses sponsors for meals claimed without support. For the condition stated in this finding, we found that DHS has reimbursed sponsors for claims when the sponsors could not subsequently provide complete records to justify the reimbursements. These unsupported reimbursements totaled $406,199, which we have reported as federal question costs. See details of questioned costs below.

<u>Summary of Known Questioned Costs</u>

We identified that DHS paid Sponsor 1 $280,707 for summer 2013 (May through August 2013). We have questioned $241,023 paid during fiscal year 2014 (July and August 2013). The remaining $39,684 was paid during fiscal year 2013 (May and June 2013).

We questioned $3,010 paid to Sponsor 2 for unsupported meal reimbursements paid during fiscal year 2014 (July and August 2013.)

We identified that DHS paid Sponsor 3 $162,166 for summer 2014. We questioned $61,096 related to reimbursements paid during fiscal year 2014 (June 2014) and $101,070 paid during fiscal year 2015 (July 2014). The department's EPR also identified the same $162,166 of overpayments in its monitoring report dated October 22, 2014, and requested the sponsor repay the funds.

As a result of the lack of supporting documentation, we questioned $305,129 paid to the three sponsors during fiscal year 2014 and $101,070 paid during fiscal year 2015 for total questioned costs of $406,199.

Sponsor	**SFY 2014 Questioned Costs**			**SFY 2015 Questioned Costs**	**Total**
	July 2013	**August 2013**	**June 2014**	**July 2014**	
Sponsor 1	$24,564	$216,459	-	-	$241,023
Sponsor 2	$101	$2,909	-	-	$3,010
Sponsor 3	-	-	$61,096	$101,070	$162,166
				Total	**$406,199**

For the purpose of questioned costs analysis, we found that of the 13 sponsors we visited, only 12 actually received payments from DHS during fiscal year 2014. These 12 sponsors received $4,399,375 of a population of $12,748,510. Because fiscal year 2015 is on-going we cannot provide the total program costs at this time; however, we have identified known questioned cost exceeding $10,000. Office of Management and Budget Circular A-133, "Audits of States, Local

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

Recommendation

The Commissioner, Director of Community Services, and the Director of Child and Adult Care Food Program and SFSP should ensure that the department recovers $406,199 from the three sponsors that could not provide supporting claim documentation. The Directors should ensure that

- all sponsors maintain complete and accurate documentation to support the meals served and claimed for reimbursements; and
- the department maintains valid contact information for all active and inactive sponsors who participated in SFSP within the most current three year-period.

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

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department will work with FNS program staff to review the SFSP application process and strengthen it as needed. While performing monitoring reviews, external program review staff will continue to ensure subrecipient agencies maintain adequate documentation for meals claimed. Subrecipients will continue to be expected to maintain adequate documentation. The issues noted regarding questioned costs are currently being recouped or are in the monitoring completion process. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually it would exceed the Department's resources and capacity. Meeting this demand would require an exponential increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-030
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945 and 2014IN109945
Federal Award Year	2009 through 2014
Finding Type	Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles
Questioned Costs	FY2014: N/A FY2015: $11
Repeat Finding	N/A

The Department of Human Services did not ensure Summer Food Service Program for Children subrecipients served and claimed meals according to meal patterns established by federal regulations

Background

The Summer Food Service Program for Children (SFSP) operates in partnership with the U.S. Department of Agriculture, state agencies, and local organizations to provide free meals to eligible children during the summer months (May through September). The Department of Human Services (DHS) is responsible for SFSP in the State of Tennessee. Because the state operates on a July 1 through June 30 fiscal year, our testwork for SFSP crossed two state fiscal years. Our audit scope was July 1, 2013, through June 30, 2014, and our SFSP testwork included the following periods:

- Summer 2013 (May through September 2013 with the months of July through September falling in our audit scope); and
- Summer 2014 (May through September 2014 with the months of May and June falling within our audit scope).

Subrecipients, also known as sponsors, may operate the program at one or more feeding sites which are the actual locations where meals are served to children. Federal regulations allow sponsors to serve up to two meal types per day at each feeding site. The sponsors are required to keep records of the number of meals served and the types of meals served (breakfast, lunch, supper, or snack). Sponsors submit claims for reimbursement for eligible meals either through a paper claim or through the Tennessee Food Program (TFP) information system.

Condition and Criteria

We made site visits to 13 SFSP sponsors who participated in the summer 2013 and/or summer 2014 programs from a population of 212 SFSP sponsors (105 sponsors from the 2013 summer and 107 sponsors from the 2014 summer). Based on our review of meal reimbursement claims, supporting documentation, and the sponsors' site information sheet we determined

a. One sponsor (Sponsor 1) claimed four types of meals per day at one feeding site instead of the maximum two types of meals per day. According to Title 7, *Code of Federal Regulations*, Part 225, Section 16 (b) (3), "Food service sites other than camps and sites that primarily serve migrant children may serve either (i) One meal each day, a breakfast, a lunch, or snack; or (ii) Two meals each day, if one is a lunch and the other is a breakfast or a snack."

Of 13 sponsors we visited, we observed one meal service for nine sponsors. Based on our observation, we noted that two SFSP sponsors did not serve meals according to the federally mandated meal patterns. Specifically, we noted the following:

b. One sponsor (Sponsor 2) claimed meals delivered instead of meals served. According to the 2014 Summer Food Service Program for Children Administrative Guidance for Sponsors,

   > It is critical that site personnel and monitors understand the importance of accurate point-of-service meal counts. Only complete meals served to eligible children can be claimed for reimbursement. Therefore, meals must be counted at the actual point of service, i.e., meals are counted as they are served, to ensure that an accurate count of meals served is obtained and reported. Counting meals at the point of service also allows site personnel to ensure that only complete meals are served.

   Furthermore, the guidance states "Sponsors may claim reimbursement only for those meals that meet SFSP requirements. Reimbursement may not be claimed for . . . meals that were not served."

c. One sponsor (Sponsor 3) recorded all meals delivered as meals served, regardless of the actual meals served. We observed that the Site Supervisor did not serve three of the delivered meals that were included on the meal count form. We also observed that the Site Supervisor offered and served incomplete meals out of a sharing table (defined below) while there were complete meals available to be served. As stated above, the *2014 Summer Food Service Program for Children Administrative Guidance for Sponsors* requires sponsors count meals at the actual point of service. In addition, the *2014 Summer Food Service Program for Children Administrative Guidance for Sponsors* states, "Sponsors may claim reimbursement only for those meals that meet SFSP requirements. Reimbursement may not be claimed for . . . meals that were not served." Lastly, the *2014 Summer Food Service Program for Children Administrative Guidance for Sponsors* refers to the sharing table as meal leftovers. The sharing table is a station where children return whole items that they choose not to eat and these items are then available to other children who may want additional helpings.

We reviewed the DHS' January 2014 Financial Integrity Act Risk Assessment and determined that management did not include in the assessment the specific risks and mitigating controls associated with sponsors claiming more meals than approved by DHS or the risks of sponsors not following federal regulations while serving meals. DHS management did include the risk associated with charging unallowable costs to a federal program in its annual risk assessment.

Cause

a. Based on discussion with the Director of the Child and Adult Care Food Program and SFSP, DHS misinterpreted the federal regulations regarding meal patterns and incorrectly approved Sponsor 1's site information sheet which clearly indicated the sponsor's intention to serve four meal types each day at this particular feeding site.

b. Sponsor 2's Site Supervisor recorded the meals that were delivered on the daily meal count form. Since the meals were delivered one day in advance, the Site Supervisor completed the meal count form a day before meals were actually served, which is in violation of federal requirements.

c. Sponsor 3's Site Supervisor stated that in order to get full reimbursement for meals prepared, she was instructed by her Director on every Friday, the last day before a long weekend, and the last day in the summer food program to record all meals delivered as meals served, regardless of the actual meals served (which is a violation of federal regulations). We could not determine why the Site Supervisor served participants meals from the sharing table instead of serving the complete meals that were available.

Effect

As a pass-through entity for SFSP, DHS is responsible for ensuring that sponsors comply with federal and state requirements. When DHS fails to detect sponsors' noncompliance with federal requirements, the risk of reimbursing organizations for unallowable expenditures, as well as the risk of fraud, waste, and abuse is increased.

Known Questioned Costs

We noted in finding 2014-029 that Sponsor 1 did not maintain documentation to support the meal reimbursement claims; therefore, we could not determine the total number of meals served in excess of the maximum meals allowed. We questioned $61,096 DHS paid the sponsor during fiscal year 2014 and $101,070 paid during fiscal 2015, totaling $162,166 in finding 2014-029.

We did not question any costs for Sponsor 2 because we observed that the Site Supervisor served all the meals delivered that day.

Because Sponsor 3 recorded the total meals delivered on the meal count forms and not the actual meals served, we could not determine how many meals Sponsor 3 actually served at this site during fiscal year 2014 and could not question costs. We do know on the day we observed the meal service, the Site Supervisor did not serve three meals totaling $11 (3 meals at a 2014 lunch meal reimbursement rate of $3.55 each); however, that day's meal reimbursement was paid during fiscal year 2015, and is questioned costs for fiscal year 2015. Since fiscal year 2015 will not end until June 30, 2015, we cannot provide information regarding population at this time. We did not have questioned costs for fiscal year 2014.

Recommendation

The Commissioner, the Director of Community Services, and the Director of Child and Adult Care Food Program and Summer Food Service Program should ensure sponsors participating in the Summer Food Service Program follow federally mandated meal patterns and only claim reimbursement based on the federal regulations.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department will work with FNS program staff and enhance analytical capabilities of current applications. Additionally, while performing monitoring reviews, external program review staff will continue to ensure subrecipient agencies claimed and served meals according to meal patterns. Subrecipients will continue to be expected to claim and serve meals according to meal patterns. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually, it would exceed the Department's resources and capacity. Meeting this demand would require an exponential increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-031
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945 and 2014IN109945
Federal Award Year	2009 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Cost/Cost Principles Eligibility Subrecipient Monitoring
Questioned Costs	FY2014: $31,491 FY2015: $105,382
Repeat Finding	2013-013

Management did not perform a pre-approval visit, track and collect excess funds, and did not have controls to ensure sponsors did not over claim meals at individual feeding sites, resulting in $136,873 of overpayments to Summer Food Service Program for Children subrecipients

Background

The Summer Food Service Program for Children (SFSP) is funded by the U.S. Department of Agriculture and administered on the state level by the Tennessee Department of Human Services (DHS). As a pass-through entity for SFSP funds, DHS is responsible for monitoring subrecipients, known as sponsors, in order to provide reasonable assurance that these subrecipients comply with federal and state requirements. The department provides federal reimbursements to sponsors for eligible meals served to individuals who meet age and income requirements.

SFSP operates during the summer months (May through September). Because the state operates on a July 1 through June 30 fiscal year, our testwork for SFSP crossed two state fiscal years. Our audit scope was July 1, 2013, through June 30, 2014, and our SFSP testwork included the following periods:

- Summer 2013 (May through September 2013 with the months of July through September falling within our audit scope); and
- Summer 2014 (May through September 2014 with the months of May and June falling within our audit scope).

We found that the Department of Human Services failed to perform required responsibilities to ensure sponsors were eligible to participate in SFSP and the department also lacked an adequate control process to ensure sponsors complied with federal and state requirements resulting in overpayments to sponsors.

Condition

Pre-approval visit not performed for new sponsor

During our site visit to a sponsor (Sponsor 1), we determined that DHS program staff had not performed the mandatory pre-approval visit to this sponsor. Based on our interview with the sponsor's Director, the Director applied to participate as a new sponsor in the SFSP program for summer 2013. We found that DHS program staff approved the sponsor to participate without performing the new sponsor pre-approval visit to determine the sponsor's eligibility based on federal requirements. Subsequent to receiving approval, the sponsor's Director decided not to participate in the 2013 summer program. According to the Director, she applied again to participate in the summer 2014 program. Based on our review of the documentation, the Director of Child and Adult Care Food Program (CACFP) and SFSP approved the sponsor to participate as a returning sponsor rather than as a new sponsor. Under current policy and regulations, DHS is not required to perform a pre-approval visit for returning sponsors unless the sponsor had operational deficiencies noted in the previous year. See summary of questioned costs below.

We reviewed the DHS' January 2014 Financial Integrity Act Risk Assessment and determined that management did not ensure that the risks and mitigating controls associated with DHS' Food Program staff not following regulations while administering a federally funded program was included in its annual risk assessment.

Criteria

According to Title 7 *Code of Federal Regulations* (CFR) Part 225, Section 7(d)(1),

> The State agency shall conduct pre-approval visits of sponsors and sites . . . to assess the applicant sponsor's or site's potential for successful Program operations and to verify information provided in the application. The State agency shall visit prior to approval: (i) [a]ll applicant sponsors which did not participate in the program in the prior year.

Cause

The Director of CACFP and SFSP could not explain why a pre-approval visit was not performed in 2013 or 2014, or why the sponsor was considered a returning sponsor for the summer 2014 program when it did not participate in the summer 2013 program.

Effect

When the department approves a new sponsor without a mandatory pre-approval visit, there is a higher management risk that the sponsor will be unable to successfully operate the SFSP within federal guidelines.

Known Questioned Costs For This Condition

We questioned the $105,382 DHS paid to Sponsor 1 during fiscal year 2015 without a pre-approval visit for the summer 2014.

Condition

Lack of process to track excess funds paid to sponsors to ensure the funds are properly spent or returned to the state

DHS program and fiscal staff did not have a process or procedures to track and/or recover the excess funds paid to sponsors that the department's External Program Review (EPR) monitors identified. Excess funds occur when DHS reimburses sponsors in excess of the sponsors' program expenditures. EPR monitors noted in a monitoring report that a summer food program sponsor (Sponsor 2) was paid excess funds totaling $30,675 for the 2013 summer food program. Based on our review of the documentation and discussion with the Director of Community Services, the Director of CACFP and SFSP, and an Accountant 2, we found that the department did not track the excess funds to ensure the sponsor spent the funds as required or ensure the sponsor returned the funds to the department. Although DHS fiscal staff have procedures to recoup established overpayments to sponsors (such as excess funds that external monitors have identified as unallowable costs), fiscal staff do not have a process to track the excess funds paid to sponsors and have to rely on food program staff to inform them when recovery of excess funds is required. The food program staff failed to follow-up on the sponsor's use of the excess; therefore, they did not communicate to fiscal that the excess funds should be collected. See summary of questioned costs below.

Management did not ensure that the risks and mitigating controls associated with DHS' Food Program staff not following regulations while administering a federally funded program was included in the DHS' January 2014 Financial Integrity Act Risk Assessment.

Criteria

According to the U.S. Department of Agriculture, Food and Nutritional Service *2014 Summer Food Service Program for Children Administrative Guidance for Sponsors*, p. 82,

> Any reimbursements or funds that exceed a sponsor's expenditures must be used in a way that benefits SFSP services to children or other Child Nutrition Programs operated by the sponsor. Sponsors with funds remaining at the end of the Program year should use them as start-up funds or for improving SFSP services in the following year. . . . If the sponsor will not be participating in SFSP the next year, funds may be used towards the sponsor's provision of other Child Nutrition Programs. If the sponsor does not operate any other Child Nutrition Programs, the State will collect the excess funds.

Cause

The Director of CACFP and SFSP and the Director of Community Services stated that the federal regulations do not specify the timeframe the sponsor has to use the excess funds. Therefore, the Directors did not believe they needed to track the excess funds. Because the sponsor was no longer participating in the SFSP and did not operate other Child Nutrition Programs, DHS program staff did not determine whether the excess funds were ultimately spent on other allowable costs or activities.

Effect

When management is not aware of the federal requirements or does not develop the proper procedures to ensure the department and its sponsors comply with federal regulations, there is an increased risk that excess funds will not be used for allowable activities and the department will be unable to recoup the overpayments.

Known Questioned Costs For This Condition

Since the department failed to recoup the funds from the sponsor, we questioned $30,675 overpaid to the sponsor for the summer 2013 program.

Condition

The department does not have controls to ensure sponsors do not claim more than the maximum number of allowable meals for individual feeding sites

During our review of SFSP sponsors, we noted that DHS failed to implement effective internal controls to ensure sponsors who filed claims in the Tennessee Food Program (TFP) information system did not request reimbursement for meals in excess of the maximum allowable number of meals allowed for each individual feeding site. DHS requires sponsors to submit a site information sheet which documents the maximum number of meals that will be served at each feeding site. The TFP system is designed so that sponsors claim the total number of meals served for all feeding sites; however, the system is not designed so that sponsors can submit the number of meals served at each approved individual feeding site.

When we reviewed meal claim reimbursements in the TFP and the sponsors' supporting documentation, we noted that two sponsors claimed meals that exceeded the DHS-approved maximum allowable meals for their feeding sites. Specifically, we noted the following:

- One sponsor (Sponsor 2) was approved to claim a maximum of 70 meals daily per meal service at one of its feeding sites during summer 2013; however, based on our review of the sponsor's accounting records the sponsor claimed between 75 and 95 meals per meal service on some days for the feeding site.
- One sponsor (Sponsor 3) was approved to claim a maximum of 200 meals daily per meal service at one feeding site during summer 2014; however, based on our review

of the meal reimbursement claim the sponsor claimed 350 to 550 meals each day per meal service at this feeding site.

See summary of questioned costs below.

We reviewed the DHS' January 2014 Financial Integrity Act Risk Assessment and determined that management included unallowable costs charged to a federal program in its annual risk assessment; however, the department did not mitigate its risk by establishing proper review controls.

Criteria

According to 7, CFR 225.9(f),

> The sponsor shall not claim reimbursement for meals served to children at any site in excess of the site's approved level of meal service, if one has been established under §225.6(d)(2).

Cause

Based on discussion with the Director of CACFP and SFSP, she believes that Sponsor 2 erroneously claimed more meals that allowed. The Director believes that Sponsor 3 was aware of program regulations but failed to follow them. In addition, management did not design the TFP system to capture the maximum number of allowable meals at sponsors' individual feeding sites.

Effect

Because the department has not designed the TFP system to include data elements to capture the number of meals served by sponsors at each feeding site, the department cannot verify through its system that sponsors only claim the maximum meals per site. Without this system control the department has allowed sponsors to claim more meals than allowed, resulting in questioned costs.

Known Questioned Costs For This Condition

Based on our review of the sponsor's accounting records, Sponsor 2 over claimed 195 lunches and 170 snacks at one feeding site during the summer 2013 program; therefore, we questioned $816 because the sponsor claimed meals in excess of their maximum allowable meals for the individual feeding site.

Based on our review of TFP claims, Sponsor 3 over claimed 4,913 breakfasts; 5,101 lunches; 6,490 snacks; and 6,449 suppers during the summer 2014 program totaling $56,333. We questioned all $61,096 paid during fiscal year 2014 and $101,070 paid during fiscal year 2015, totaling $162,166, to Sponsor 3 for costs that were unallowable as described in finding 2014-

029; therefore, we will not question costs related to this condition (maximum allowable meals exceeded) in this finding.

Summary of Known Questioned Costs For All Conditions

Conditions	Questioned Cost		Total
	State Fiscal Year 2014	**State Fiscal Year 2015**	
Pre-approval not performed – Sponsor 1	-	$105,382	$105,382
Excess Funds Not Collected – Sponsor 2	$30,675	-	$30,675
TFP Maximum Allowable Meals Exceeded – Sponsor 2	$816	-	$816
TFP Maximum Allowable Meals Exceeded – Sponsor 3	-	-	-*
Total Questioned Costs	**$31,491**	**$105,382**	**$136,873**

* We questioned $61,096 for fiscal year 2014 and $101,070 for fiscal year 2015 associated with this sponsor in finding 2014-029; therefore, we did not report duplicated questioned costs in this finding.

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

Recommendation

The Commissioner should ensure that the Director of Community Services and the Director of CACFP and SFSP develop and implement adequate controls over the Summer Food Service Program for Children. These controls should include

- procedures to ensure pre-approval visits are conducted as required;
- processes and procedures to track excess SFSP funds paid to sponsors to ensure sponsors ultimately use excess funds for allowable costs and activities or that the department recoups the excess funds as required; and
- procedures to ensure sponsors do not claim meals in excess of the approved maximum allowable meals for each individual feeding site.

The controls should be designed to ensure that both the department staff and its sponsors comply with federal and state requirements and that errors, fraud, waste, and abuse are prevented or promptly detected.

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. The Department will enhance analytical capabilities of current applications to strengthen controls over sponsor oversight. The Department will also ensure program staff are effectively trained and continue to be held accountable for their work. For context, these programs involve oversight for more than 3,000 entities across the state. The issues noted regarding questioned costs are currently being recouped or are in the monitoring completion process.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-032
CFDA Number	10.559
Program Name	Child Nutrition Cluster
Federal Agency	Department of Agriculture
State Agency	Department of Human Services
Grant/Contract No.	2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, and 2014IN109945
Federal Award Year	2009 through 2014
Finding Type	Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Human Services did not ensure a Summer Food Service Program for Children sponsor obtained income eligibility forms

Background

The U.S. Department of Agriculture (USDA) established the Summer Food Service Program for Children (summer food program) to ensure low-income children receive nutritious meals when school is not in session. The Department of Human Services administers the summer food program on the state level and contracts with subrecipients to provide the meals on a reimbursement basis. Subrecipients, also known as sponsors, may operate the program at one or more sites, which are classified as open feeding sites, closed enrolled sites, or camps. Children who participate in the summer food program receive all meals free; however, a sponsor who operates a camp feeding site must obtain income eligibility forms for the children to determine if the sponsor will be reimbursed at the USDA-determined free, reduced, or full-price meal rate. Sponsors of open and closed enrolled feeding sites are not required to collect income eligibility forms for children participating in the program; however, closed enrolled sites have an option to determine individuals' eligibility for the program using either income eligibility forms or using area eligibility information.

Condition

During our site visit to a sponsor we interviewed the sponsor's Director, who stated that he did not obtain income eligibility forms for the children enrolled in the camp that received meals in the summer food program for 2014.

We also reviewed the department's January 2014 Financial Integrity Act Risk Assessment and determined that management did not ensure that the risks associated with sponsors not obtaining income eligibility forms were included in the department's annual risk assessment.

Criteria

According to the *Summer Food Service Program 2014 Administrative Guidance for Sponsors,*

> [C]amps are reimbursed <u>only</u> for meals served to children who meet the income eligibility criteria. In order to determine eligibility for children, camp sponsors may used [*sic*] the Income Eligibility Form . . . or rely on list(s) of income eligible children provided by the school system. . . . they [sponsors] must maintain the lists or original approved forms for all eligible children in separate files for each camp session, and the documents must be available for review by the State agency.

<u>Cause</u>

The sponsor operated 11 open feeding sites and 1 camp feeding site. Based on discussion with the sponsor's Director, he thought that the camp feeding site was an open feeding site and thus thought obtaining income eligibility forms was not required.

<u>Effect</u>

Since the sponsor did not obtain income eligibility forms, we could not determine if the sponsor was reimbursed at the correct rate based on the children's individual eligibility. A sponsor's failure to properly document individuals' eligibility increases the likelihood that reimbursement to a sponsor will not be in accordance with federal regulations.

<u>Known Questioned Costs</u>

Since the sponsor was reimbursed in total for all 12 feeding sites it operated, we requested documentation from the sponsor regarding how many children were served at the camp during fiscal year 2014. The sponsor did not provide us with complete and reliable documentation; therefore, we were unable to determine the amount of questioned costs. We also identified in finding 2014-029 that this sponsor did not maintain complete documentation to support meal reimbursements received during fiscal year 2014, and we questioned the costs.

<u>Recommendation</u>

The Commissioner, the Director of Community Services, and the Director of the Child and Adult Care Food Program and Summer Food Service Program should ensure that sponsors obtain income eligibility forms for all children enrolled in camps that receive meals in the summer food program.

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

Management's Comment

We concur in part.

The Department of Human Services does not agree that proper oversight was not provided. While performing monitoring reviews, external program review staff will continue to ensure sponsors have maintained complete participant income eligibility forms. Subrecipients will continue to be expected to obtain and maintain participant income eligibility forms. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. It should be noted that if all entities were required to be monitored annually, it would exceed the Department's resources and capacity. Meeting this demand would require an exponential increase in staffing that is not sustainable. This is a reality that is not unique to Tennessee.

The Department recognizes the importance of the issues noted in the finding and is committed to furthering its efforts to improve the overall performance and stewardship of the program. The Department knows that significant strides have been made in the food programs across the country; however, it is necessary to understand some of the challenges states and federal partners face in their efforts to appropriately administer the program, while effectively mitigating risks associated with its administration. Tennessee and Food and Nutrition Service (FNS) have recently formed a special partnership that includes an initiative focused on the food programs. The two key drivers are improving program integrity and maximizing impact.

Please see finding 2014-021 for our full response to the Food Program findings.

Finding Number	2014-033
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A110063, H126A120063, and H126A130063
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$10,011
Repeat Finding	2013-020

As noted in the prior audit, Vocational Rehabilitation counselors did not follow policy when purchasing computer equipment for program clients, resulting in federal questioned costs of $10,011

Background

As noted in the prior audit, Vocational Rehabilitation counselors in the Department of Human Services' Division of Rehabilitation Services (DRS) did not always follow established departmental policy. Department management concurred in part with the prior-year finding and stated that management planned to revisit the computer usage policy, consider consolidating policies, and provide refresher training to counselors and supervisors. Management developed a computer purchase checklist and conducted training on the checklist in May 2014.

Vocational Rehabilitation is a federally and state-funded program administered by DRS to help individuals with disabilities enter, maintain, or resume gainful employment. According to Title 34, *Code of Federal Regulations* (CFR), Part 361.3, and 34 CFR 361.50,

> The Secretary [of the United States Department of Education] makes payments to a State to assist in . . . [t]he costs of providing vocational rehabilitation services under the State plan. . . . [and] [t]he State plan must assure that the State unit develops and maintains written policies covering the nature and scope of each of the vocational rehabilitation services specified . . . and the criteria under which each service is provided.

To comply with 34 CFR 361.50, DRS implemented a series of internal policies, called Standard Procedures Directives, specifying the nature, scope, and criteria for each type of Vocational Rehabilitation service provided to eligible clients. Additionally, the department's *Tennessee Fee Manual* stipulates the maximum dollar amount authorized for each type of approved service.

The Vocational Rehabilitation counselors work with clients to develop Individualized Plans for Employment, which specify the clients' vocational goal as well as the variety of services and support the Vocational Rehabilitation program will provide to achieve the stated goals. In some cases, an Individualized Plan for Employment may stipulate that the client requires computer equipment to attain his or her vocational goal. DRS' Standard Procedures Directive 46, "Purchasing and Authorization and Invoice," an internal purchasing policy required by federal grant rules, contains extensive guidelines to ensure that DRS staff appropriately purchase computer equipment for Vocational Rehabilitation clients based on the clients' needs.

We tested all computer equipment purchases, totaling $47,154, for 38 Vocational Rehabilitation clients during the period July 1, 2013, through June 30, 2014, and we found that

- supervisors did not approve computer equipment purchases;
- a counselor did not obtain a computer purchase receipt;
- counselors did not obtain price quotes or did not purchase from the lowest quoted vendor for computer purchases costing $1,000 or more; and
- counselors did not maintain client computer usage agreements.

Condition

Supervisors did not approve computer equipment purchases

Vocational Rehabilitation counselors purchased computer equipment for clients without obtaining the necessary supervisory approval. For the 38 computer purchases, we tested the 13 purchases that required district supervisor approval. We determined that for 2 of the 13 computer equipment purchases tested (15%), the counselors purchased computer equipment for clients without obtaining the required and proper district supervisor approval.

Criteria

According to Section 46.6.3.3 and Section 46.2 of DRS' Standard Procedures Directive 46, "Purchasing and Authorization and Invoice,"

> DRS may purchase computer systems, CCTVs, and other assistive technology devices required to accommodate a disability and provide upgrades and repairs on these items if . . . [t]he district supervisor has approved the purchase, upgrade, or repair based on appropriate documentation. District supervisory approval is required regardless of the rationale or whether the request is for purchase, upgrade[,] or repair . . . Tangible (touchable) items costing $1,000 and above requires district supervisor approval.

In order to properly approve a computer purchase, Section 46.6.3.3 of the "Purchasing and Authorization and Invoice" directive states,

> The district supervisor will . . . [r]eview the information in the case note and any supporting documentation; . . . [o]pen a new case note with description "Approval to Purchase a Computer"; [and] [i]n the case note, state whether or not the exception is approved. If not approved, provide the rationale and, if appropriate,

include instructions for submitting additional information that may result in approval.

Cause

The Director of Vocational Rehabilitation stated that this was a counselor error. Counselors do not often make computer equipment purchases and unfamiliarity with the various requirements of the purchasing process can result in errors. The Director stated that counselors and supervisors will be trained to address this problem.

Effect

Vocational Rehabilitation counselors purchased computer equipment that district supervisors may have deemed unnecessary, had they reviewed each client's circumstances and Individualized Plan for Employment.

Known Questioned Costs

Total questioned costs for these transactions are $4,285. The federal portion of the questioned costs is $3,372, and the state portion of the questioned costs is $913.

Condition

Counselor did not obtain computer purchase receipt

We determined that a Vocational Rehabilitation counselor did not obtain sufficient supporting documentation for one of the 38 computer equipment purchases tested (3%). For this purchase, DRS directly paid the client for the cost of her computer equipment; however, the client did not provide sufficient documentation to confirm that she actually purchased the computer equipment. Rather than obtain a receipt for the purchase, the counselor obtained a printout from an online retailer's website showing the desired computer system in the store's online shopping cart.

Criteria

Best practices dictate that all client services purchases should be supported by a legitimate purchase receipt.

Cause

The Director of Vocational Rehabilitation stated that the counselor received what he thought was sufficient documentation from the vendor for this purchase. The counselor has since been made aware that what he received was not sufficient as proof of purchase. In addition, the program has contacted the department's Division of Fiscal Services regarding future requirements of proper documentation before a payment can be processed.

Effect

By not purchasing computer equipment directly from a vendor or collecting a purchase receipt from the client, the Vocational Rehabilitation counselor cannot be certain that the client actually used program-provided funds for their intended purpose.

Known Questioned Costs

Total questioned costs for this transaction are $579. The federal portion of the questioned costs is $456, and the state portion of the questioned costs is $123.

Condition

Counselors did not obtain price quotes or did not purchase from the lowest quoted vendor for computer purchases costing $1,000 or more

The Vocational Rehabilitation counselors did not obtain price quotes from at least three vendors before purchasing computer equipment costing $1,000 or more from non-contract sources. For the 38 computer purchase transactions, we reviewed the 13 transactions involving computers that cost $1,000 or more and were not purchased through state contract. We determined that for 5 of 13 computer purchases tested (38%), the counselors did not obtain three price quotes before purchasing the computer equipment. For the eight computer purchases for which the counselors did obtain three price quotes, we determined that a counselor did not purchase or obtain an exception to purchase the computer equipment from the lowest quoted vendor for one of eight computer purchases tested (13%).

Criteria

According to Section 46.3 of the "Purchasing and Authorization and Invoice" directive, "Price quotes are required on all tangible items that cost $1,000 and over that are not purchased through contract. . . . Price quotes from 3 or more separate vendors are required. . . . Exceptions for obtaining price quotes may be requested for . . . [n]ot using the lowest price quote."

Cause

According to the Director of Vocational Rehabilitation, there has been some confusion for counselors regarding when price quotes are required for computer equipment purchases and when they are not. For one transaction, the Director stated it was not clear that only one brand of computer was included in the contract, and the counselor purchased the computer from the contract vendor but not the correct brand of computer. The counselor thought that because the purchase was from the contract vendor obtaining quotes was not necessary despite the fact that the computer purchase exceeded the $1,000 limit requiring counselors to obtain price quotes. The Director stated that this confusion would be clarified in revisions to be made to the Standard Procedures Directives in 2015.

Effect

Without the necessary vendor quotes, we could not verify whether the department paid the most competitive available price for the goods. For the computer purchase for which three quotes were obtained, the department did not pay the most competitive available price for the purchase.

Known Questioned Costs

Total questioned costs for four of these transactions are $7,856. The federal portion of the questioned costs is $6,183, and the state portion of the questioned costs is $1,673. We have already questioned $4,285 in costs associated with two of these transactions due to lack of supervisor approval.

Condition

Counselors did not maintain Client Computer Usage Agreements

The Vocational Rehabilitation counselors did not obtain signed Client Computer Usage Agreements from clients who received computer equipment through the Vocational Rehabilitation program. Of the 38 computer purchases, 36 clients were required to sign a Client Computer Usage Agreement. We determined that the counselors did not obtain signed agreements from 12 of the 36 clients tested (33%). We did not question the costs associated with this issue because the lack of agreements did not negate the clients' eligibility for computer equipment.

Criteria

According to Section 46.6.3.5 of the "Purchasing and Authorization and Invoice" directive,

> The client is required to sign the Client Computer Usage Agreement . . . prior to DRS purchase of any computer being provided for participation in vocational rehabilitation services. This agreement establishes guidelines for clients when downloading or installing any type of computer application or file from the Internet or other sources.

Cause

The Director of Vocational Rehabilitation stated that this was a simple counselor error. As computer purchases are not frequent, the counselors simply missed this step in the purchasing process.

Effect

Without a signed agreement on file, counselors cannot be certain that clients are aware of their responsibility to protect the computer equipment purchased by Vocational Rehabilitation from potentially harmful files, which may be included in unauthorized programs downloaded or installed onto the computer.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' January 2014 Financial Integrity Act Risk Assessment and determined that the Commissioner did not ensure the risks associated with computer equipment purchases for Vocational Rehabilitation clients were included in the department's annual risk assessment.

Summary of All Known Questioned Costs

Condition	Federal Questioned Costs	State Questioned Costs	Total Questioned Costs
Supervisors did not approve computer equipment purchases	$ 3,372	$ 913	$ 4,285
Counselor did not obtain computer purchase receipt	$ 456	$ 123	$ 579
Counselors did not obtain price quotes or did not purchase from the lowest quoted vendor for computer purchases costing $1,000 or more	$ 6,183	$ 1,673	$ 7,856
Totals:	$ 10,011	$ 2,709	$ 12,720

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

Recommendation

The Assistant Commissioner of Rehabilitation Services should ensure that all counselors are aware of all computer equipment purchasing policies; obtain and/or maintain Client Computer Usage Agreements, receipts, supervisory approval, and price quotes; and purchase equipment from the lowest quoted vendor unless an exception is obtained.

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

Management's Comment

We concur in part.

We agree that the Department implemented a corrective action plan based on the prior finding. Training was conducted during the fiscal year currently being audited. The Department obtained the computer purchase receipt and provided it to State Audit. In most cases, Vocational Rehabilitation (VR) staff followed the policy accordingly. Moving forward the Department will take necessary corrective measures with employees who do not follow the computer equipment purchase policy. With regard to the computer usage agreements, it is not required by federal regulations. The computer usage agreement is unenforceable as the equipment is in possession and control of the client. Therefore the Department will modify the policy accordingly. The Department's primary focus is to ensure the client is equipped with the necessary resources to meet their VR employment goal. Overall the purchases were legitimate; therefore, we do not agree with the questioned costs. This is being monitored by VR supervisory staff. This is not a systemic issue and does not represent a significant risk.

Auditor's Comment

The receipt provided to State Audit was not sufficient to support the computer equipment purchase.

Finding Number	2014-034
CFDA Number	84.126
Program Name	Rehabilitation Services - Vocational Rehabilitation Grants to States
Federal Agency	Department of Education
State Agency	Department of Human Services
Grant/Contract No.	H126A110063, H126A120063, and H126A130063
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	N/A

Vocational Rehabilitation counselors did not always determine individuals' eligibility for the program within 60 days, obtain extension agreements, or meet the extension deadlines as required

Background

The Vocational Rehabilitation Program, which receives both federal and state funds, provides services to help individuals with disabilities gain, maintain, or return to employment. In Tennessee, Vocational Rehabilitation is administered by the Department of Human Services through its Division of Rehabilitation Services. Individuals who receive Social Security Disability Insurance or Supplemental Security Insurance payments for their own disabilities are presumed eligible for Vocational Rehabilitation services. Individuals who do not receive disability benefits must

- have a physical, sensory, or mental impairment that constitutes or results in a substantial impediment to employment; and
- require Vocational Rehabilitation services to gain employment and can benefit from those services.

Clients cannot receive Vocational Rehabilitation services unless they have been determined eligible by a Vocational Rehabilitation counselor. When the counselors are unable to determine eligibility within 60 days as required by the *United States Code*, the federal regulations require the department to obtain an agreement with the client to extend the time for making the eligibility decision or explore the client's abilities to perform in work situations through a trial work experience.

Condition

We tested a nonstatistical, random sample of 60 clients from the 7,811 clients who received benefits during fiscal year ended June 30, 2014. We found that for 7 of 60 clients tested (12%), the Vocational Rehabilitation counselors did not determine eligibility within 60 days or document evidence of trial work experience in the clients' case files. The Vocational Rehabilitation counselors determined the seven clients' eligibility between 2 and 65 days late. In addition, for five of the seven clients, we found no agreement with the client establishing an extension for eligibility determination. We determined two clients had extension agreements as a result of exceptional and unforeseen circumstances beyond the counselors' control. For these two clients, the Vocational Rehabilitation counselors did not determine the clients' eligibility by the extension deadline; one was 14 days late, and the other was 65 days late.

Given the problems identified during our fieldwork, we also reviewed the Department of Human Services' January 2014 Financial Integrity Act Risk Assessment and determined that the Commissioner did not ensure the risks associated with eligibility determination for Vocational Rehabilitation were included in the department's annual risk assessment.

Criteria

Title 29, *United States Code*, Chapter 16, Section 722(a)(6), states,

> The designated State unit shall determine whether an individual is eligible for vocational rehabilitation services . . . within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless-
>
> > (A) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time; or
> > (B) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations [through trial work experiences]. . . .

Cause

The Director of Vocational Rehabilitation stated that this was a case load and time management problem.

Effect

Noncompliance with established federal eligibility determination guidelines results in unnecessary delays to clients who need services.

Recommendation

The Assistant Commissioner of Rehabilitation Services should ensure that Vocational Rehabilitation counselors determine clients' eligibility within the 60-day period or by the agreed-upon extension. When the determination cannot be made within the original 60-day period due to circumstances outlined in the *United States Code*, the Assistant Commissioner should ensure the counselors obtain documentation to support the counselor and client's agreement to extend the eligibility determination date.

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

Management's Comment

We concur in part.

The Department has measures in place that indicate to staff when the deadline to determine eligibility is approaching. In most cases, Vocational Rehabilitation (VR) counselors follow the prescribed timelines accordingly. Moving forward the Department will take necessary corrective measures with employees who do not follow the prescribed timelines when determining clients' eligibility for services. This is being monitored by VR supervisory staff. This is not a systemic issue and does not represent a significant risk.

Finding Number	2014-035
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.	G0802TNTANF, G0902TNTANF, G1002TNTANF, G1102TNTANF, G1202TNTANF, G1302TNTANF, and G1402TNTANF
Federal Award Year	2007 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$792
Repeated Finding	2013-017

As noted in the prior audit, management at the Department of Human Services overpaid Temporary Assistance for Needy Families benefits to a recipient, resulting in questioned costs

Background

The Department of Human Services administers the Temporary Assistance for Needy Families (TANF) program, a federal program under the oversight of the Administration for Children and Families under the U.S. Department of Health and Human Services (HHS). The TANF program was created to help needy families achieve self-sufficiency, and HHS gives states a block grant to design and operate its own program. According to the HHS website, the four purposes of the TANF program are to:

- Provide assistance to needy families so that children can be cared for in their own homes
- Reduce the dependency of needy parents by promoting job preparation, work and marriage
- Prevent and reduce the incidence of out-of-wedlock pregnancies
- Encourage the formation and maintenance of two-parent families

To receive TANF benefits, applicants must meet certain eligibility criteria, such as maximum income and resource limits. In addition, eligible recipients are allowed to receive only 60 months of TANF benefits, unless an exception applies. Department caseworkers document the eligibility of new applicants and continuing clients in the department's Automated Client Certification and Eligibility Network for Tennessee (ACCENT) system. To prevent recipients from receiving benefits beyond the 60-month limit, the department included a life counter within ACCENT for each recipient which keeps track of how many months the recipient has received benefits. Once a recipient reaches the 60-month limit, the caseworker reviews the case to determine if the recipient is eligible for an exception that would allow for benefits beyond the 60-months. If the recipient is not eligible for an exception, the caseworker must close the case.

Condition

As noted in the prior audit, the department paid a TANF recipient beyond the allowable 60-month program term limit. The recipient received five months of benefits beyond the 60-month limit.

We tested a nonstatistical, random sample of 60 TANF case files that were active during the fiscal year ended June 30, 2014. Based on testwork performed, we noted that for 1 of 60 files tested (2%), the Eligibility Counselor did not close the case at the proper time and the recipient received TANF benefits for five months beyond the 60-month program term limit without qualifying for an exemption. Upon review of ACCENT, we noted the recipient appealed for continuation of benefits but the department denied the appeal in March 2013. Since the appeal was denied in March 2013, the Eligibility Counselor should have closed the case and terminated benefits in April 2013 when the recipient reached the 60-month limit; however, the department paid benefits until September 2013.

Also, management identified the risk associated with staff failing to discontinue benefits when the period of eligibility expires; however, management did not indicate the specific controls to mitigate this risk.

Criteria

Title 42, *United States Code*, Chapter 7, Section 608 (a) (7), states,

> A State to which a grant is made under section 603 of this title shall not use any part of the grant to provide assistance to a family that includes an adult who has received assistance under any State program funded under this part attributable to funds provided by the Federal Government, for 60 months (whether or not consecutive) after the date the State program funded under this part commences, subject to this paragraph.

Cause

The Director of Families First stated that this error occurred because the Eligibility Counselor did not receive an email stating that the recipient's appeal to extend benefits beyond 60 months had been denied until September 2013. An Appeal Worker originally sent the email to a department employee with the same name as the Eligibility Counselor. Although the Eligibility Counselor did not receive an email regarding the outcome of the appeal, the Eligibility Counselor should have asked the appeal unit about the hearing decision when the 60 month limit had been reached.

Effect

Paid benefits beyond the allowable eligibility period are unlikely to be recovered from the TANF recipients and may require a refund of federal funds from state appropriations.

Known Questioned Costs

Known questioned costs for July 1, 2013, through June 30, 2014, were $792. We also identified $528 in overpayments during fiscal year 2013. We tested 60 TANF case files from a population of 1,450,881 TANF case files, which represented $10,586 from a total population of $98,693,470 of TANF benefits. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, requires us to report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program. We believe that likely questioned costs for the fiscal year ended 2014, exceed $10,000.

Recommendation

The Commissioner and the Director of Families First should ensure that caseworkers review all cases and appropriate action is taken to prevent ineligible recipients from receiving benefits for more than 60 months, unless recipients meet one of the exemption requirements. Department management should ensure proper communication exists between staff who are responsible for payment of or discontinuation of recipients benefits. In addition, management should assess the risks associated with benefits not being discontinued when the period of eligibility has expired and ensure appropriate mitigating controls address these risks.

Management's Comment

We do not concur.

The Department disagrees that the error noted rises to the level of a finding. The Department agrees that 1 out of 60 files tested (2%) indicated a recipient received TANF benefits for five months, averaging $264 per month, beyond the 60-month program term limit without qualifying for an exemption. The Department also agrees that the error occurred due to an appeal worker accidently sending the recipient's appeal denial e-mail to a department employee with the same name as the eligibility counselor. However, the Department disagrees that this error is a systemic problem rising to the level of a finding. State Audit based this finding on the questioned costs and cites the OMB Circular A-133 as requiring known questioned costs to be reported when the likely questioned costs are greater than $10,000. The Department disagrees with the logic used to extrapolate the error amount noted in determining likely questioned costs. First, the error noted was an anomaly (i.e., 1 issue out of 60 case files tested and the issue was due to sending an e-mail to the wrong counselor) and not indicative of a true process flaw. Second, the case files tested were from a non-statistical, random (i.e., haphazard) sample vs. a statistically valid sample that would lend itself to extrapolating the results. Based on these two reasons, extrapolating the error amount noted to the entire population does not appear to be a representative determination.

Auditor's Comment

As noted above, Office of Management and Budget Circular A-133 requires us to report internal control and compliance deficiencies and 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 exceed $10,000.

Finding Number	2014-036
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	2013-025

To prevent further erosion of the public's trust in the UI program, management needs to aggressively implement full corrective actions to the numerous control and compliance deficiencies

Background

Management of the Department of Labor and Workforce Development is responsible for establishing and maintaining the processes and internal controls for the department's programs, including the Unemployment Insurance (UI) program. Management is also responsible for complying with the federal grant requirements in its operation and oversight of the program in Tennessee. Current management assumed this responsibility during the last quarter of fiscal year 2013 and inherited some of the issues reported in this finding for fiscal year 2014.

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, which was established by the State Unemployment Tax Act. 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 trust fund exceed premiums collected from employers, the department is responsible for replenishing the fund and generally accomplishes this by raising premium rates.

Approved claimants 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.

Condition

As stated in the 2012 and 2013 *Single Audit Reports*, department management did not adequately address weaknesses in critical functions of the UI program. Our testwork for the period July 1, 2013, through June 30, 2014, showed similar control and compliance deficiencies as the prior period, as well as new deficiencies, all of which are described below.

During testwork, we found that department personnel were unable to properly manage all of the claims submitted through the program. Specifically, the department continued to have backlogs in receiving and responding to incoming telephone calls (staff only answered 2% of calls in fiscal year 2014); resolving pending claims (backlog of 11,899 claims at June 30, 2014); and investigating potentially overpaid claims (backlog was estimated at 16,000 at fiscal year-end.)

In addition, department management had not ensured that UI payments were made only to eligible individuals. Specifically, key internal controls continued to fail to identify ineligible payments to state employees, a deceased individual, state inmates, and individuals whose identities had not been verified. The department's controls also did not allow staff to determine whether partial claim recipients had earned disqualifying wages. Overpaid claims were not always processed consistent with laws, as claims containing indicators of fraud were not forwarded to the proper unit for further review. Also, we identified vulnerabilities with the UI computer system regarding the automated approval process for online claims. These weak controls resulted in the department continuing to pay millions of dollars to ineligible claimants and, despite collection efforts, the uncollected overpayment balance remained at over $171 million as of June 30, 2014.

This audit also identified the following new deficiencies:

- management did not verify that unemployment insurance beneficiaries were searching for work, as required by law;
- management disregarded information from employers and allowed improper claim determinations to be made;
- management lacked safeguards over sensitive information;
- the Benefit Accuracy Measurement unit's independence from the claims eligibility determination process was impaired; and
- Fiscal Services[7] incorrectly reported expenditures of federal funds for unemployment compensation for federal employees and ex-service members.

In response to the prior-year audit finding, department management stated that many of the issues were due to technological limitations. Specifically, an aged mainframe system was linked to dozens of separate systems that functioned collectively in the operation of the UI program. Based on inquiry, management is involved in a project to modernize the entire UI system, but the project is not anticipated to be completed until 2016.

Management did take corrective actions to address prior and current audit findings. These actions included the following.

[7] Per executive order, the Department of Labor and Workforce Development has an agreement with the Department of Finance and Administration that financial accounting and reporting functions of the Department of Labor and Workforce Development will be managed and operated by the Department of Finance and Administration. This agreement includes the completion of federal reporting for the Department of Labor and Workforce Development.

- Management stated they have removed vulnerabilities associated with the automated claim approval process as of May 2014; we could not perform sufficient testwork to determine the impact of management's corrective action for this audit period ending June 30, 2014. Our next audit will evaluate the corrective actions and related impact on the program.
- The backlog of employers' benefit charge protests (involving the employers' premium rate) noted in the prior audit has been eliminated.
- The backlog of pending claims for UI benefits was reduced subsequent to our audit period.
- Subsequent to the audit period, management reported to us that it has implemented a process to reduce the backlog of potentially overpaid claims awaiting investigation; we plan to test this process in the next audit.

Criteria

The state's top officials, the federal grantor, the state's employers, and current and future UI beneficiaries expect management to effectively administer the UI program, which requires strong internal controls and proper oversight of all critical program functions and processes. This expectation is based on best business practices, and the specific criterion for each deficiency noted was included in the respective findings listed below.

Cause

Our audit of this major program determined that the department's management 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. We detailed several noncompliance and control weaknesses in separate findings in this audit report that indicate management did not properly administer the program during the period July 1, 2013, through June 30, 2014. (See the following Table.)

Table
Summary of Unemployment Insurance Program Findings

Issue –Repeated Findings	**Improvement Noted From Department's Efforts**	**Finding Number**
Uncollected overpayments at over $171 million place UI program at risk	No	2014-037
Delays in processing claims and establishing overpayments led to backlogs	Yes	2014-044
Benefits were improperly paid	No	2014-039
Overpaid claims were not always processed consistent with laws	No	2014-046
Key controls to detect fraudulent claims were ineffective	Yes	2014-043
Weaknesses existed in the automated approval process	Yes	2014-041
No process for verification of certifications for temporarily laid-off workers	Yes	2014-040

Issue –New Findings	**Finding Number**
Staff did not verify claimant work searches	2014-038
Management lacked safeguards over sensitive information	2014-047
Fiscal Services incorrectly reported expenditures	2014-045
Management disregarded information from employers and allowed improper eligibility determinations to be made	2014-042
The Benefit Accuracy Measurement unit's independence was impaired	2014-048

Effect

Management did not adequately address weaknesses in critical functions of the UI program, which continues to threaten the integrity of the UI program. While we recognize that many of the corrective actions may take months, or longer, to implement, until significant progress is made, current management will be unable to properly administer this state and federal program within the federal requirements. Without sufficient controls and oversight in the future, the department

- will continue to make improper benefit payments to ineligible claimants,
- will not hold claimants accountable for returning overpaid benefits to the department,
- will not pay benefits to eligible claimants timely,
- will continue to penalize the state's employers by unnecessarily increasing premiums,

- will continue to jeopardize federal funding because of noncompliance,
- will continue to submit federal reports with inaccuracies, and
- will be unable to restore the public's trust in the state's ability to administer unemployment compensation to Tennessee's unemployed workers.

We are required by Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," to report on management's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance. We noted material weaknesses and significant deficiencies in internal control over compliance for the UI program during the period July 1, 2013, through June 30, 2014. We have also qualified our opinion at the compliance requirement level for eligibility.

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 involving an intentionally unnecessary or unreasonable purpose.

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, the Department of Labor and Workforce Development) to determine and oversee appropriate corrective actions.

Three of the UI findings in this report contain questioned costs for noncompliance with federal grant-related requirements (see findings 2014-039, 2014-042, and 2014-043). The questioned costs in these findings for fiscal years 2014 and 2015 total $280,870, of which $238,793 was paid from the state trust fund and $42,077 was paid from the federal grant program.

Recommendation

The Commissioner of the Department of Labor and Workforce Development should ensure that the recommendations in this report are implemented and should develop a timeline for all corrective action to address the findings in this report. The Commissioner and top management should continue to evaluate the department's corrective action plan and timeline in order to ensure progress is made to correct all findings.

Management's Comment

We concur in part.

As stated in the prior audit, many of the issues noted within this finding and audit are actually due to technological limitations. The Unemployment Insurance (UI) program is operating with a 43+ year aged COBOL mainframe system modified over the years with multiple separate systems linked to the mainframe to address incremental program changes needed over the years.

A contract to replace the entire UI Benefits System was signed in May 2014. Implementation of the new system is in progress and on-schedule to go-live in May 2016.

The department has conducted a root cause analysis and made numerous modifications to systems and processes in an effort to improve the unemployment insurance program. These include:

- The Interactive Voice Response (IVR) was modified in March 2013 by moving self-help options to the beginning of the call, which allowed more claimants to help themselves.
- A new Telephone Information Processing System (TIPS) line was deployed in February 2014 that allows claimants to reset their personal identification number (PIN) and to correct incorrect response to the weekly certification questions.
- A new ticketing application, ZenDesk, was implemented in March 2014. This application works to reduce phone calls and allows staff to track issues without duplication of work, and measure staff's effectiveness and efficiency in answering those issues. Also, this application provides for a self-help knowledge base. To date over 100,000 tickets have been created by over 56,000 claimants. Customer satisfaction remains over 80% through the application's helpdesk.
- A claims status tracker was implemented and utilized by claimants 182,211 times between July and December 2014.
- The new imaging center improved the efficiency and timeliness of claim processing by maintaining all documentation in one place.
- LEAN events were held for Benefit Payment Control (BPC), claims, and collections – several recommendations from these sessions have already been implemented.

Update on Backlogs:

- As noted in the audit, the benefit charge backlog has been eliminated. The backlog peaked at 22,000 in June 2013 and was cleared by June 5, 2014.
- The backlog of 12,375 claims over 21 days awaiting decision was cleared by October 1, 2014.
- The backlog of benefit payment control cases has been reduced from 40,869 in February 2014, to 363 cases as of February 14, 2015. The backlog will be cleared by March 30, 2015.
- Over $31 million in overpayments have been set up during the clearing of the benefit payment control backlog. Over $27 million of this amount was designated as fraudulent overpayments.
- The department continues to participate in the Treasury Offset Program. Since July 2012, $28 million has been intercepted from individual tax returns.

The department acknowledges that improvements to the overall program take time. Much of the time during the audit period was spent analyzing issues and setting in place new processes and procedures. Often these required some system modifications as well. Progress has been slow, but it has also been steady.

In January 2015, the State of Tennessee received the federal Final Determination regarding the findings contained in the *2013 Single Audit Report*. The federal Final Determination indicated the noted issues were corrected.

Auditor's Comment

With regard to management's comments concerning the aged UI benefit information system, many issues noted in the finding were not caused directly by the current information systems. Management should ensure that proper procedures for determining eligibility are established and followed in order to prevent overpayments, no matter the age of the information system. Management also has the responsibility to establish procedures to compensate for any shortcomings in the information system.

Additionally, the U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. Based on our *2014 Single Audit* of the Tennessee Department of Labor and Workforce Development, management has not fully implemented corrective action as noted in the finding above.

Finding Number	2014-037
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	2013-026

Overpayment levels remain high and place the Unemployment Insurance program at risk

Background

The Department of Labor and Workforce Development provides Unemployment Insurance (UI) benefits to individuals who meet certain eligibility criteria. An overpayment occurs when a person receives unemployment compensation to which he or she is not entitled, whether due to error or fraud. Overpayments are a normal part of the UI program, due to the nature of the eligibility determination process, including the fact that the department must rely on employers and claimants to supply accurate and timely information. State law requires individuals to return overpayments to the department, as well as additional penalties and interest if the claimants obtained overpayments fraudulently. Once an overpayment is identified, the department establishes an accounts receivable in its accounting records. Outstanding overpayments remain on the department's accounts receivable for six years, after which time they are written off as uncollectible, in accordance with state law.

The department's Benefit Payment Control (BPC) unit is responsible for preventing, detecting, establishing, and collecting overpayments. BPC staff attempt to collect identified overpayments from those claimants via garnishing wages or reducing current UI benefits. In addition, the department participates in the Treasury Offset Program, a federal program that intercepts individual tax refunds to offset delinquent debts owed to federal and state programs.

Condition

As stated in the 2012 and 2013 *Single Audit Reports*, the department failed to ensure the operating effectiveness of its internal controls over the claimant eligibility determination process, resulting in an excessive amount of overpayments that continued to threaten the integrity of the UI program. In response to the prior audit finding, department management stated that initiatives were in progress to enhance the BPC unit's performance. As of the end of the current audit period, management had completed some but not all of these initiatives.

As part of this audit, we performed an analysis of UI overpayments to determine any changes to current-year and overall levels of overpayments, which should have decreased if management's controls were preventing and identifying overpayments in a timely manner. Additionally, we expected a decrease in overpayments given the large decrease in overall benefit payments from $779 million in fiscal year 2013 to $473 million in fiscal year 2014 (a 40% reduction). Based on our analysis, however, the current balances and trends in established overpayments fell short of expected outcomes. The overall overpayment balance and established overpayments in the current year were expected to be lower because these amounts are correlated with the amount of benefit payments for the current year.

- As of June 30, 2014, the department had a balance of more than $171 million of uncollected UI overpayments. This balance was a cumulative amount of $98 million uncollected overpayments over the past 6 years (including established overpayments for fiscal year 2014) and an estimated $73 million of potential overpayments. For accounting purposes, in conjunction with Department of Finance and Administration fiscal staff, management estimated the value of potential overpayments based on the amount of benefit expenditures incurred throughout the previous two years multiplied by the department's internally developed overpayment rate.[8] Although this overall balance decreased $10 million from the department's $181 million balance in fiscal year 2013 (an approximate 6% decrease), the reduction in the balance was less than expected considering the reduction in payments to beneficiaries during fiscal year 2014. We concluded that management continues to overpay UI benefits because controls to prevent overpayments still need improvement.
- During the period July 1, 2013, through June 30, 2014, the department identified $20.8 million of UI benefits paid to ineligible claimants. This was a decrease of $3.6 million (15%) from the $24.4 million in benefit overpayments identified in fiscal year 2013, but the reduction of current-year overpayments was less than expected, considering the approximately 40% decrease in benefit payments.
- Management's efforts to collect overpayments were still not sufficient to recover the total overpayments during the audit period. The department's five-year historical overpayment collections data shows that the average collection rate for UI overpayments is approximately 24%. Collections, write-offs, and other deductions to the cumulative uncollected overpayment balance totaled $18.1 million in fiscal year 2014. This collection effort was not enough to offset the $20.8 million of current-year overpayments and the $1.9 million of related penalties established, both of which added to the already high cumulative accounts receivable balance. Therefore, we concluded that the combination of a lack of controls and insufficient collection efforts continue to negatively effect the outstanding overpayment balance.

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[8] Federal regulations require the department's Benefit Accuracy Measurement (BAM) unit to conduct statistically valid samples of testwork on UI eligibility determinations that department staff has already performed. The BAM testwork is used, among other things, to determine the department's BAM Operational Rate. This rate is the percentage of benefit payments that the state should reasonably be expected to detect and establish as overpayments for recovery. The department and the Department of Finance and Administration also use the rate to calculate potential overpayments: current year ([total benefits paid x BAM operational rate]-overpayments already established) + prior year ([total benefits paid x BAM operational rate]-overpayments already established).

Criteria

According to Office of Management and Budget Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations," Part 6, *Compliance Supplement*, the department must have sufficient controls "to provide reasonable assurance that only eligible individuals . . . receive assistance under Federal award programs."

Department of Finance and Administration Policy 23, *Accounts Receivable – Recording, Collection, and Write-Offs*, requires state agencies to "make a reasonable effort to collect all receivables on a systematic and periodic basis."

Cause

The department lacked proper controls over eligibility determinations, which resulted in an excessive amount of UI benefits issued to ineligible claimants. The department also lacked proper controls within its BPC unit to timely investigate and, where appropriate, establish overpayments for suspicious eligibility cases.

Effect

The department's failure to ensure the operating effectiveness of its internal controls over the claimant eligibility determination process continues to threaten the integrity of the UI program. 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, the state, the employers, and the federal grantor are all impacted when the department continues to overpay UI benefits while collecting on average only 24% of the overpayments. The remaining 76% of overpaid benefits are uncollectible, and this loss further threatens the viability of the UI program.

Recommendation

The department 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 both prevent and detect errors and fraud and mitigate the risk that UI benefits will be paid to ineligible claimants. The Commissioner should ensure that BPC unit staff investigates potential overpayments to ineligible UI claimants in a timely manner.

Management's Comment

We concur in part.

As stated in the previous year's audit, the department does not agree with the estimated overpayment amounts.

Many of the issues noted within this finding and audit are actually due to technological limitations. The Unemployment Insurance (UI) program is operating with a 43+ year aged

COBOL mainframe system with multiple separate systems linked to the mainframe to address program changes needed over the years. A contract to replace the entire UI Benefits System was signed in May 2014. Implementation of the new system is in progress and on-schedule for completion in May of 2016.

The department does not agree with adding an estimated overpayment amount. The original reason for doing so was due to a backlog within the Benefit Payment Control (BPC) Unit.

A Lean Event conducted in February 2014 resulted in a plan to eliminate the backlog. At that time, the backlog consisted of 40,869 cases pending review. Vacant auditor positions were filled and overtime was authorized to address these cases. All overpayments were centralized within the BPC unit by August 1, 2014. As of February 7, 2015, there are 573 cases remaining to be reviewed and $28,257,256 set up as overpayments. This is far lower than the $94.5 million estimated in last year's audit or the $73 million being estimated in this year's audit.

It should also be noted that the Benefit Payment Control Unit is up-to-date on all cross-match reports. Without a backlog, estimating potential overpayments is not an accurate portrayal of the program.

As of January 2, 2015, the department established a new unit devoted entirely to collection efforts. The UI Recovery Unit was formed to efficiently pursue collection of money owed to the department. The department is continuing to participate in the Treasury Offset Program (TOP), in addition to other collection efforts. The department has also purchased SAS (a predictive statistical package) to assist with identifying fraud. The procurement of this software began in November of 2012 and was approved by CPO in November of 2014. We expect implementation to occur by May of 2015.

This finding indicated a receivable balance of $171 million, while $73 million is estimated. (It is important to note that over the last six (6) calendar years the cumulative amount of overpayments established was $165 million, of which $71.5 was collected. During that same period approximately $6.5 billion in benefits was paid out. This results in an overpayment rate of 2.5%. Deduct our collections and the overpayment amount is 1.3% of the total benefits paid in the last six (6) years.

Auditor's Comment

Management estimated the amount of potential overpayments in conjunction with the Department of Finance and Administration.

With regard to management's comments concerning the reduction in the backlog of potential overpayment cases, the majority of this reduction occurred subsequent to our audit period. Therefore, we did not verify the amount of reduction but will do so during the next audit.

With regard to management's comments concerning the aged UI benefit information system, many issues noted in the finding were not caused directly by the current information systems. Management should ensure that proper procedures for determining eligibility are established and followed in order to prevent overpayments, no matter the age of the information system. Management also has the responsibility to establish procedures to compensate for any shortcomings in the information system.

Finally, with regard to management's comments concerning the formation of the UI Recovery Unit and the implementation of predictive statistical software, this did not occur during our audit period. Therefore, we will examine the effect this may have on overpayments during the next audit.

Finding Number	2014-038
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	N/A

Random audits of work search verifications were not conducted

Background

In 2012, the Tennessee state legislature passed the Unemployment Insurance Accountability Act (the Act) in response to complaints from the employer community that an excessive number of Unemployment Insurance (UI) claimants receive benefits to which they are not entitled, particularly because they may not be attempting to find new employment. The Act strengthened eligibility requirements for claimants seeking unemployment benefits, including the requirement that UI claimants demonstrate a reasonable effort to secure work by contacting at least three employers per week or accessing services at a career center. The Act requires the Department of Labor and Workforce Development to conduct random weekly audits to verify the integrity of claimants' work search activity. Current statute requires the department to randomly audit the work search activity of 1,500 claimants per week, which is 78,000 per year.

When the Act was passed into law in 2012, prior department management told the legislature that an anticipated information systems upgrade would allow the department to automatically audit work search activity at minimal cost by requiring all UI claimants to record their weekly work search activity in a central database. Since 2012, the information systems upgrade has transformed into a larger project to modernize the entire UI system, and the upgrade is not anticipated to be completed until 2016. Based on inquiry with management, without the new system in place, the department has had to rely on its existing limited resources to meet audit requirements.

The responsibility for auditing work search verifications was initially appropriately assigned to the Job Services unit, which was organized under the department's Employment Security Division at the time. In late 2012, Job Services was restructured under the newly created Workforce Services Division. As a result of the reorganization, responsibility for work search audits moved with Job Services to the Workforce Services Division, where it has remained since.

We have interpreted the Act's audit requirement to encompass random selection of weekly samples from the entire population of UI claimants that are required to search for work.

Condition and Cause

The department has not established a process to perform weekly audits of UI claimants and has not performed weekly audits of 1,500 claimants per week as required by the Act.

Based on our interviews with Workforce Services Division management, we found that management has not selected random samples each week of 1,500 UI claimants to determine if each claimant had met the work search requirements.

Instead, we found that management performs the following activities:

- Workforce Services Division staff periodically estimates the number of UI claimants who received services at the department's career centers and the number of claimants who were required to participate in the Reemployment and Eligibility Assessment[9] (REA) initiative. Management told us that they meet the Act's audit requirements because these totals represent UI claimants that have accessed services at the department's career centers and participated in REA.
- Workforce Services Division staff conducts audits of work search activity of those claimants registered to use the department's jobs4tn.gov website.

While these activities are designed to provide management with the number of individuals that utilize the career centers and participate in REA, they are not designed to detect claimants who have not met the work search requirement, which is the purpose of the individualized audits.

We also evaluated the division's audits of work search activity for those who were registered to use the department's jobs4tn.gov website. We found that UI claimants are not required to register to use the website; therefore, division staff cannot select random weekly audit samples from the entire population of UI claimants. Division staff stated that they performed 26,540 audits of registered claimants during fiscal year ended June 30, 2014.

In addition, we also found that top management assigned the responsibility of compliance with the Act's requirements to management of the Workforce Services Division, even though the Act places this responsibility with the department's Employment Security Division Administrator.

Criteria

According to Section 50-7-302(a), *Tennessee Code Annotated*, a UI claimant

> shall provide detailed information regarding contact with at least three (3) employers per week or shall access services at a career center created by the

[9] The Reemployment and Eligibility Assessment is a federal program designed to help certain at-risk unemployed individuals re-enter the workforce. In Tennessee, the program is known as the Reemployment Services Assessment.

> department. The administrator shall conduct random verification audits of one thousand five hundred (1,500) claimants weekly to determine if claimants are complying with the requirement of contacting at least three (three) employers per week or accessing services at a career center.

Section 50-7-203(a), *Tennessee Code Annotated,* defines "the administrator" as "the chief administrative officer of the division of employment security of the department of labor and workforce development."

Effect

By failing to perform work search verification audits in the quantity and manner prescribed by the Act, the department has not fulfilled its obligation to employers and employees to ensure that UI benefits are appropriately distributed to claimants who comply with work search mandates. The department has potentially missed opportunities to identify, suspend, and recoup payments issued to claimants who did not make a reasonable effort to secure work while collecting UI benefits. The department has also not complied with the Act's requirement to assign oversight for this responsibility to the Employment Security Division Administrator.

Recommendation

The department should transfer responsibility for UI work search verification audits from the Workforce Services Division to the Employment Security Division Administrator. Pending completion of the UI systems modernization project, the Employment Security Division Administrator should develop a process to obtain a weekly population of all UI claimants who are required to search for work. Staff should randomly select and audit a minimum of 1,500 claimants from this pool each week.

Management's Comment

We do not concur.

The state statute allows the UI claimant to have two options, which include contact with three (3) employers or services at a career center. The department has evidence showing UI claimants were receiving services through the career centers. During the audit period, 176,575 UI claimants received services through the career centers. Of those 176,575 claimants, 158,581 received workforce information services; 168,477 received staff assisted services; 69,828 received career guidance; 54,959 participated in job search activities; and 32,126 were referred to employment. Therefore, we have complied with the state statute.

Additionally, the new UI Benefit System will enhance the capturing of job search activities during the claimant's weekly certification.

Lastly, no funding was provided to enforce this state statute.

Auditor's Comment

Section 50-7-302(a), *Tennessee Code Annotated*, specifically states that

> …The administrator shall conduct random verification audits of one thousand five hundred (1,500) claimants weekly to determine if claimants are complying with the requirement of contacting at least three (three) employers per week or accessing services at a career center.

The department did not conduct random verification audits of 1,500 claimants weekly as required. Management's mere calculation of the total claimants who access services at career centers does not meet the requirements of state law, which are to identify those claimants who have not attempted to contact at least three employers per week or who have not accessed services at a career center.

Finding Number	2014-039
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$17,602
Repeat Finding	2013-027

The Unemployment Insurance program made improper benefit payments

Background

The Unemployment Insurance (UI) program provides benefits to unemployed workers for periods of involuntary unemployment (workers who have lost their jobs through no fault of their own). The program is funded by the Tennessee Unemployment Insurance Trust Fund (UTF) and federal grants. The UTF, established by the State Unemployment Tax Act, is funded by employer premiums. Claimants who are approved for the UI program are eligible to receive up to 26 weeks of benefits, which are funded by the UTF. Once the 26 weeks of benefits have been exhausted, the unemployment benefits can be extended through federally funded grants. As of January 1, 2014, claimants are only eligible to receive the 26 weeks of benefits funded by the UTF.

According to state regulations, individuals filing UI claims with the department must meet certain earnings (monetary) requirements from past employment and must be currently unemployed or earning less than their weekly benefit amount up to the $275 maximum weekly benefit amount. Once the monetary requirements are met, other non-monetary eligibility requirements must be met before a claim is approved. For example, claimants must have separated from their most recent employer through no fault of their own, and claimants must be able and available for work. These separation and personal eligibility issues must be evaluated by the Department of Labor and Workforce Development's Employment Security Division staff before a decision to approve benefits can be made. In the past, UI claimants who were determined to be eligible received up to an additional $15 for each minor dependent, not to exceed a total of $50 a week. The corresponding statute was amended on July 1, 2013, and the requirement to compensate UI claimants with a minor child was deleted. Division staff paid the last eligible dependent benefits on December 28, 2013.

For both the 2012 and 2013 *Single Audit Report*, we noted control weaknesses in the division's eligibility determination process, including but not limited to failing to maintain documentation to support eligibility determinations and dependent allowance benefits. Department management concurred with the weaknesses noted in the 2012 report and concurred in part with weaknesses noted in the 2013 report. Department management did not concur with the weakness noted in the 2013 report for the condition regarding the lack of documentation for dependent payments and stated that their policies and procedures do not specifically require this documentation.

Condition and Criteria

As noted in the two prior audits, the department did not ensure the operating effectiveness of controls over claimants' eligibility determinations. We selected a random nonstatistical sample of 100 benefit payments from a population of 2,067,415 weekly payments for the period July 1, 2013, through June 30, 2014. The sample represented \$21,373 of \$452,296,646 total UI benefit payments. Based on our eligibility testwork, we noted the following:

a. *Documentation for Eligibility Determinations*

According to Part 6, Compliance Supplement, of the Office of Management and Budget Circular A-133, the department must have sufficient controls "to provide reasonable assurance that only eligible individuals . . . receive assistance under Federal award programs."

- For 22 of the 100 claims tested (22%), division staff paid ineligible claimants or paid claims without proper supporting documentation. Specifically, we found that division staff did not

  - perform additional follow-up to determine claimants' eligibility when employers reported to the department that claimants had earned wages that conflicted with the claimants' previous assertions of the amount of income earned (eight claims);
  - have the required documentation to award UI benefits to the claimant (one claim);
  - send required second requests to the employers for separation information (seven claims);
  - send initial requests for separation information to the claimants' previous employers (two claims); or
  - consider conflicting separation information received from the claimants' previous employers (two claims).

  For 20 of the 100 claims, we noted that claimants received payments for dependents. We found that division staff did not maintain documentation to support the dependent allowance benefit payments for one claimant. Furthermore, division staff did not make a required dependent allowance payment to one of the claimants (see Table 1 for results.)

Table 1
Eligibility Sample Errors

Category	Eligibility	Dependent Allowance
Sample Size	100	20
Number of Errors	20	2
Error Rate	20%	10%

b. *Standard for Benefit Payment Promptness*

Title 20, *Code of Federal Regulations*, Section 640, states that the department should issue the first benefit payment based on the claim's eligibility decision within 14 days of the first compensable week.[10]

- For 50 of the 100 claims tested (50%), division staff did not issue a decision on the claimants' eligibility for UI benefits within 14 days of the first compensable week, as required by U.S. Department of Labor.

c. *Second Request for Separation Information*

According to the department's *Unemployment Insurance Program Manual*, Section 5117, "Procedures When Employer Fails to Respond Timely,"

> The employer's failure to respond to the Time Sensitive Request for Separation Information does not relieve the agency of the responsibility to attempt to obtain employer information. At least one attempt must be made to contact the employer by telephone if no response is received.

Request for Separation Information

According to Section 50-7-304(b)(2)(C), *Tennessee Code Annotated,*

> Employer Response to Request for Separation Information. If a separation issue exists, the separating employer will be asked to supply information describing circumstances leading to the separation. The information must be received by the agency within seven (7) days from the date the agency request for information is mailed to the separating employer. In the absence of the response, the decision of entitlement will be based on the claimant's statement and other information available to the agency.

- For 9 of 88 applicable claims tested[11] (10%), division staff did not sufficiently contact the claimants' separating employers for input regarding the claimants' eligibility.

[10] Section 50-7-302(a)(5)(A), *Tennessee Code Annotated*, requires a mandatory "waiting week" for which claimants do not receive unemployment benefits. Therefore, in Tennessee the standard is 21 days following the beginning of a claimant's eligibility (7-day waiting week + 14 days following the first compensable week).

(These errors were also included in the *Documentation for Eligibility Determinations* section above.) Specifically, we found that division staff did not

- send initial requests for separation information to the claimants' previous employers (two claims); or
- send second requests for separation information to the employers (seven claims).

d. *Agency Decision*

Section 50-7-304(b)(1)(B), *Tennessee Code Annotated,* states that

> The agency representative shall promptly give written notice to the claimant and all other interested parties of the nonmonetary determination and the reasons for the determination. The nonmonetary determination of the agency representative shall become final, unless an interested party files an appeal from the nonmonetary determination within fifteen (15) calendar days after the date of mailing of the written notification of the nonmonetary determination to the last known address of the party, or within fifteen (15) calendar days after the date the written notification is given to the party, whichever first occurs.

➢ For 40 of 94 applicable claims tested[12] (43%), division staff did not follow proper review and approval procedures. Specifically, we found that division staff did not

- maintain documentation of issuing agency decision letters to the claimants or the claimants' separating employers (33 claims);
- review claims to ensure the requests for separation information were sent to the correct employer addresses prior to issuing agency decisions (three claims, two of which were reported above for when staff did not maintain documentation of issuing the required agency decision letters);
- issue agency decisions by a qualified staff member (five claims); or
- allow the employer sufficient time to respond to the request for separation information (one claim).

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[11]From our testwork of 100 claimants, division staff was not required to contact the previous employers for 12 claimants, because the separating employer had already provided the department with documentation verifying the claimants' reason for separation from employment.

[12]From our testwork of 100 claimants, division staff was not required to review six claimants, because they were partial claims filed by the claimants' previous employers. Partial claims are claims filed by employers on behalf of employees who are temporarily laid off from work. The department's computer system automatically processes these claims if there are no other issues with the claims.

Cause

Management did not fully implement corrective actions to improve the operating effectiveness of controls over its claimants' eligibility determination process or to comply with the UI program procedures in determining claimants' eligibility. Specifically, division staff did not

- maintain required documentation to support the claimants' eligibility for either regular unemployment benefits or dependent allowance benefits;
- adhere to federal guidelines for benefit payment promptness;
- sufficiently contact the claimants' previous employers;
- properly issue agency decision letters to notify the parties involved when an eligibility determination has been reached; and
- document a review of claims to ensure the correct employers were contacted.

Effect

When division staff does not promptly seek employers' responses to claimants' requests for benefits upon separation from the employers, the associated risk that the department will pay UI benefits to ineligible claimants increases. Similarly, when division staff does not send agency decision letters to notify all parties of the department's decision to issue benefits, it deprives the separating employers of their right to file an appeal of the eligibility decision, thus increasing the risk that the department will pay UI benefits to ineligible claimants.

When management does not ensure the operating effectiveness of controls over the claimant eligibility process for the UI program, the department will continue making improper payments to ineligible individuals from UI funds (see Table 2 for a summary of known questioned costs.)

Known Questioned Costs

Table 2
Benefits Paid to Ineligible Claimants
(based on testwork sample)

Category	**Federal Funds**	**State UI Trust Funds**	**Total**
Eligibility Questioned Costs	$944	$3,417	$4,361
Dependent Allowance Questioned Costs*	$13	$0	$13
Total Questioned Costs	**$957**	**$3,417**	**$4,374**
Total Sample Dollars Tested by Funding Source for One Benefit Week	**$3,175**	**$18,198**	**$21,373**
Total UI Claims Paid for the Fiscal Year Ended June 30, 2014 (Population)			**$452,296,646**
Error Rate (%)			**20%**

***** We only noted questioned costs for one of the two dependent allowance errors noted. In addition, the dependent allowance payment is $13 rather than $15, as a result of the federally extended benefit amounts being reduced during our audit period.

Due to errors noted in our sample testwork, we extended our testwork on claimants we identified as ineligible to determine the total amount of UI and dependent allowance benefits improperly paid to these claimants through August 2, 2014. The questioned costs represent benefit payments occurring as early as fiscal year 2013. These results are shown in Table 3 below.

Table 3
Benefits Paid to Ineligible Claimants

Fiscal Year 2013			
	Federal Funds	**State UI Trust Funds**	**Total**
Eligibility Questioned Costs	$903	$21,399	$22,302
Dependent Allowance Questioned Costs	-	$240	$240
Total Questioned Costs	**$903**	**$21,639**	**$22,542**

Fiscal Year 2014			
	Federal Funds	**State UI Trust Funds**	**Total**
Eligibility Questioned Costs	$17,446	$60,227	$77,673
Dependent Allowance Questioned Costs	$156	-	$156
Total Questioned Costs	**$17,602**	**$60,227**	**$77,829**

Fiscal Year 2015 (established through August 2, 2014)			
	Federal Funds	**State UI Trust Funds**	**Total**
Eligibility Questioned Costs	-	$1,094	$1,094
Dependent Allowance Questioned Costs	-	-	-
Total Questioned Costs	**-**	**$1,094**	**$1,094**

The total amount of all federal questioned costs noted during fiscal year 2013 is $903. The total amount of all federal questioned costs noted during our audit period, July 1, 2013, through June 30, 2014, is $17,602. The total amount of all state UI Trust Fund questioned costs noted in this finding is $82,960 ($21,639 for fiscal year 2013, $60,227 for fiscal year 2014, and $1,094 for a portion of fiscal year 2015).

Recommendation

As recommended in the prior two audits, the Commissioner of the Department of Labor and Workforce Development should take immediate corrective action to implement a strong system of internal controls over the claimant eligibility determination process for the UI program. This control system should be designed to prevent and/or detect errors and fraud and to ensure that UI benefits are only paid to eligible claimants. Division management should ensure that payments for the UI program are made based on adequate supporting documentation, that management has properly requested separation information from employers, and that all parties are notified of the department’s eligibility decisions. Division management should also review the claims identified in our testwork and determine what corrective actions, including the collection of any applicable overpayments, penalties, and interest, should be taken.

<u>Management's Comment</u>

We concur in part.

As noted in the prior *Single Audit Report*, the department struggled with an inadequate case management system. When the system completely failed, a manual and paper centric operation process was the only available alternative.

In December 2013 an in-house imaging center was established, utilizing existing scanning capabilities to digitize and maintain scanned claims material in a repository readily accessible to adjudicators on their desktop computers. Adjudicators were able to begin using this repository for their decisions beginning in March 2014.

The department acknowledges that for much of this audit period the claims unit was relying on a manual process, which could result in misplaced documentation. The department does not agree with all the issues noted by the auditors regarding requests for separation information.

Documentation for Eligibility Determinations:

- Proof of dependent information was required for any claim filed on or after August 1, 2013. One claim was noted for missing dependent information; however, the dependent documentation was actually obtained, when the claimant filed a new claim on November 12, 2013.

Standard for Benefit Payment Promptness:

- As previously noted, the department had a claims backlog for the entire audit period and timeliness requirements were not met.
- By October 1, 2014, the backlog was cleared.
- The department also exceeded the US Department of Labor's first pay timeliness requirement of 87% for October 2014 and has met the standard for every succeeding month since October.
- From October 2014 through January 2015, the department processed from 90.3% to 95.5% of all initial claims within the 21-day timeliness requirement.

Request for Separation Information:

- Several scenarios occur where an employer letter is not generated, but a claim may be approved:
    - ➢ the claims were either submitted directly by the employer,

  - a mass layoff list had been supplied by the employer,
  - the lack of work claim was approved over the phone by the claims agent while taking the claim, or
  - were initial claims where the separation reason had already been correctly addressed on the previous claim.

- Of the nine (9) claims noted with separation issues:

  - One claim was filed in a local office on December 6, 2012, which was outside the audit period, and no documentation was provided. Claims are no longer accepted in a local office.
  - One claim was approved, based on a misdated separation notice, but the employer did not appeal.
  - Three claims were decided without a documented second notice attempt.
  - The employer response for one claim was based on a different assignment, but the employer did not appeal.
  - Three claims were not missing any information, but the auditor determined the adjudicator needed more information. The department does not agree.

Agency Decisions:

- Decision letters are not always required. These are the same instances as when requests for separation information are not needed:
  - the claims were either submitted directly by the employer,
  - a mass layoff list had been supplied by the employer,
  - the lack of work was approved over the phone by the claims agent while taking the claim, or
  - were initial claims where the separation reason had already been correctly addressed on the previous claim.
- During the time staff worked to clear the backlog, experienced claims agents and interviewing supervisors temporarily assisted with decisions.

The department does not agree with the eligibility sample chosen for review. As in the previous audit, the sample was chosen based on payments made during the audit period. Eligibility determinations during the audit period only should have been reviewed. By continuing to review eligibility outside the audit period, the department continues to be penalized for processes and procedures that may have already been corrected.

In January 2015, the State of Tennessee received the federal Final Determination regarding the findings contained in the *2013 Single Audit Report*. The federal Final Determination indicated the noted issues were corrected.

Auditor's Comment

Request for Separation Information:

For situations in which the claim is not filed by an employer or included on a mass layoff list, management is required to verify separation circumstances with the employer (Request for Separation Information), as required by Section 50-7-304(b)(2)(C), *Tennessee Code Annotated.*

Agency Decisions:

Section 50-7-304(b)(1)(B), *Tennessee Code Annotated*, requires the department to give written notice to all interested parties of the nonmonetary determination and the reasons for the determination.

Sample Selection:

Regarding our eligibility sample selection method, we are required to determine that benefit payments made during the audit period are to eligible claimants. Management continues to pay ineligible claimants as noted above.

Corrective Action:

Finally, the U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. Based on our *2014 Single Audit* of the Tennessee Department of Labor and Workforce Development, management has not fully implemented corrective action as noted in the finding above.

Finding Number	2014-040
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	2013-032

The department has no process to verify partial claims certifications

Background

The Department of Labor and Workforce Development's Employment Security Division defines partial claims as claims for Unemployment Insurance (UI) benefits filed by employers on behalf of their employees (claimants) when employers must either temporarily lay off or reduce employees' work hours. Since these claimants are still "job attached"—meaning the employers plan to rehire them in the future or the employers have only reduced their hours—they are not required to search for new employment. Regular claimants, who have filed for benefits themselves and are not anticipated to be re-hired by their former employers, must certify weekly with the division that they are actively searching for work and must list any wages earned. If the claimants' wages earned are above a certain amount, their benefits for that week will be reduced by the amount of wages earned. Similarly, while they are temporarily laid off or are working at reduced hours, partial claimants must report any wages earned from other employment so that division staff can adjust their UI benefit for earned wages. Partial claimants are not required to actively search for work since they are still classified as job attached. Based on inquiry with division management, partial claims account for approximately 37% of all paid claims the division processes.

The division provides two options for employers to obtain employees' attestation of earned wages. One option is for employees to complete a "worker's statement" section within the claim, which requires employees to sign attesting to their eligibility status based on wages earned, and the employers to then submit the statements to the department. The other option requires employers to obtain and maintain the statements of wages earned on-site. In response to the prior findings, the department posted on its website a disclaimer stating that employers must obtain and maintain their employees' workers' statements.

Condition

As stated in both the 2012 and 2013 *Single Audit Reports*, the division still did not have a process to ensure that claimants seeking partial benefits did not earn any disqualifying wages, and therefore remained eligible for benefits. Specifically, the division did not require all partial claimants to provide weekly certifications via telephone or online attesting to any wages earned, as they do for regular claims.

As described above, some employers who submit partial claims on behalf of their employees choose to obtain and maintain workers' statements on-site; however, the division still had no process to verify that employers had obtained these statements. In their six-month follow-up report to the Office of the Comptroller of the Treasury and in the state's *Summary Schedule of Prior Audit Findings for Years 2013 and Prior*, department management stated that a quarterly review of partial claims for employee certifications would be implemented by October 31, 2014. Based on our inquiry, this review was still not implemented as of November 2014.

Management's identified control did not include the requirement that division staff verify that employers obtained and maintained employees' certifications of wages earned.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the department's system. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential, pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided department management with detailed information regarding the specific vulnerabilities we identified, as well as our recommendations for improvement.

Criteria

According to Part 6, Compliance Supplement, of the Office of Management and Budget Circular A-133, the department must have sufficient controls "to provide reasonable assurance that only eligible individuals . . . receive assistance under Federal award programs."

The *Rules of the Tennessee Department of Labor and Workforce Development* state that

> The employer shall, immediately after the termination of each week (as described in 0800-09-01-.10) which begins within such benefit year and for which such worker's earnings fall below such worker's weekly benefit amount because of lack of work in such week, furnish each such worker with a copy of the Joint Low Earnings Report and Claim for Benefits for Partial Unemployment, or submit to the Department a computer diskette or other electronic report approved by the Administrator setting forth the information required. Such information includes:
>
> (a) the worker's name and social security account number,
>
> (b) the ending date of such week,
>
> (c) the wages earned in such week, and

(d) a proper certification as to such worker having worked less than such worker's normal customary full-time hours because of lack of work in such week.

Cause

Although the division could have required all partial claimants to provide weekly certifications via telephone or online, as they do for regular claims, it has historically chosen to treat partial claimants differently. Even though the division has a disclaimer on the department's website stating that employers must obtain and maintain their employees' workers' statements, management still did not have a process in place to verify that employers had obtained and maintained these certifications to ensure the claimants' continued eligibility for benefits.

Effect

Without a process to ensure employers maintain required workers' statements to certify claimants' wages earned and to support claimant eligibility, the department may pay benefits to those who are not entitled to them. Both employers and the department benefit from the partial claims process, but only when proper certifications are obtained and maintained.

Recommendation

Management of the Employment Security Division should ensure that all claimants, including those associated with partial claims, provide weekly certifications either to employers or to the division. Management should develop a process for division staff to periodically test a sample of these employees' certifications maintained at the employers' worksites to verify that claimants are eligible for benefits and that employers are obtaining and maintaining certifications as required.

Management's Comment

We do not concur.

The department has utilized an online automated partial claims filing system (APS) for several years. The system was designed as an easy way for employers to file claims for their job-attached workers. Approximately a third of all claims filed in Tennessee are filed via the APS. Without this system the current staffing level in the claims operations unit would be unable to handle the additional workload.

The U.S. Department of Labor does not have issues with states utilizing employer filed claims systems. Several other states use them. In fact in our region, Georgia, Alabama, and South Carolina also currently use similar systems.

Automated Partial System:

- Employers file the claim for their employees
- By virtue of the employer filing, employer approval is granted

- Claims are processed quickly (usually within 7-10 days)

As noted in the audit, the APS was modified in July 2013 to provide employers with a certification form for employees, limit of 10 consecutive weeks of filing, and require employers provide a return to work date. Employers had to consent to these requirements to use the system.

The audit recommendation for the department to "develop a process for division staff to periodically test a sample of these employees' certifications maintained at the employers' worksites" is essentially an unfunded and unreasonable recommendation. Requiring the job-attached workers to do their own weekly certifications is also unnecessary, since USDOL considers the employer filed certifications as acceptable.

The department previously stated a sample review of partial claims would be established by October 2014. The review will require quarterly wage data. The sample review beginning with claims filed in 4th quarter 2014 will be conducted when 4th quarter wage records are available (i.e., March or April 2015).

In January 2015, the State of Tennessee received the federal Final Determination regarding the findings contained in the *2013 Single Audit Report*. The federal Final Determination indicated the noted issues were corrected.

Auditor's Comment

Until management verifies that partial claimants have not earned wages which would disqualify them from receiving unemployment benefits, they cannot ensure the claimants remain eligible for those benefits.

In addition, the U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. Based on our *2014 Single Audit* of the Tennessee Department of Labor and Workforce Development, management has not fully implemented corrective action as noted in the finding above.

Finding Number	2014-041
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness
Compliance Requirement	Eligibility
Questioned Costs	N/A
Repeat Finding	2013-031

As noted in prior audits, the department still has weaknesses in the automated claims approval process

Background

Approval Process for Unemployment Claims

According to state regulations, individuals filing Unemployment Insurance (UI) claims with the Department of Labor and Workforce Development must meet certain earnings (monetary) requirements from past employment and must be currently unemployed or earning less than their weekly benefit amount up to the $275 maximum weekly benefit amount. Once the monetary requirements are met, other eligibility (non-monetary) requirements must be met before a claim is approved. For example, a claimant must have separated from their most recent employer through no fault of their own. Claimants' circumstances generally fall into one of three non-monetary categories:

1. lack of work—the employer laid off the employee;
2. quit—the employee voluntarily quit with just cause; or
3. discharge—the 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 require evaluation by Employment Security Division staff before a decision to approve benefits can be made. For division staff, the lack of work issue is generally the easiest to resolve, as it only involves employer verification that the claimant's separation was due to lack of available work.

Online Automated Approvals

The division provides an automated claims process for claimants who can file based on the lack of work circumstances when there are no other issues for division staff to evaluate. Through its

Employment Security Combined Online Technology (ESCOT) information system, the division assigns lack of work claims with certain codes, depending on whether the claim was filed online (code 45/00) or by telephone (code 44/00). Once code 44/00 or 45/00 claims are filed, the system generates a verification letter, known as a Request for Separation Information, that is sent to the most recent employer stating that the claimant filed for UI benefits and asserts that separation from employment is due to lack of work. The letter requests that the employer respond to the division only if the employer disagrees with the claimant's assertion that his or her separation from employment was due to a lack of work. If the division does not receive a response from the employer within a certain number of days following the date that the claim was filed, ESCOT automatically approves the claim and benefits begin. Section 50-7-304(b)(2)(C), *Tennessee Code Annotated*, provides at least 7 days for the employer to respond, but department policy allowed 10 days during the audit period.

Condition

As noted in both the 2012 and 2013 *Single Audit Report*, the division did not have adequate controls over its automated approval process, and management could not be sure that employers had sufficient opportunity to dispute claims for lack of work, if necessary. During our audit period, we again noted several weaknesses in the automated approval process related to lack of work claims, as follows:

- Our review identified that the online process had programming issues for the majority of the audit period, which impacted the division's ability to ensure the lack of work verification letters reached the employers. The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the department's system. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential, pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided department management with detailed information regarding the specific vulnerabilities we identified, as well as our recommendations for improvement. Based on inquiry and inspection of documentation, this programming weakness was corrected in May 2014, near the end of the audit period. We will test the impact of this corrective action during the next audit.
- In order to compensate for the programming weakness in the online application process noted above, internal department policy requires division staff to conduct manual reviews of code 45/00 (online) claims. Former department management added this manual review to ensure that staff examined each online claim before the computer system automatically approved claimants' applications for benefits. We found, however, that the current system design prohibits the department from maintaining records of the initial coding for online claims and, therefore, management could not provide us with a complete population of online claims from which to test the effectiveness of the manual review process. Even though management could not provide the population of online claims, we were able to identify 23 claims originally coded as 45/00 and approved during our audit period. We found that for 2 of 23 claims (9%), division management could not provide documentation that staff

reviewed the claim to ensure that the system generated the Request for Separation Information to the most recent employer and that the employer's address was correct.

- During at least a portion of the audit period (primarily August and October 2013), the division did not have an adequate process for responding to separating employers who returned the Request for Separation Information notices to dispute claimants' lack of work assertions. We found that several claims were automatically approved for benefits even though the division had received timely responses from employers disputing the claimants' eligibility prior to the approval of the benefits (see finding 2014-042). To avoid overpayment of benefits, the division cannot allow lack of work claims to be automatically approved when employers' responses indicate they dispute the claimants' eligibility. As required by the division's stated policy, the adjudication staff must review the disputed claims and obtain statements and/or documentation from both the claimant and separating employer prior to division staff issuing decisions on the claimants' eligibility.

Criteria

Request for Separation Information

According to Section 50-7-304(b)(2)(C), *Tennessee Code Annotated*,

> Employer Response to Request for Separation Information. If a separation issue exists, the separating employer will be asked to supply information describing circumstances leading to the separation. The information must be received by the agency within seven (7) days from the date the agency request for information is mailed to the separating employer. In the absence of the response, the decision of entitlement will be based on the claimant's statement and other information available to the agency. The separating employer may supply information to the agency prior to a request for information being mailed from the agency if the employer expects a separation issue to arise with regard to an employee.

According to Part 6, Compliance Supplement, of the Office of Management and Budget Circular A-133, the department must have sufficient controls "to provide reasonable assurance that only eligible individuals . . . receive assistance under Federal award programs."

Cause

- Department management did not correct the programming weakness until May 2014.
- Staff failed to document manual reviews of claims.
- The division did not have an adequate process in place to ensure that any timely response received from an employer triggered division staff to remove the claim from the automated approval process. See finding 2014-042.

Effect

When known programming issues with the online claims process and review process exist, management cannot be assured that employers appropriately receive lack of work Request for Separation Information letters. If employers do not receive these letters, they do not receive an opportunity to dispute the claimant's assertion that the separation was due to lack of work, or that the claimant was even employed by the employer. The division's approval of lack of work claims, despite receiving timely responses from employers disputing the claimants' eligibility, results in the approval of claims that should be adjudicated according to policy. The combination of these weaknesses created a risk that claimants applying for benefits (due to lack of work) could be automatically approved for UI benefits even though they were not eligible. See also finding 2014-042.

Recommendation

Management should ensure controls over its 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. Management should strengthen procedures to ensure that any employers' responses to a Request for Separation Information letter that are received timely are appropriately incorporated into the claimants' approval process and that the corresponding claims are not allowed to be automatically approved. Management should also ensure that when employers' responses are received after benefits have started, staff appropriately reviews the new information and its impact on the claimants' original eligibility determinations.

Management's Comment

We concur in part.

Many of the issues noted within this finding and audit are actually due to technological limitations. The Unemployment Insurance (UI) program is operating with a 43+ year aged COBOL mainframe system modified over the years with multiple separate systems linked to the mainframe to address incremental program changes needed over the years. A contract to replace the entire UI Benefits System was signed in May 2014. Implementation of the new system is in progress and on-schedule to go-live in May 2016.

During most of the audit period, the claims operations unit was operating entirely on a manual process of matching documents. Claims management instituted a manual review of online filed claims, including those noted as issues due to "programming weakness."

The review and documentation process include:

1) 45 Lack of Work (LOW) claims are reviewed when filed and the claimant is contacted, if any discrepancy is noted. The claim is reviewed again after the employer's seven day response period has ended.

2) 40/00s are worked and either approved when worked or sent to a suspense file for finishing. These claims are approved, if the information is verified, and adjudicated, if an issue arises.
3) Issue claims that the system indicates something needs to be reviewed (about 65-70% of the issue claims) are worked by a Claims Agent.
4) Issue claims that do not have any system indication needing review (about 30-35%) are sent straight to Adjudication.

When the department receives a mass layoff list from the employer, LOW claims that are filed, that have no re-earning requirements and no other issues, will be automatically approved.

In January 2015, the State of Tennessee received the federal Final Determination regarding the findings contained in the *2013 Single Audit Report*. The federal Final Determination indicated the noted issues were corrected.

Auditor's Comment

With regard to management's comments concerning the aged UI benefit information system, many issues noted in the finding were not caused directly by the current information systems. Management should ensure that proper procedures for determining eligibility are established and followed in order to prevent overpayments, no matter the age of the information system. Management also has the responsibility to establish procedures to compensate for any shortcomings in the information system.

Finally, the U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. Based on our *2014 Single Audit* of the Tennessee Department of Labor and Workforce Development, management has not fully implemented corrective action as noted in the finding above.

Finding Number	2014-042
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$3,887
Repeat Finding	N/A

Because management disregarded employers' responses disputing statements of laid-off workers, the department made improper eligibility determinations and overpaid UI benefits

Background

The Department of Labor and Workforce Development's Employment Security Division operates the Unemployment Insurance (UI) program to provide benefits for employees who become separated from their employment through no fault of their own. The division processes claims for unemployment benefits at its claims center in Nashville and in regional offices throughout the state. A claimant's circumstances generally fall into one of three categories:

1. Lack of work – the employer laid off the employee,
2. Quit – the employee voluntarily quit with just cause, or
3. Discharge – the employee's employment was terminated because of performance issues other than misconduct.

Process Described by Division

When a claimant files an unemployment claim stating he or she separated from employment due to a lack of available work, the computer system generates a Request for Separation Information that is sent to the most recent employer to inform the employer that the claimant has filed for UI benefits due to a lack of work. This notification requests that the employer respond to the division if the employer disagrees with the claimant's assertion of lack of work. State statute requires that the responses must be received by the department within seven days from the date the request for information is mailed to the employer. If the division does not receive a response from the employer within this time frame, the claim is generally approved automatically or manually without further evaluation.

The department and the state's employers each have unique responsibilities to ensure only eligible claimants are awarded UI benefits. The department must properly determine claimants' eligibility through proper consideration of all relevant information. Likewise employers must respond promptly to the department's Request for Separation Information. When each fulfills their responsibilities, the department can prevent unwarranted benefit payments to claimants and employers can avoid future increases in their unemployment tax premiums. UI benefits are funded by a premium tax imposed on the state's employers and by the federal government. The state collects these taxes from employers to ensure the state's Unemployment Insurance Trust Fund is sufficiently maintained and available for benefits. Since employers' tax rates are partially determined by the amount of benefits paid to separated employees, those employers who experience more employee separations generally pay a higher tax rate than employers in the same industry with fewer or no separated employees.

While the division is able to approve some claims quickly, other claims that involve employee separation and personal eligibility issues require the division staff to obtain more detailed information from the claimant and often the affected employer. When the division receives employers' responses disputing the claims for lack of work, division staff further evaluate the claims. Within the department's information system, division staff re-code these claims to a pending status and transfer the claims and additional information to staff known as "adjudicators," who review and perform additional procedures as needed to determine claimant eligibility. Claims that are placed in pending status are not paid until the adjudicators obtain and evaluate this information. These additional procedures take time and have resulted in a backlog of pending claims as discussed in finding 2014-044.

The department receives the large majority of employers' responses by mail, fax, or email at the Nashville Claims Center. The claims center staff use the employers' responses to verify with the claimants' former employment the reasons for employees' separations and if the reasons were other than for lack of work. We were told that when employers' responses are received by the claims center, staff are tasked with manually matching employers' responses to the respective claims because the division abandoned its document storage system in fiscal year ending June 30, 2013.

Allegation of Improper Eligibility Determinations

In November 2013, we received an allegation stating that in order to alleviate the backlog of pending claims, the claims center staff processed and approved UI benefit claims without consideration of employers' responses that disputed claimants' assertions of lack of work. To follow up on this allegation, we gained an understanding of the division's eligibility determination process for claimants who requested benefits due to a lack of work.

During a December 2, 2013, visit to the Nashville Claims Center, we requested all employers' responses that staff were processing as of that day. The Adjudication Manager in the claims center[13] directed us to stacks of claims that had been matched with employers' responses and were waiting assignment to adjudicators for further evaluation.

[13] This individual was promoted to manager over the Adjudication Unit in July 2013. He was later renamed Director of the UI Integrity unit in December 2013.

Upon further review of documents in the claims center, we found that the division did in fact approve and pay benefits without proper consideration of employers' responses as discussed in the Condition section below.

Condition

From our analysis of the employers' responses and our discussions with division management and claims center personnel, we determined the following:

A. Top management, including the Employment Security Division Administrator, did not provide proper oversight of the eligibility determination process. The Administrator allowed the claims center Director[14] and Adjudication Manager to operate the claims center without her input or approval regarding the processing of claims. The Administrator and the claims center Director were unaware of the details of the changes that the Adjudication Manager made to the established process involving employers' responses that disputed claimants' assertions of lack of work. The claims center's director did not ensure that staff were properly instructed when key eligibility process functions changed. In addition, management did not ensure sufficient and accurate information was provided to us during the audit.

   Specifically, we found the following changes to the established process and internal controls:

   - Claims center management and staff failed to properly match employers' responses to the related claims; therefore, the complete documentation was not sent to those tasked with making eligibility determinations. The employers' responses should have been paired with the respective claims and subsequently sent to adjudicators for evaluation.
   - Claims center management and staff failed to ensure that all lack-of-work claims were properly re-coded in the department's information system after receiving contradictory statements from employers.
   - Claims center management failed to sufficiently communicate eligibility process changes to appropriate staff–changes that were needed so that staff could make proper eligibility determinations. We also found that the claims center management sent different instructions to the regional offices. As a result, staff in both the Nashville Claims Center and in the regional offices approved claimants for benefits without the employers' responses that disputed claimants' assertions regarding lack of work. Based on our discussions, the Adjudication Manager stated that for one regional office, the staff were told to contact the claims center regarding any available employers' responses. We determined, however, that the claims center management's written instructions to the regional office staff did not include instructions to contact the claims center for employers' responses. In fact, regional office staff explained to us that they were <u>not</u> <u>told</u> to contact the claims center in order to obtain responses. During our discussion with a claims

[14] This individual left the department in 2014 and a new Director was named.

center supervisor, we were told that another regional office received the employers' responses when they received the claims for adjudication. Based on our testwork and our discussions with that region's staff, the office did not routinely receive the employers' responses.

- Claims center management did not provide adequate supervision over the Adjudication Manager and either knew or should have known about the changes in the established eligibility determination process, specifically related to how employers' responses were handled, but took no actions to determine the effect or appropriateness of the process changes.

B. In gaining our understanding of the eligibility process, claims center management and supervisors over staff were either unable or unwilling to provide complete information about how employers' responses were handled or to provide a sufficient description of the entire eligibility process. As a result, we had to conduct multiple interviews and had to re-perform audit testwork each time management provided new information or changed the description of the process. For example, as noted in the background above, we asked the Adjudication Manager for all employers' responses that were in process as of December 2, 2013, the date we visited the claims center. After searching in office drawers and filing cabinets, we found employers' responses that had been received in August and October 2013 that had not yet been worked or even assigned to adjudicators for evaluation. When we asked the Adjudication Manager why he did not inform us of these employers' responses, he stated the following:

- August 2013 employers' responses: all related claims had been processed, and the employers' responses were most likely waiting to be filed; and
- October 2013 employers' responses: responses were related to pending claims waiting to be assigned to adjudicators and were therefore not yet needed by staff.

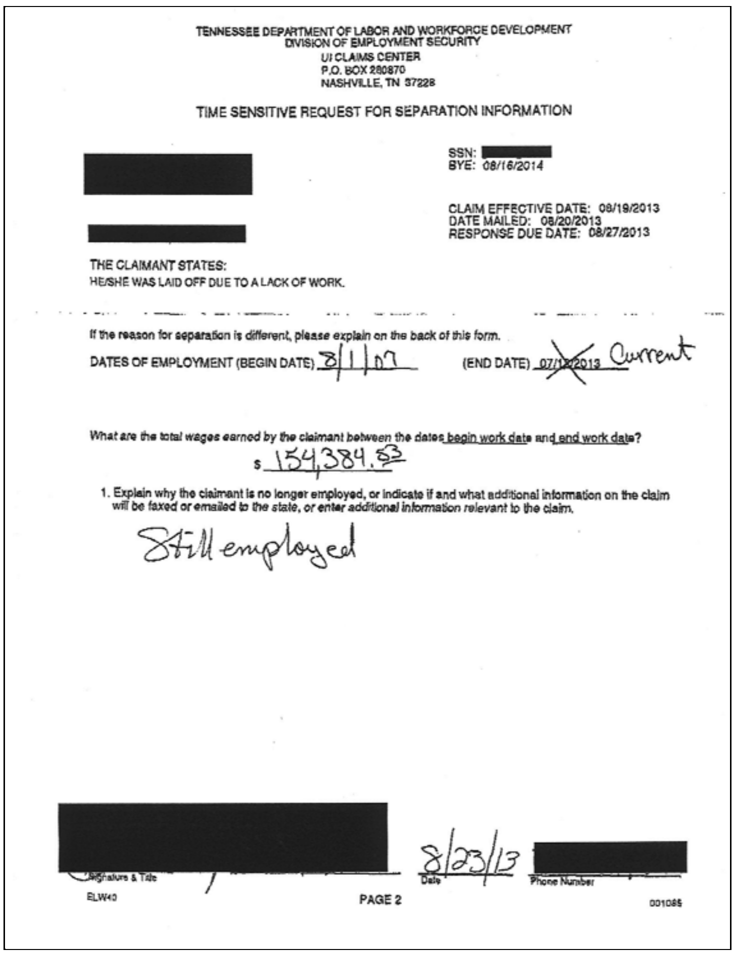
We later determined, based on our testwork, that the Adjudication Manager's previous explanations to us regarding the status of the August and October employers' responses were inaccurate, as described below:

- for the August 2013 employers' responses, multiple claims were still in a pending status on December 2, 2013, which means the employers' responses had not been evaluated; and
- for the October 2013 employers' responses, multiple claims were not in a pending status on December 2, 2013, but had already been processed and paid to the claimants without considering employers' responses.

C. We haphazardly selected a nonstatistical sample of employers' responses from the claims center but were unable to determine the population of employers' responses. We determined that division staff had approved and processed the claims without properly considering (possibly because they were unaware the responses existed) employers' responses that were on hand in the claims center. The details are described as follows:

- from our review of the employers’ responses dated August 2013, we found that 4 of 21 claims (19%) were approved without proper evaluation of the employers’ responses (see example below); and
- from our review of the employer responses dated October 2013, we found that 27 of 58 claims (47%) were approved without proper evaluation of the respective employers’ responses.

One example of an employer’s response disputing the claimant’s assertion of lack of work is exhibited below. Claims center staff approved and paid the respective claim without consideration of the employer’s timely response.



TENNESSEE DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT
DIVISION OF EMPLOYMENT SECURITY
UI CLAIMS CENTER
P.O. BOX 280870
NASHVILLE, TN 37228

TIME SENSITIVE REQUEST FOR SEPARATION INFORMATION

[redacted]

SSN: [redacted]
BYE: 08/16/2014

CLAIM EFFECTIVE DATE: 08/19/2013
DATE MAILED: 08/20/2013
RESPONSE DUE DATE: 08/27/2013

THE CLAIMANT STATES:
HE/SHE WAS LAID OFF DUE TO A LACK OF WORK.

If the reason for separation is different, please explain on the back of this form.

DATES OF EMPLOYMENT (BEGIN DATE) 8/1/07 (END DATE) ~~07/12/2013~~ Current

What are the total wages earned by the claimant between the dates begin work date and end work date?

$ 154,384.53

1. Explain why the claimant is no longer employed, or indicate if and what additional information on the claim will be faxed or emailed to the state, or enter additional information relevant to the claim.

Still employed

[redacted] 8/23/13 [redacted]

Signature & Title Date Phone Number

ELW40 PAGE 2 001086

After examining the sample above, we expanded our testwork and found 21 other employers’ responses from August 2013 and September 2013 in which the employers disagreed with the claimants’ assertions of lack of work, yet the associated claims were approved without further evaluation of the employers’ statements.

Claims center management could not adequately explain why the employers’ responses were not properly evaluated.

According to division management, they implemented a document management system in February 2014 and all employer responses are now imaged and stored in the system to assist staff in the evaluation of claims.

Criteria

Section 5116 of the *Unemployment Insurance, UI Manual*, Procedures When Employer Responds Timely to Time Sensitive Request for Separation Information, states:

> A. Employer Submits a Written Statement
>
> Give the employer's written statement full consideration in making the determination. Make a decision based on the employer's written statement and the fact-finding interview with the claimant and supporting documentation.

According to Section 50-7-304(b)(2)(C), *Tennessee Code Annotated*,

> Employer Response to Request for Separation Information. If a separation issue exists, the separating employer will be asked to supply information describing circumstances leading to the separation. The information must be received by the agency within seven (7) days from the date the agency request for information is mailed to the separating employer. In the absence of the response, the decision of entitlement will be based on the claimant's statement and other information available to the agency. The separating employer may supply information to the agency prior to a request for information being mailed from the agency if the employer expects a separation issue to arise with regard to an employee.

Documentation for Eligibility Determinations

According to Part 6, Compliance Supplement, of the Office of Management and Budget Circular A-133, the department must have sufficient controls "to provide reasonable assurance that only eligible individuals . . . receive assistance under Federal award programs."

Cause

The division improperly approved and paid UI benefit claims when it failed to consider critical eligibility information provided through the employers' responses. After abandoning their document storage system in fiscal year 2013, claims center management relied on a manual system for matching lack-of-work statements from claimants to responses from employers. Based on division management's statements, they did not become involved in the new manual process and did not know the details of the process. The manager and other staff began to assign lists of claims to be worked to regional offices without sending the corresponding employer responses along with the assignments. Furthermore, claims center management did not ensure that all claims were properly re-coded in the department's information system after contradictory statements were received from employers. Had these claims been properly re-coded, staff—both at regional offices and the Nashville Claims Center—would have been able to determine whether employers' responses had been received so that determinations would not be made based solely on the claimants' lack-of-work statements. The division's failure to properly determine eligibility and properly process these claims may have been affected by pressure to alleviate the backlog of pending claims.

Effect

When employers' responses are disregarded by claims center management, the department may pay benefits to ineligible claimants. Furthermore, employers may be negatively affected by unnecessary increases in their unemployment tax premiums.

Known Questioned Costs

Because management could not provide proper documentation of eligibility of the claimants identified in our testwork for claims dated August 2013 through October 2013, we have questioned costs for the net amount of benefit payments, less any overpayments that were established. See table for results.

IMPROPER CLAIM DETERMINATIONS

	Federal Funds	**State UI Trust Funds**	**Total**
Total UI Benefits Issued	$6,334	$121,835	$128,169
Total Overpayments Established	$2,447	$8,765	$11,212
Net Questioned Costs*	$3,887	$113,070	$116,957

*The "Net Questioned Costs" was calculated by "Total UI Benefits Issued" less "Total Overpayments Established."

Recommendation

Top management should evaluate the conditions noted above, including actions of claims center management and staff, and statements made to auditors. Claims center management should ensure that clear policies and procedures are developed and implemented for processing lack-of-work claims. These policies should ensure that employers' responses are matched to claims and forwarded to the appropriate staff. Claims center management should also ensure that claims for which employers' responses have been received are appropriately re-coded in the department's information system. Finally, department management should ensure that changes in critical processes are tested and approved before implementation.

Management's Comment

We concur in part.

As previously stated and noted in the prior *Single Audit Report*, the department struggled with an inadequate case management system. When the system completely failed, a manual and paper centric operation process was the only available alternative.

The claims pulled by the auditors were from August and October 2013, at the time that the claims center was operating with a manual system of matching documentation with other claims material to send to adjudication. It should be noted that employer responses were being received in several different ways including:

- the State Information Data Exchange System (SIDES),
- fax (to individual employees or to a general proxy),
- email (to individual employees or to a general proxy), and
- mail.

All these employer responses had to be in printed format to be matched with other claims documents. The entire process was subject to human error at many levels and was compounded by the volume of claims being processed.

There were four of 21 claims dated August 2013 noted by the auditors as being approved without proper evaluation of the employers' responses.

- The department agrees on three of the four claims; while one of the three employers filed an appeal and the decision was reversed.
- The fourth claim was verified via phone with the employer by a claims agent.

There were 27 of 58 claims dated October 2013 noted by the auditors as being approved without proper evaluation of the employers' responses.

- The department agrees on 21 of the 27 claims noted but also notes:
  - ➢ Four of the 21 were corrected by adjudication, when additional information was provided.
  - ➢ Eight of the 21 were appealed by the employers (six decisions were reversed and two were upheld).
- The other six claims were reviewed and the employers' information was considered before approving.

It must be noted that an employer's response (including the example provided in the finding) may be reviewed and considered, but is not the only determining factor in approving or denying a claim.

In December 2013, an in-house imaging center was established that utilizes existing scanning capabilities to digitize and maintain scanned claims material in a repository readily accessible to adjudicators on their desktop computers. By March 2014, adjudicators began using the repository of claims materials. Both agents and adjudicators have access to the repository to verify whether all documentation has been received.

The department categorically denies that employers' responses were being disregarded by claims center management. Processes and procedures have been reviewed and improved, since this review.

Auditor's Comment

Section 50-7-304(b)(2)(C), *Tennessee Code Annotated*, requires the department to seek and take into account information from separating employers describing the circumstances leading to the separation to ensure all claimants are eligible before receiving benefits.

Finding Number	2014-043
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$20,588
Repeat Finding	2013-029

The Employment Security Division's key control for detecting fraudulent claims was ineffective, and staff did not identify ineligible payments to state employees, deceased individuals, state inmates, and unverified individuals

Background

The Employment Security Division (the division) in the Department of Labor and Workforce Development is charged with the administration of the Unemployment Insurance (UI) program and is responsible for determining eligibility and disqualification provisions, as required by Tennessee Employment Security laws and regulations. The division staff, in coordination with the department's Information Technology Division, perform data cross-matches by comparing data in the UI benefits information system to data obtained from third parties. Cross-matches of data are intended to provide independent verification of the information provided by claimants. For example, Employment Security Division staff compare UI benefit recipients to state payroll records to ensure that active state employees are not receiving UI benefits. Division staff also perform other cross-matches, which include comparing UI benefit recipients with the following data: deceased individuals (vital statistics), new hires for Tennessee and national employers, incarcerated individuals, and individuals' identity information (name, social security number, or date of birth) with the Social Security Administration. Once they identify possible ineligible recipients, staff must then further investigate the cross-match results in order to determine if the benefit recipients are ineligible. For recipients found to be ineligible, staff stop any future benefit payments and establish overpayments.

Division staff use cross-matches as primary controls to detect potential overpayments due to fraud or errors. In order for staff to use the cross-matches as an effective control, the cross-matches must be programmed correctly, properly reviewed, and acted on timely in order to determine if an overpayment has occurred or if no further action is required.

In the *Single Audit Report* for 2012 and 2013, we noted deficiencies with the division's cross-matches. Our findings reported that the division's cross-matches had not identified individuals receiving UI benefits who were simultaneously employed by the state, deceased, or incarcerated.

We also noted that the cross-match to validate individuals' identities through the Social Security Administration was not always effective, resulting in payments to unverified individuals. Department management concurred with the deficiencies noted in the 2012 *Single Audit Report* and concurred in part with the weakness noted in the 2013 *Single Audit Report*. Specifically, department management did not concur with the 2013 *Single Audit Report* that all of those individuals identified on their cross-match were necessarily ineligible, since they had not investigated those individuals' claims.

Condition

In order to determine if the Department of Labor and Workforce Development's cross-matches and identity verification process were effective, we performed our own cross-matches and analytical procedures by comparing the population of UI benefit recipients to populations of state employees, deceased individuals, and state inmates. In addition, when we performed a query of the department's information system for individuals who received benefits during the audit period July 1, 2013, through June 30, 2014, we found the Employment Security Division had not verified identities of all benefit recipients before they received UI benefits.

A. State Employees

As stated in the 2012 and 2013 *Single Audit Report*, we found that the division's state employee cross-match was not effective since it did not identify all active state employees who received UI benefits. Our cross-match identified 24 instances where division staff did not properly establish UI benefit overpayments to state employees when those employees failed to fully report their wages while also receiving UI benefits. The potential overpayments totaled $14,536. Specifically, we found the division's staff did not

- detect 10 state employees who received UI benefits throughout the audit period;
- properly follow up on 11 cross-match results to determine whether state employees identified were eligible for UI benefits and, if necessary, stop further benefit payments and establish overpayments; and
- properly calculate and establish overpayments for 3 state employees determined ineligible.

B. Vital Statistics

As stated in the 2012 and 2013 *Single Audit Report*, we found that the division's vital statistics cross-match failed to identify deceased individuals. Our cross-match identified one instance where UI benefits were paid after the individual's date of death. The potential overpayment totaled $825.

C. State Inmates

As stated in the 2013 *Single Audit Report*, we found that the division's state inmate cross-match was not sufficiently designed to include all incarcerated individuals. Our cross-match identified

44 instances where the department did not properly establish overpayments for state inmates who received UI benefits while incarcerated. The potential overpayments totaled $50,778. Specifically, we found that division staff did not

- detect 41 state inmates who received UI benefits throughout the audit period;
- properly follow up cross-match results on 1 state inmate to determine eligibility and, if necessary, stop further benefit payments and establish an overpayment; and
- properly calculate and establish overpayments for 2 ineligible inmates.

D. Identity Verification

As stated in the 2012 and 2013 *Single Audit Report*, we found that the division's identity verification procedures were not always effective. Our cross-match identified 31 individuals who received UI benefits even though division staff had not verified the individuals' identities through the Social Security Administration as required. Based on the analytical procedures performed, we determined that the potential overpayments totaled $18,851.

In addition, we identified 16 other individuals that were approved for benefits even though the division had failed to verify their identities. While these individuals were improperly approved for benefits, they did not receive any improper benefits, since the division subsequently verified their identities or canceled any pending benefit payments of these individuals.

Criteria

The Department of Labor and Workforce Development is responsible for determining eligibility and disqualification provisions of individuals according to Tennessee Employment Security laws and regulations.

A. State Employees

Section 50-7-211(a), *Tennessee Code Annotated*, states:

> An individual shall be deemed "unemployed" in any week during which the individual performs no services and with respect to which no wages are payable to the individual, or in any week of less than full-time work if the wages payable to the individual with respect to the week are less than the individual's weekly benefit amount.

B. Vital Statistics

Section 50-7-302(a), *Tennessee Code Annotated*, states:

> An unemployment claimant shall be eligible to receive benefits with respect to any week only if . . . the claimant is able to work, available for work, and making a reasonable effort to secure work.

C. State Inmates

Section 50-7-302(a)(4)(F), *Tennessee Code Annotated*, states:

> A claimant shall be considered ineligible for benefits if the claimant is incarcerated four (4) or more days in any week for which unemployment benefits are being claimed.

D. Identity Verification

Section 4-58-103(a), *Tennessee Code Annotated*, states:

> Except where prohibited by federal law, every state governmental entity and local health department shall verify that each applicant eighteen (18) years of age or older, who applies for a federal, state or local public benefit from the entity or local health department, is a United States citizen or lawfully present in the United States in the manner provided in this chapter.

Section 1137(a)(1) of the *Social Security Act* states:

> The State shall require, as a condition of an individual's eligibility for benefits . . . that each applicant for or recipient of benefits under that program furnish to the State his social security account number (or numbers, if he has more than one such number), and the State shall utilize such account numbers in the administration of that program so as to enable the association of the records pertaining to the applicant or recipient with his account number.

Cause

The Division of Employment Security's cross-matches were ineffective due to continuing flaws in program logic, staff's failure to follow up on cross-match results, issue timely agency decisions, and correctly calculate overpayments. Based on our discussions with Department of Health staff, the division's vital statistics cross-match failed to identify the deceased individual in question because the data records received from the Department of Health's Office of Vital Statistics do not include deaths with a particular cause-of-death code. The division's state inmate cross-match failed to identify state inmates because the data received from the Tennessee Department of Correction does not include state inmates housed at county-owned facilities. According to management, the state inmate cross-match was corrected in June 2014. Department management stated that its planned corrective action of the identity verification issue is contingent upon implementation of its new UI system scheduled for completion in 2016.

Effect

When the Department of Labor and Workforce Development continues to perform cross-matches that do not include necessary program logic and information, the risk increases that UI benefits will be paid to ineligible individuals, including state employees, deceased individuals, state inmates, and those who may have committed identity theft or are in the country illegally.

Known Questioned Costs

Based on our testwork noted above, we identified known questioned costs for UI benefits paid to ineligible individuals. See the results in the table below.

BENEFITS PAID TO INELIGIBLE INDIVIDUALS

Category (# of Matches Requiring Follow-up)	State UI Trust Funds	Federal Funds	Total Ineligible Payments
State Employee (24)	$11,086	$3,450	$14,536
Deceased (1)	$825	-	$825
Incarcerated (44)	$33,640	$17,138	$50,778
Identity Verification (31)	$18,851	-	$18,851
Total (100)	**$64,402**	**$20,588**	**$84,990**

Recommendation

The Commissioner of the Department of Labor and Workforce Development and the Employment Security Administrator should ensure that the cross-matches are properly designed to ensure UI benefits are only issued to eligible individuals. Additionally, management should determine the reliability, completeness, and accuracy of the third-party agencies' cross-match data and whether the cross-matches provide effective controls to identify when the Employment Security Division issues benefit payments to potentially ineligible individuals.

Division management should ensure policies and procedures are in place to conduct proper reviews of the cross-match results. Furthermore, management should ensure staff perform prompt follow-up investigations, issue agency decisions, and establish accurate overpayments when necessary.

Division management should also implement procedures to ensure that no individuals receive benefits before their identities are verified.

Management's Comment

We concur in part.

The department does not concur that all cited claims are overpayments. Cross matches are simply indicators of possible overpayments. Each possible overpayment must be fully investigated, and if warranted, an overpayment established.

Updates on the cross-matches noted in the audit are as follows:

- The state employee cross-match had 24 noted cases. After being reviewed by the department, three (3) of these noted cases were determined not to be overpayments. For the remaining 21 noted cases, the department has established $21,333 in overpayments.
- An overpayment has also been investigated and established on the one Vital Statistics cross-match case. It should also be noted that this single case was not included in any cross-match file received from Vital Statistics. This was verified by both the department and the state auditors.
- The incarcerated cross-match results were based completely on a different file than the one currently received from the Department of Correction. A weekly cross-match was evaluated and began production as of June 10, 2014. The department did review the list of incarcerated claimants provided by the auditors. Eight (8) of the 44 noted cases were not incarcerated during the times listed. For the remaining 36 noted cases, the department has established $63,892.00 in overpayments.

There were 31 individuals noted in the audit as receiving UI benefits without the required Social Security Administration identity verification.

- Twenty-one (21) of these were on "drop-sheets," but due to the claims backlog, the drop sheet was not worked immediately. When they were worked, the claims were stopped. Overpayments are being processed for these claims.
- The other ten (10) claims were originally denied, due to failure to provide proof of ID; but subsequently, an add or re-open claim was filed. Notices are being sent to these for proof of ID. If not provided, overpayments will be processed.
- Auditors also noted that another 16 individuals filed claims that were initially approved but did not receive any UI benefits, because the department subsequently denied the claims for failure to produce proof of identity before any benefits were paid.

The department has reassigned the review of cross-match results and centralized several of these within the Nashville office. They are assigned to specific auditors, instead of distributed to all auditors, and are completed timely.

It should also be noted that the Benefit Payment Control Unit is now up-to-date on reviewing all cross-match reports.

As stated in other findings, the department continues to pursue replacement of existing systems. Even though the mainframe will be the primary system impacted, this replacement would also include the FoxPro database that maintains most of the cross-match indications. The FoxPro database will be replaced by SAS (a predictive statistical package). In November 2012, the department initiated the process with the Central Procurement Office to purchase SAS in assisting with identifying fraud. The purchase was approved in November 2014, and implementation of the new package is expected by May 2015.

In January 2015, the State of Tennessee received the federal Final Determination regarding the findings contained in the *2013 Single Audit Report*. The federal Final Determination indicated the noted issues were corrected.

<u>Auditor's Comment</u>

As evidenced by our audit results, management's cross-matches did not detect all potentially ineligible claimants.

We asked management on December 2, 2014, and January 9, 2015, for all documentation to resolve questionable issues with the cases noted in our cross-match results; however, management did not provide documentation at the time of the audit.

We will evaluate the impact of management's new cross-match procedures (effective June 10, 2014, for incarcerated) during the next audit.

Finally, the U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. Based on our *2014 Single Audit* of the Tennessee Department of Labor and Workforce Development, management has not fully implemented corrective action as noted in the finding above.

Finding Number	2014-044
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency, Material Weakness, and Noncompliance
Compliance Requirement	Eligibility - Significant Deficiency and Noncompliance Reporting - Significant Deficiency and Noncompliance Special Tests and Provisions - Material Weakness and Noncompliance
Questioned Costs	N/A
Repeat Finding	2013-028

Delays in processing claims and establishing overpayments led to backlogs

Background

The purpose of the Unemployment Insurance (UI) program is to provide economic security to workers during times of unemployment, according to the Tennessee Employment Security Law, *Tennessee Code Annotated*, Title 50, Chapter 7. The Department of Labor and Workforce Development's Employment Security Division operates the UI program to provide benefits for employees who become separated from their employment through no fault of their own.

In general, claimants file initial unemployment claims online or over the telephone. While some claims may be filed online, other claims cannot be processed without claims center representatives working directly with claimants and employers. Much of this interaction occurs through telephone calls to the claims center. The claims center's interviewers are responsible for answering phone calls and obtaining information regarding initial claims. Telephone calls received by the claims center are routed to the next available interviewer. 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.

While division staff are able to approve some claims quickly, other claims that involve employee separation and personal eligibility issues require the division interviewers to obtain more detailed information from the claimant and often the affected employer. After interviewers have collected information regarding the claimants' separation and personal eligibility, they transfer the claims and additional information to staff known as "adjudicators," who review and perform additional procedures as needed to determine claimant eligibility. Claims that require evaluation by adjudicators are placed in a collection of pending claims and should not be paid until the information is obtained and evaluated by an adjudicator. Once eligibility determinations are made, adjudicators record their eligibility decisions (approvals and denials) in the division's Employment Security Combined Online Technology (ESCOT) system. In addition to the adjudicators' review of initial pending claims, the adjudicators also review eligibility of existing beneficiaries when the division receives new information from other state departments, claimants, or employers indicating that eligibility status may have changed. The division's staff place the current beneficiaries' unemployment claims in a pending status until the new information can be considered by an adjudicator.

When division staff determine that benefits may have been paid to ineligible claimants, the Benefit Payment Control (BPC) staff perform additional procedures to review the circumstances before establishing an overpayment in the accounting system. Specifically, BPC unit staff are responsible for detecting potential overpayments, investigating potential overpayments by obtaining additional claimant and employer statements and information, and then deciding whether an overpayment occurred. BPC staff also determine whether the overpayment was a result of error by the department or the claimant—and in some cases, whether the overpayment was the result of fraud on the part of the claimant—and record the overpayment in the ESCOT system. The BPC unit uses multiple data matches to detect possible overpayments by comparing data from ESCOT with third-party information. These data matches are intended to provide an independent verification of the information provided by claimants or in some cases to identify information not disclosed by the claimants (such as wages earned). Once BPC determines that a potential overpayment has occurred, the potential overpayment is logged as a pending case until a final eligibility determination can be made. Generally, the division continues to pay claims with potential overpayments until claimants are determined to be ineligible.

For both the 2012 and 2013 *Single Audit Report*, we noted that delays in processing claims and establishing overpayments led to backlogs in these areas. In March 2014, management's response to the prior-year audit finding included plans for improvements to claims processing. The department made a change to its Interactive Voice Response System by adding new self-service options for claimants. This system now allows claimants to perform simple functions and thereby reduce calls to the claims center staff. The department has also implemented a customer service option on its website that allows claimants to notify the division of issues with their UI benefits. According to management, this service is expected to reduce the number of calls to the claims center. Management responded that it had filled vacant adjudicator positions, approved staff overtime, and implemented a new document storage system to assist with the backlog of pending claims. Management also responded that BPC staff were tasked to eliminate duplicate potential overpayment cases (multiple benefit payments to the same claimant) into single cases, establish new procedures for assigning cases, and seek an evaluation and advice from the U.S. Department of Labor regional office in order to reduce the potential overpayment case backlog.

Condition

Based on our review of the claims process, we found that the Employment Security Division continued to experience backlogs for the intake and processing of claims for benefits, as well as for investigating potential benefit overpayments. For the third consecutive year, the division was unable to handle the intake of telephone calls or to timely process the benefit claims that required staff interactions. For the second consecutive year, the division experienced delays investigating potential overpayments. Although there were approximately 254,000 claims filed during fiscal year 2014 compared to approximately 311,000 filed in fiscal year 2013, the division still experienced backlogs and delays in these areas as described below:

A. The division did not answer the majority of incoming telephone calls.

- The division's claims center answered only 2%[15] of incoming telephone calls requiring live interaction with staff. In response to the prior audit finding, department management stated it had expanded self-service telephone options. Based on call statistics provided by the division, incoming calls directed to self-service increased by 568%[16] during fiscal year 2014. As a result of callers' access to the expanded self-service option, along with a reduction in claimants pursuing UI benefits, the department experienced approximately 3.6 million fewer incoming calls directed to the division's claims center staff. Even with the reduction in the number of incoming calls, however, we found that staff actually answered approximately 91,000[17] fewer calls during fiscal year 2014 than in fiscal year 2013, resulting in approximately 98% of calls not being connected to a claims center representative.
- The department's response to the Office of the Comptroller of the Treasury's *Six Month Follow-up* from the *2013 Single Audit Report* stated that call volume decreased from over 800,000 calls in January 2014 to less than 200,000 in August 2014. Similarly, management reported in June 2014 to the joint legislative Fiscal Review Committee that the call volume had been reduced from over 800,000 calls in January 2014 to over 200,000 in May 2014. While we found management's statements for these two months were supported by internal claims center statistics, we also found that call volumes fluctuate throughout the year, possibly due to fluctuations in seasonal unemployment. Data provided by the department for fiscal year 2013 and fiscal year 2014 indicates that the highest numbers of calls are received in January and the lowest numbers of calls occur during summer months. See Table for results.
- During our audit fieldwork and subsequent to the audit period, we attempted 20 calls to the claims center at haphazard times, in order to reach a staff member. For 17 of 20 calls attempted (85%), we were neither placed on hold nor connected to a claims center representative. For 16 of these 17 calls, we received the following message: "We are unable to handle your call at this time due to extremely high call volume." For the other call, we received a message stating, "We are sorry you have reached a number that has

[15] According to the claims center statistics provided by the division, the claims center received 5,126,764 incoming calls during fiscal year 2014. Of the 5,126,764 incoming calls, 1,735,720 incoming calls were directed to self-service. The department received 3,391,044 incoming calls requiring live interaction (5,126,764 incoming calls less 1,735,720 incoming calls directed to self-service). The department answered 73,712 of the 3,391,044 incoming calls requiring live interaction (approximately 2%).

[16] According to the claims center statistics provided by the division, 260,000 incoming calls were directed to self-service during fiscal year 2013, and 1,735,720 incoming calls were directed to self-service during fiscal year 2014, an increase of 568%.

[17] According to the claims center statistics provided by the division, the department answered 164,800 incoming calls during fiscal year 2013 and answered 73,712 incoming calls during fiscal year 2014.

been disconnected or no longer in service. If you feel that you have reached this number in error, please hang up and try your call again."

MONTHLY CLAIMS CENTER STATISTICS (unaudited)

Month[18]	Incoming Calls	Calls Directed to Self Service	Calls Directed to Claims Center	Calls Answered by Claims Center Staff	% of Calls Directed to the Claims Center That Were Answered	Average Wait Time (Minutes)
January 2013	1,600,000	3,500	1,596,500	9,300	0.6%	61
June 2013	187,000	77,000	110,000	16,000	14.5%	55
July 2013	499,088	154,329	344,759	11,194	3.3%	60
August 2013	430,331	151,511	278,820	9,999	3.6%	50
September 2013	372,990	145,425	227,565	9,434	4.2%	47
October 2013	473,612	139,013	334,599	8,776	2.6%	56
November 2013	364,816	120,224	244,592	5,642	2.3%	51
December 2013	648,401	156,859	491,542	4,006	0.8%	73
January 2014	803,786	208,000	595,786	5,013	0.8%	41
February 2014	402,184	177,684	224,500	2,965	1.3%	42
March 2014	299,948	135,739	164,209	3,816	2.3%	30
April 2014	298,955	128,616	170,339	4,991	2.9%	30
May 2014	248,929	107,152	141,777	4,077	2.9%	52
June 2014	283,724	111,168	172,556	3,799	2.2%	58

Source: Employment Security Division management.

B. Division management and staff did not address the significant backlog of pending claims for UI benefits during the audit period. Pending claims are those claims that must go through the department's adjudication process which requires UI division staff to obtain statements and/or documentation from both the claimant and separating employer prior to making a decision on claimants' eligibility.

- Based on a review of the division's pending claim reports, the backlog of pending claims, which totaled 15,489 on June 30, 2013, increased to over 20,000 in the winter of 2014 and then decreased to 11,899 at June 30, 2014. Based on our inquiry and review of pending claims reports, it took approximately 8 weeks for staff to process pending claims throughout the audit period. During our audit fieldwork, we found that division staff continued to reduce the pending claims backlog to approximately 4,000 claims by the end of November 2014. While we recognize the division has made improvements, full corrective action has not been achieved, and we have reported material weaknesses in the division's processing of claims. (See findings 2014-039 and 2014-042.)

[18] Statistics for January 2013 and June 2013 are shown to illustrate the trend of higher incoming calls during winter months and lower incoming calls during summer months.

C. The Benefit Payment Control (BPC) unit[19] did not address the significant backlog of potential overpayments awaiting investigation.

- As of June 30, 2014, the BPC unit staff estimated the backlog to be approximately 16,000 potential overpayment cases, a reduction from the approximately 37,000 cases at June 30, 2013; however, according to BPC management, this reduction was primarily achieved when staff identified and eliminated "duplicate"[20] cases.
- The department reports its overpayments to the U.S. Department of Labor quarterly through the Employment and Training Administration (ETA) 227 Overpayment Detection and Recovery Activities report. ETA uses the information provided in the report to monitor the integrity of the benefit payment processes. The U.S. Department of Labor reporting instructions require only those overpayments established by the department to be reported on the ETA 227 report. We found that the department accurately reported the overpayments established and recorded in ESCOT on the ETA 227 report; however, the backlog of approximately 16,000 potential overpayment cases awaiting investigation by the BPC unit were not included on the ETA 227 report.

Criteria

A and B: Section 303(a)(1) of the Social Security Act states that the department must have "such methods of administration … as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due."

According to the *Code of Federal Regulations*, Title 20, Section 640, the department should issue the first benefit payment for eligible claims within 14 days of the first compensable week.[21]

C: According Part 6, Compliance Supplement, of the Office of Management and Budget Circular No. A-133, the department must have sufficient controls "to provide reasonable assurance that only eligible individuals . . . receive assistance under Federal award programs."

Department of Finance and Administration Policy 23, "Accounts Receivable – Recording, Collection, and Write-Offs," requires state agencies to "make a reasonable effort to collect all receivables on a systematic and periodic basis."

UI Reports Handbook No. 401, ETA 227, "Overpayment Detection and Recovery Activities," Part B. Purpose, states:

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[19] The Benefit Payment Control unit is a unit within the Employment Security Division responsible for the prevention, detection, and establishment of benefit overpayments.

[20] These duplicate cases were a result of multiple overpayments to the same claimants that occurred since the BPC staff could not investigate the cases quickly enough to prevent issuing multiple overpayments to an ineligible claimant.

[21] Section 50-7-302(a)(5)(A), *Tennessee Code Annotated*, requires a mandatory "waiting week" for which claimants do not receive unemployment benefits. Therefore, in Tennessee the standard is 21 days following the beginning of a claimant's eligibility (7 day waiting week + 14 days following first compensable week).

> The state agency's accomplishments in principal detection areas of benefit payment control are shown on the ETA 227 report. The Employment and Training Administration (ETA) and state agencies need such information to monitor the integrity of the benefit payment processes in the UI system.

Cause

A: Management reduced the number of staff available to answer calls. According to division management, some claims center staff who were previously answering incoming telephone calls were reassigned to assist with the new functions designed to alleviate the number of telephone calls.

B and C: Because the department did not allocate sufficient resources to ensure timely adjudication of pending claims and timely investigation of potential overpayments, backlogs have accumulated over the past several years.

Effect

The inability to answer incoming telephone calls or to process UI claims timely affects the department's mission to provide unemployment benefits to those in need. In addition, delays in investigating overpayments lessen management's ability to recoup overpaid benefits and threaten the integrity and financial viability of the UI program. The backlog of overpayment cases are not included on the ETA 227 report; therefore, the information that the department reported to the U.S. Department of Labor does not provide a complete picture of the amount overpaid, number of claimants overpaid, and whether the overpaid amount was due to error or fraud. As a result, the U.S. Department of Labor may not fully assess the integrity of the department's benefit payment process.

Recommendation

The Commissioner and Employment Security Division Administrator should assess staffing levels at the claims center and ensure that claimants who file their UI claims by telephone are able to do so promptly. Furthermore, management should determine appropriate staffing levels and training needs to support the adjudication process to ensure that the division is able to properly and timely process unemployment claims. Management should also ensure that the BPC unit has adequate resources to investigate and, where appropriate, establish overpayments so that department staff perform overpayment collection timely and report complete data to the federal grantor.

Management's Comment

We concur in part.

As previously stated, improved technology will significantly improve operations efficiency. Implementation of the new UI benefits system has begun and is on-schedule to be completed by mid-2016. Staffing is continually being evaluated and positions filled as funding permits.

Steps taken to reduce / manage call volume include the following:

- The Interactive Voice Response (IVR) was modified in March 2013 by moving self-help options to the beginning of the call, which allowed more claimants to help themselves.
- A new Telephone Information Processing System (TIPS) line was deployed in February 2014 that allows claimants to reset their personal identification number (PIN) and to correct incorrect response to the weekly certification questions.
- A claims status tracker was implemented and utilized by claimants 182,211 times between July and December 2014.
- A new helpdesk ticketing application, ZenDesk, was implemented in March 2014. This application works to reduce the number of phone calls and allows staff to track issues without duplication of work and measures staff's effectiveness and efficiency in answering those issues. Also, this application provides for a self-help knowledge base. To date over 100,000 tickets have been created by over 56,000 claimants. Customer satisfaction remains over 80% through this helpdesk.

Division management addressed the significant backlog of pending claims for UI benefits during the audit period with the following:

- As noted in the prior *Single Audit Report*, the department struggled with an inadequate case management system. When the system completely failed, a manual and paper centric operation process was the only available alternative. In December 2013 an in-house imaging center was established that utilizes existing scanning capabilities to digitize and maintain scanned claims material in a repository readily accessible to adjudicators on their desktop computers. In 2014, over 3.57 million individual pieces of paper were digitized, which transitioned the paper centric process to paperless.
- By March 2014, adjudicators began using the repository of claims materials. Both agents and adjudicators have access to the repository to verify whether all documentation has been received.
- In January 2014, the backlog of claims over 21 days awaiting decisions peaked at 12,375 claims.
- By October 1, 2014, the backlog was cleared.
- The department also exceeded the US Department of Labor's first pay timeliness requirement of 87% for October 2014 and has met the standard for every succeeding month since October 2014.
- From October 2014 through January 2015, the department processed from 90.3% to 95.5% of all initial claims within the 21-day timeliness requirement.

The BPC unit addressed the significant backlog of potential overpayments with the following:

- A Lean Event conducted in February 2014 resulted in a plan to eliminate the backlog. At that time, the backlog consisted of 40,869 cases pending review.

- Vacant auditor positions were filled and overtime was authorized to address these cases.
- The backlog of benefit payment control cases has been reduced from 40,869 in February 2014, to 363 cases as of February 14, 2015. The backlog will be cleared by March 30, 2015.
- Over $31 million in overpayments have been set up, during the clearing of the BPC backlog.
- BPC unit is current on all cross-match reports.
- The department is completing the ETA 227 report in accordance with the US DOL guidance.

The department acknowledges that it is unable to answer the volume of call attempts. However, it should be noted that:

- Since February 2014, TIPS line calls are included in the total call attempts. As of October 2014, due to program modifications needed for the online certification system, TIPS became the only certification method. So, calls are currently averaging 30,000 per week or 120,000 per month. In January 2015, we received a total of 276,000 calls of which approximately 120,000 were certification calls that do not require any assistance. For comparison January 2014, we recorded 803,000 calls, and in January 2015 we are now at 156,000.
- The department has determined that it is much more effective and efficient to handle ZenDesk tickets, as opposed to putting more claims agents on the phone. The agents are able to handle multiple requests for assistance at the same time. The customer satisfaction scores stay above 80% and the claim process times which are in excess of 90% timely are proof that this is working.
- The department will be testing the ZenDesk "voice over" feature in the next few weeks. The "voice over" feature will allow the caller to leave a voice message that converts to a ZenDesk ticket.

In January 2015, the State of Tennessee received the federal Final Determination regarding the findings contained in the *2013 Single Audit Report*. The federal Final Determination indicated the noted issues were corrected.

The department remains committed to serving our customers quickly, efficiently, and accurately.

<u>Auditor's Comment</u>

The U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. Based on our *2014 Single Audit* of the Tennessee Department of Labor and Workforce

Development, management has not fully implemented corrective action as noted in the finding above.

Finding Number	2014-045
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

Incorrect amounts entered in financial report

Background

For the Unemployment Insurance (UI) program, Fiscal Services staff from the Department of Finance and Administration (F&A) prepare the ETA[22] 191 report. (Per executive order, the Department of Labor and Workforce Development [LWD] has an agreement with F&A that financial accounting and reporting functions of LWD will be managed and operated by F&A. This agreement includes F&A's completion of federal reporting for LWD.) The ETA 191 report, also known as the *Statement of Expenditures and Financial Adjustments of Federal Funds for Unemployment Compensation for Federal employees and Ex-Servicemembers,* reports federal funds used to pay unemployment compensation for federal employees (UCFE) and unemployment compensation for ex-servicemembers (UCX) benefits. Fiscal staff prepare the ETA 191 report on a quarterly basis and submit the report to the U.S. Department of Labor. Each federal and military agency is responsible for reimbursing the federal account for benefits paid to former employees based on what is reported.

ETA 191, Section A: Summary Statement of Expenditures and Adjustments, includes summary information of expenditures, as well as financial adjustments such as benefit payment cancellations and restorations of overpayments. These adjustments are classified as assigned or unassigned, depending on whether they have been credited to a specific federal or military agency.

ETA 191, Section B: Detailed Statement of Expenditures and Adjustments By Federal (Civilian) and Military Agencies, contains the specific benefit charges assigned to individual agencies and is the section of the report used by agencies to identify their specific charges to reimburse the federal account.

[22] The Employment and Training Administration (ETA), which is part of the U.S. Department of Labor, administers the Unemployment Insurance program on the federal level.

Condition

The ETA 191 report submitted by fiscal staff for the period ending March 31, 2014, was not accurate and did not contain all pertinent information. Based on our testwork and review of supporting documents, we determined that fiscal staff:

- incorrectly entered data in Section A of the report for 14 of 16 line items tested (88%);
- incorrectly classified the same adjustments as both assigned and unassigned; and
- did not include an explanation for the unassigned adjustments in the report and did not maintain a record of when or if these unassigned charges had been assigned to specific agencies in the subsequent June 30, 2014, report.

The table below lists line items that were not accurately reported for both UCFE and UCX benefits:

Line No. and Description	**Description of Amounts Entered on the ETA 191 Report**
1. Benefit Expenditures	Only total UCFE and UCX UI benefits paid should have been reported; however, total unassigned adjustments were included in the totals.
2(a). Adjustments Assigned to Agencies - Cancellations	Only total assigned cancellations should have been reported; however, total unassigned cancellations were reported. These same amounts were reported on line 4(b) as unassigned, meaning this total was reported twice.
2(b). Adjustments Assigned to Agencies - Restoration of Overpayments	Only total assigned restorations should have been reported; however, total unassigned restorations were reported. These same amounts were reported on line 4(b) as unassigned, meaning this total was reported twice.
4(b). Expenditures and Adjustments Not Assigned to Agencies - Other - Explain in Comments	Only unassigned adjustments should have been reported; however, for both UCFE and UCX benefit payments, there were discrepancies between the UI expenditure amounts recorded in Edison, the state's accounting system, and the amounts recorded in LWD's Employment Security Combined Online Technology system (ESCOT). The discrepancies between Edison and ESCOT were added to the unassigned adjustment totals, without any comment explaining what these amounts included.
5. Total Expenditures and Adjustments Not Assigned to Agencies	Only unassigned adjustments should have been reported; however, discrepancies between UI expenditure amounts recorded in Edison and ESCOT were included in the totals, as noted for line 4(b) above.

6. Grand Total - All Expenditures and Adjustments	The Grand Totals were incorrect due to the errors noted in the lines above.
7. Comments	Line 7 should be used to identify and explain unassigned charges and adjustments from previous quarters that have been reclassified as assigned charges and adjustments. The comment entered by fiscal staff for line 7 only states, "For both lines 4B; corrections to expenditures to be made in second quarter 2014." We reviewed the subsequent ETA 191 report (June 30, 2014) and determined that there were no explanations on line 7 for whether any unassigned charges from the March 30, 2014, report had been assigned or reclassified.

Criteria

According to UI Reports Handbook No. 401, state agencies are responsible for paying UCFE and UCX benefits to the claimant and for reporting these quarterly benefit payments to the U.S. Department of Labor in a timely manner. Handbook No. 401 instructions for relevant line items are listed below:

Line No. and Description	UI Reports Handbook No. 401 Reporting Instructions
1. Benefit Expenditures	Include in the appropriate columns all UCFE and UCX unemployment compensation benefits paid to eligible (as based on title 5 U.S. Code) Federal civilian claimants and ex-servicepersons during the reported quarter.
2(a). Adjustments Assigned to Agencies - Cancellations	Enter in the appropriate UCFE or UCX columns the total amount of any checks canceled during the quarter which were reported as expenditures in prior quarters. Cancellations of checks drawn in the current quarter are to be reflected in Item 1. Check cancellations are subtracted when computing subtotals and totals.
2(b). Adjustments Assigned to Agencies - Restoration of Overpayments	Enter in the appropriate UCFE or UCX columns the total amount of restorations made during the current quarter of overpayments made in prior quarters. Restorations of overpayments received during the current quarter and based on expenditures in this current quarter should be reflected in item 1.
4(b). Expenditures and Adjustments Not Assigned to Agencies - Other - Explain in Comments	Enter the total for UCFE and the total UCX expenditures in the appropriate columns.
5. Total Expenditures and Adjustments Not Assigned to Agencies	No instructions; item is the total of lines 4A and 4B.

6. Grand Total - All Expenditures and Adjustments	No instructions; item is the total of line 3 and 5.
7. Comments	…The State will close the adjustment by explaining the reclassification in the comments section. The State should enter the following items in comments for the reclassification: 1) the reporting quarter of the "not assigned" charge, 2) the name of the Federal agency, 3) the three-digit code of the agency (as provided by the NO), and (4) the amount of the newly-assigned charge.

Cause

Based on discussion with the Fiscal Director, there were differences between the total amounts of benefit expenditures obtained from LWD's ESCOT system and Edison. Fiscal staff could not determine the cause of the differences, which may have been the result of simple timing issues. Edison data was used as the source documentation for reporting purposes since Edison is the state's official accounting system. Information for other line items, such as individual charges assigned to agencies, can only be obtained from ESCOT. As a result, fiscal staff placed both amounts on the report. Because the ESCOT-Edison discrepancies were internal accounting discrepancies, they should not have been included in this report. Should fiscal staff have felt it was necessary to include the differences between Edison and ESCOT on the report, they should have included a comment explaining the differences and circumstances of the data being reported.

Effect

When the ETA 191 reports are not properly prepared, incorrect and ambiguous data is reported to the U.S. Department of Labor, preventing proper monitoring of the UI program.

Recommendation

The Department of Finance and Administration should ensure that Fiscal Services staff have the proper training to prepare the ETA 191 report and that an adequate review of this report, including a review and sign off by LWD management, is completed prior to submission. As business partners, it is the responsibility of both F&A and LWD to ensure a mutual exchange of accounting, financial, and program information that will result in proper federal financial reporting.

Managements' Comments

Department of Labor and Workforce Development

We concur. Where applicable, we will work with the Department of Finance and Administration to ensure proper financial reporting.

Department of Finance and Administration

We concur. The Department of Finance and Administration (F&A) fiscal staff has implemented controls to ensure errors are detected and reconciliations occur prior to the submittal of the ETA 191 reports. F&A fiscal staff will work to determine the cause(s) of the differences between LWD's ESCOT system and Edison. Once the cause(s) is identified, errors will be corrected and F&A fiscal staff will make necessary adjustments to the ETA 191 reports. F&A will work with LWD to improve the current review process as necessary to ensure proper federal financial reporting.

Finding Number	2014-046
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	2013-030

Employment Security Division staff did not identify, establish, and process overpayments consistent with state and federal law and departmental procedures

Background

When the Department of Labor and Workforce Development determines that a claimant received Unemployment Insurance (UI) benefits for a week or weeks for which they were not eligible, the Employment Security Division establishes overpayments and classifies them as caused by either error or fraud. The claimant is responsible for reimbursing the department for the established overpayment, regardless of whether it is due to error or fraud.

The division is responsible for ensuring not only that UI benefit claimants meet eligibility requirements before claims are paid, but also that claimants continue to remain eligible for benefits. Division staff performs cross-matches by comparing data in Employment Security Combined Online Technology (ESCOT), the department's unemployment benefits information system, to data obtained from third parties—including other departments and employers—to determine if the claimants remain eligible for benefits. These cross-matches are intended to provide independent verification of the information provided by claimants. Division staff also flags current claims for review when claimants, employers, or other departments submit new information. Division staff is responsible for investigating this new information to determine if claimants remain eligible for benefits and/or whether benefit overpayments have occurred.

The division's Adjudication unit, which is generally responsible for resolving claimant eligibility issues, is also responsible for processing overpayments that result from errors. If, while fulfilling their responsibilities, the Adjudication unit staff identifies claims with fraud indicators, the unit forwards the claims to the division's Benefit Payment Control (BPC) unit for additional review. BPC staff is responsible for preventing, detecting, establishing, and collecting overpayments. 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. Department policy states that only the BPC unit can investigate and establish overpayments classified as fraudulent, since fraudulent overpayments are subject to additional penalties and interest.

Condition

As stated in both the 2012 and 2013 *Single Audit Report*, division staff did not identify, establish, and process overpayments consistent with state and federal law and departmental procedures. From the Adjudication unit's population[23] of 2,364 established overpayments, we selected a random, nonstatistical sample of 60 overpayments equaling $1,000 or greater. For 8 of the 60 overpayments tested (13%), we found that the Adjudication unit did not properly identify overpayments containing fraud indicators, did not establish overpayments at the correct amount, and did not offset the overpayment against the claimants' subsequent UI benefits.

Specifically, the Adjudication unit

- classified six overpayments as not fraudulent, despite the existence of fraud indicators, and failed to refer these claims to the BPC unit for further evaluation, as required by departmental policy;
- established one overpayment for $120 lower than the benefits actually received by the claimant; and
- did not offset one overpayment against the claimant's subsequent UI benefits because the Adjudication unit rendered an overpayment decision that the BPC unit did not enter into the department's ESCOT information system until three months later, missing the opportunity to offset the $1,693 overpayment against UI benefits that the claimant had received in the interim.

Criteria

The department's *UI Manual* and *Benefit Payment Control Procedures Manual* provide written guidelines for identifying, establishing, and processing UI overpayments to maintain compliance with relevant state and federal laws:

- Section 50-7-303(a)(7), *Tennessee Code Annotated*, states a claimant will be disqualified for benefits

> [f]or 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

[23] We obtained a population of 26,579 overpayments established by the department during the period July 1, 2013, through June 30, 2014. We filtered the population to determine that the Adjudication unit was responsible for a total of 2,364 of the established overpayments.

remain disqualified from future benefits so long as any portion of the overpayment or interest on the overpayment is still outstanding. In the event an overpayment of benefits results from the application of this disqualifying provision, the overpayment of benefits shall not be chargeable to any employer's account for experience rating purposes;

- Section 50-7-715, *Tennessee Code Annotated*, states:

  > (a) Any person who has received unemployment benefits by knowingly misrepresenting, misstating, or failing to disclose any material fact, or by making a false statement or false representation without a good faith belief as to the correctness of the statement or representation, after a determination by the commissioner that such a violation has occurred, shall be required to repay the amount of benefits received. (b) (1) The commissioner shall assess a penalty equal to fifteen percent (15%) of the overpaid benefits as described in subsection (a), to comply with the requirements of 42 U.S.C. § 503(a)(11). Moneys collected by this penalty shall be deposited into the unemployment compensation fund as provided in § 50-7-501. (2) The commissioner shall further assess a penalty equal to seven and one-half percent (7.5%) of the overpaid benefits described in subsection (a). Moneys collected by this penalty shall be used to defray the costs of deterring, detecting, or collecting overpayments. The penalty provided in this subdivision (b)(2) is in addition to the penalty provided in subdivision (b)(1). (c) (1) In addition to the requirements of subsections (a) and (b), the commissioner shall assess interest at a rate of no more than one and one-half percent (1.5%) per month on the total amount due that remains unpaid for a period of thirty (30) or more calendar days after the date on which the commissioner sends notice of the commissioner's determination that a violation has occurred to the last known address of the claimant. For purposes of this subdivision (c)(1), "total amount due" includes the unemployment benefits received pursuant to subsection (a) and the penalties provided for in subsection (b).

- Section 50-7-303(d), *Tennessee Code Annotated*, states that "Any person who is overpaid any amounts as benefits . . . is liable to repay those amounts . . ."

- Section 303(g)(1) of the Social Security Act states,

  > A State shall deduct from unemployment benefits otherwise payable to an individual an amount equal to any overpayment made to such individual under an unemployment benefit program of the United States or of any other State, and not previously recovered.

Cause

Top management did not ensure a clear delineation of responsibilities for detecting claims with fraud indicators or for establishing overpayments. During the audit period, both the Adjudication unit and the BPC unit were involved in detecting and investigating claims with fraud indicators. As a result, the division established overpayments inconsistently and inaccurately. Furthermore, communication between the two units was not sufficient to ensure overpayments were properly offset against future UI benefits.

Effect

When staff does not properly identify, establish, and process overpayments, the division increases the risk that claimants will not be held accountable for returning overpaid benefits due to fraud or error. Additionally, this condition increases the risk that claimants who commit fraud will not be properly disqualified from the UI program and/or will not be subject to penalties and interest for fraudulent claims, as prescribed by state law.

Recommendation

Department management should either ensure that all overpayment functions are assigned to the BPC unit or ensure that Adjudication unit staff refers all suspected fraudulent overpayments to the BPC unit for further evaluation. Division staff should identify, establish, and process overpayments in accordance with state and federal law and the department's written procedures.

Management's Comment

We concur in part.

As noted in the finding, overpayments were established by adjudication staff (non-fraud) and benefit payment control (BPC) staff (fraud) during the audit period.

A Lean Event of the BPC functions was conducted in February 2014. One of the recommendations from the group was to centralize all overpayments within the BPC unit. During the audit period, the department was in the process of centralizing these functions within the BPC unit. The original deadline was October 2014, but actually was completed by August 1, 2014.

BPC management also has provided refresher training to audit staff regarding investigating and establishing overpayments, either fraudulent or non-fraudulent overpayments. US Department of Labor's policies and procedures are being followed.

Updates on the eight (8) overpayments identified by the auditors are as follows:

- The six (6) overpayments noted as not fraudulent but had fraud indicators were subsequently reviewed by a BPC auditor. Five (5) of these overpayments should have been designated as fraudulent.
- The overpayment established for $120 less than benefits paid was corrected. The dependent allowance was not included.
- One of the overpayments was not promptly entered into the mainframe and a claimant received subsequent UI benefits without being offset for the overpayment. The audit

stated the BPC unit failed to enter this until three months later. The UI Control Unit, which was not part of BPC, was in fact several months delinquent in entering these overpayments. In May 2014, the UI Control Unit was absorbed by the BPC unit.

The detection of overpayments is one of the Core Performance Measures required by US Department of Labor (USDOL). The measure is defined as the "% of detectable, recoverable overpayments estimated by the Benefit Accuracy Measurement survey that were established for recovery." The Acceptable Level of Performance is greater than or equal to 50% and less than or equal to 95%. A query report pulled from the USDOL website on February 10, 2015, for the period of January 1, 2012, to December 31, 2014, ranked Tennessee at 52.49%, which is within the acceptable performance level.

In January 2015, the State of Tennessee received the federal Final Determination regarding the findings contained in the *2013 Single Audit Report*. The federal Final Determination indicated the noted issues were corrected.

The department management believes this finding is resolved.

Auditor's Comment

The U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. Based on our *2014 Single Audit* of the Tennessee Department of Labor and Workforce Development, management has not fully implemented corrective action as noted in the finding above.

We will evaluate management's actions subsequent to the audit period during our next audit.

Finding Number	2014-047
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

Internal controls not adequate in one area

The Department of Labor and Workforce Development did not provide adequate internal controls in one specific area. The details of this finding, however, are confidential pursuant to *Tennessee Code Annotated* Section 10-7-504(i). We provided management with detailed information regarding the specific conditions we identified, as well as the related criteria, cause, and our specific recommendations for improvement.

Ineffective implementation of internal controls increases the risk of noncompliance and the potential for the loss and misuse of data.

Recommendation

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

Management's Comment

We concur and are working with the applicable federal government agency in implementing the applicable internal controls.

Finding Number	2014-048
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-23025-12-55-A-47; ES-24646-13-55-A-47; UI-19610-10-55-A-47; UI-21127-11-55-A-47; UI-22341-12-55-A-47; UI-23919-13-55-A-47; UI-25232-14-55-A-47; EUC, Fed EB, UCFE, and UCX; FAC Benefits & UI Admin; and TUC-State Expenditures
Federal Award Year	2010 through 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

The Benefit Accuracy Measurement unit's independence was impaired

Background

The Department of Labor and Workforce Development's Employment Security Division administers the Unemployment Insurance (UI) program. The division is responsible for a claims center, which makes eligibility determinations of claimants seeking UI benefits, and for the Integrity unit, whose purpose is to ensure the UI program's integrity by monitoring its compliance with federal and state requirements and preventing overpayments of benefits.

The Integrity unit includes the Benefit Accuracy Measurement (BAM) unit, which is required by the U.S. Department of Labor. The unit is responsible for determining whether the division is appropriately paying or denying UI benefit claims requested by claimants. The BAM unit fulfills its responsibility by evaluating a sample of paid and denied claimant cases. The BAM unit reports its evaluation results to the U.S. Department of Labor, which uses the results to determine the division's benefit accuracy rates. The BAM unit also serves as the division's quality control function by attempting to identify and report to management any patterns of errors in the division's eligibility determination and benefit payment processes. The Integrity unit also includes the Benefit Timeliness and Quality (BTQ) unit. This unit is required to evaluate a sample of the department's eligibility determinations and report results of the reviews to the U.S. Department of Labor.

Since these units are required to objectively perform and report results of testwork on functions performed by the division's claims center, it is essential that both the BAM and BTQ units maintain independence from the claims center to avoid any impairment of independence through conflicts of interest.

Condition

Based on our review, the BAM unit's independence was impaired. We found that the division's Administrator instructed claims center staff to send the director of the Integrity unit lists of pending claims for UI benefits so Integrity unit staff could help reduce backlogs related to pending claims. The Integrity unit director then distributed these pending claims lists to the BAM unit so that BAM unit staff could assist the claims center by making eligibility decisions on claimants requesting UI benefits.

Based on inquiry, this practice began at the beginning of calendar year 2014, shortly after the current Integrity unit director was instated. (This director was formerly a manager within the claims center.) We were also told that this practice lasted several weeks and ended when we questioned the decision to allow BAM unit staff to make eligibility determinations (see finding 2014-042). The BAM unit selected its claims eligibility sample from a population of cases that included eligibility determinations made by staff. As a result, the BAM unit could not provide an independent and objective review of the eligibility determination process as required by federal regulations.

Criteria

Chapter II of the U.S. Department of Labor's Employment and Training Handbook 395 states:

> Each BAM unit is required to be organizationally independent of, and not accountable to, any unit performing functions subject to evaluation by the BAM unit. The organizational location of this unit must be positioned to maintain its objectivity, to have access to information necessary to carry out its responsibilities, and to minimize organizational conflict of interest.

Cause

According to the director of the Integrity unit, shortly after assuming his new position, the division Administrator instructed the director to make eligibility decisions on certain types of claims. This was an apparent attempt to alleviate the large backlog of pending claims, which totaled over 15,000 in January 2014. (See findings 2014-042 and 2014-044.)

Effect

If BAM unit staff is directly involved with claimants' eligibility determinations, the BAM unit cannot objectively evaluate and/or make recommendations on eligibility and payment determination processes.

Recommendation

The Commissioner must ensure that top division management does not compromise the BAM unit's independence, or the independence of other units whose independence is required.

The Commissioner may wish to consider organizational changes such as requiring the director of the Integrity unit to report administratively to a member of management who is not directly responsible for the UI program, rather than to the division Administrator. If the Commissioner chooses to continue the current organizational structure, he should require the director of Internal

Audit to continuously monitor the independence and objectivity of the Integrity unit and, specifically, the Benefit Accuracy Measurement and Benefit Timeliness and Quality units.

Management's Comment

We do not concur.

BAM investigators are required to have at least three years of full-time experience in unemployment insurance claims taking or investigating or adjudicating unemployment insurance claims. With this requirement the investigator position is filled from the pool of experienced claims agents and adjudicators.

When a new BAM investigator is hired, it is not uncommon for a claim that they had previously worked in their old position to be included in the BAM sample. To avoid any conflict, the BAM supervisor assigns these cases to other investigators.

The auditors questioned the use of BAM investigators in reviewing claims. Three recently promoted BAM investigators were temporarily used to review some Internet filed claims. The facts are as follows:

- Due to a heavy seasonal increase in lack of work claims, between 11,000 and 13,000 Internet filed claims were awaiting review.
- Claims operations staff were already working overtime but were unable to keep up with the increased demand.
- A suggestion was made that there were some staff who had recently been promoted to other units that might be able to assist the claims unit (there were three of these staff in the BAM unit).
- The UI Integrity director was asked, not instructed, if any of these folks or others in his area would be interested or available to assist, depending upon their current workload.
- This was voluntary and the BAM investigators were removed from the BAM sample and did not come in contact with any claim they worked.
- Only three investigators were used, not the whole BAM unit as mentioned in the finding.
- They did not issue countable non-monetary agency decisions into ESCOT. These claims were lack of work claims that they reviewed for employer responses or availability issues.
- They did approve the claim, only if the employer agreed with the lack of work or did not respond. All of the worked claims were not approved. They also changed the claims to a pending issue, if the employer response said it was not lack of work or the claimant gave a disqualifying answer. These claims were processed by adjudicators.
- They reviewed 300 to 400 claims from January 23, 2014, through January 30, 2014, and stopped reviewing claims, because the three employees were no longer needed to review claims.

A lack of work claim approved by these investigators that later appeared in the BAM sample would have been reassigned to another auditor by the BAM supervisor, thereby eliminating any potential conflict of interest. The department does not consider this temporary use of three newly promoted investigators to be any different than hiring new investigators.

The Commissioner does not agree that there is any necessity for organizational changes.

Auditor's Comment

Chapter II of the U.S. Department of Labor's Employment and Training Handbook 395 states:

> Each BAM unit is required to be organizationally independent of, and not accountable to, any unit performing functions subject to evaluation by the BAM unit. The organizational location of this unit must be positioned to maintain its objectivity, to have access to information necessary to carry out its responsibilities, and to minimize organizational conflict of interest.

As confirmed in management's responses the director of the Integrity unit and BAM unit staff participated in the eligibility determination process of claims that were later subject to review by the BAM unit, thereby impairing the unit's independence.

Finding Number	2014-049
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-20221-10-55-A-47, AA-21423-11-55-A-47, DI-22464-11-75-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47
Federal Award Year	2010 through 2013
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability Subrecipient Monitoring
Questioned Costs	$86,139
Repeat Finding	N/A

The department paid Local Workforce Investment Areas for improper drawdown requests and unallowable costs, resulting in federal questioned costs of $86,139

Background

The Department of Labor and Workforce Development administers the Workforce Investment Act (WIA) cluster of programs through 13 subrecipients, or Local Workforce Investment Areas (LWIAs). The department awards the LWIAs multiple grant contracts throughout each year to provide adults, youth, and dislocated workers with workforce development and career services (e.g., training) based on local needs. The department finances the LWIAs on a limited advance basis[24] and requires them to request payment for each of their contracts on drawdown request forms. The department's Program Accountability Review Office is responsible for monitoring the LWIAs to ensure that they have complied with fiscal and program requirements.

Condition

Based on our audit work, we found that the Program Accountability Review Office did not adequately review the LWIAs' cash management processes or ensure that expenditures were made within the time frames specified by the LWIAs' contracts and federal grant awards, nor did it identify unallowable food, event, and other expenditures charged to the WIA programs. In our expenditure testwork for the WIA programs, we tested two randomly selected subrecipient

[24] According to the department's *Supplementary Financial Guide to the One-Stop Comprehensive Financial Management Technical Assistance Guide* (the *Supplementary Financial Guide*), "the financing of the WIA program will be on limited advance or reimbursement basis, in accordance with procedures established by the Tennessee Department of Labor and Workforce Development. The Sub recipient or contractor shall never retain funds which exceed immediate cash needs."

reimbursement requests from each of nine LWIAs for the period of July 1, 2013, through June 30, 2014.[25] Based on our testwork, we identified the following.

a. Two LWIAs (LWIA 8 and LWIA 10) did not prepare their drawdown requests based on individual contracts or maintain documentation establishing that the amounts they requested were limited to their immediate cash needs for the WIA programs.

b. Four LWIAs (including the two noted above) received $71,551 in WIA funds for

   - unallowable meals and events;
   - payments to program participants for course materials that were supplemental and exceeded the necessary amounts;
   - drawdown requests without adequate support; and
   - a phone bill that was not charged to one LWIA's contracts in accordance with its cost allocation plan.

   Since we noted multiple food expenditures in our review of the general ledgers and expenditures for two LWIAs, we expanded our testwork to review all food-related expenditures from these two subrecipients charged to the WIA program during our audit period. Based on the results of our expanded testwork, we found that two LWIAs charged $14,588 of unallowable food, meeting, and event costs.

[25] We originally selected the 18 subrecipient reimbursement requests, totaling $660,780, from a population of 1,370 payments to the LWIAs, totaling $43,909,231. As noted in the finding, two LWIAs did not maintain adequate documentation in support of their drawdown requests.

LWIA 8 records its expenditures at the contract level, allowing us to perform alternate testwork to determine whether expenditures recorded in its general ledger were allowable activities and costs for the WIA programs. The original sample had two $50,000 drawdown requests paid to the LWIA. To replace the sample items, we tested a nonstatistical, haphazard sample of 66 items totaling $64,044 from the LWIA's general ledger.

LWIA 10 did not record its expenditures at the contract level. As a result, we were unable to perform alternate testwork to determine whether general ledger expenditures were allowable activities and costs, resulting in questioned costs of $70,000.

TABLE 1:
LOCAL WORKFORCE INVESTMENT AREAS
WITH DEFICIENCIES IN DRAWDOWN REQUEST PROCESSES
AND/OR QUESTIONED COSTS

LWIA No.	Entity Name	Notes / Description	Questioned Cost Amount
3	Workforce Connections	Meals; field trips for youth and staff	$1,195
		Food and events (from expanded testwork)	12,168
8	Workforce Essentials Inc.	Items not supported by documentation - (dremel accessory kit, welding cap, and welding jacket)	72
		Coupon discount not applied to payment for a participant's textbooks	22
10	South Central Tennessee Workforce Alliance	Drawdown requests could not be reconciled to expenditures on WIA contracts	70,000
11	Southwest Human Resource Agency	Item not supported by documentation - phone bill allocation	262
		Food (from expanded testwork)	2,420
		Total:	**$86,139**

Criteria

a. The *Code of Federal Regulations* (CFR), Title 29, Section 97.20(a)(2), states,

> Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

The department's *Supplementary Financial Guide* to the U.S. Department of Labor's *One Stop Comprehensive Financial Management Technical Assistance Guide* (TAG) requires that the LWIAs' "accounting systems shall be supported by source documentation, which identifies the source and use of contract funds." Additionally, the department's instructions for completing the drawdown requests state that "the purpose of the Drawdown is to draw funds *by contract* on an as needed basis."

b. According to 2 CFR, Part 225, Appendix B, Section 14, the "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." In addition, 2 CFR, Part 225, Appendix B, Section 27, states that the "costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, is allowable" and that "this includes costs of meals." According to 2 CFR, Part 225, Appendix A (18)(C)(1)(f) and (i), the state's costs should be "accorded consistent treatment" and "net of all applicable credit." Finally, 20 CFR 663.805(b) states that "supportive services may only be provided when they are necessary to enable individuals to participate in title I activities."[26]

Cause

a. The fiscal director for LWIA 8 prepares drawdown requests using an aging report, which shows the total amount needed for invoices scheduled for payment in the next two weeks but does not separate the drawdown requests by the agency's adult, youth, and dislocated worker contracts. We were unable to verify the fiscal director's description of the process since the LWIA staff did not maintain the aging reports or documentation showing how the amounts from the aging report were allocated to the different contracts.

   According to the fiscal director for LWIA 10, she prepares the drawdown requests based on the total amount of checks scheduled for upcoming payment by the agency. If necessary, the fiscal director adds to this amount to adjust for any significant upcoming expenditures that are not scheduled for payment (e.g., payroll costs or payments on behalf of program participants). We were unable to verify the fiscal director's description of the process since she did not maintain any record of the agency's estimates of cash needs. The fiscal director stated that none of the agency's other programs operate on an advance basis and that "all of the expenses are fronted by WIA and reimbursed by other programs," indicating that the department may have paid the LWIA for expenditures and upcoming cash needs for other, non-WIA programs. Based on our review of general ledger reports and a chart of accounts provided by the fiscal director, as well as our discussions with her, the LWIA's accounting system records information at the program level and not at the contract level as required by the TAG and the *Supplementary Financial Guide.*

   The Program Accountability Review Office, which conducts annual monitoring reviews of the agencies, reviews the cumulative expenditures and drawdowns by contract to determine whether the LWIAs have excess cash on hand. Based on discussion with the office's director and our review of the office's working papers, monitors do not match individual drawdown requests to the LWIAs' expenditures for the WIA programs.

b. Based on review of supporting documentation at LWIA 8, we identified $72 of WIA funds expended on participant training costs that were not necessary to enable the individual to participate in title I activities, and not listed on the list of required materials for the course. In addition, LWIA staff paid for a participant's textbooks without taking a $22 coupon discount into account, thereby failing to follow grant management procedures by ensuring that the expenditure was "net of all applicable credit."

[26] 20 CFR 660.100 defines title I activities as "workforce investment activities that increase the employment, retention and earnings of participants, and increase occupational skill attainment by participants."

Due to the grant accounting concerns noted at LWIA 10 (as described above), we were unable to test whether the payments to the agency included in our testwork were for allowable costs for the WIA program. We were also unable to determine the period of availability for the expenditures or test whether they were within the required beginning and end dates due to the LWIA's failure to maintain documentation in support of its drawdown requests or establish the required accounting system recording expenditures at the contract level.

LWIA 11 was unable to provide adequate supporting documentation to demonstrate how a phone bill allocated among the different WIA grants in accordance with its cost allocation plan. Although the LWIA's account clerk provided us with documentation showing how she allocated phone bill charges, we were unable to arrive at the amount that was charged to the program by the LWIA to ensure consistent treatment.

With regard to the food and event costs included in our testwork and expanded testwork, the fiscal manager at LWIA 3 explained that most of the food expenditures for his agency were for the youth program and provided an extra incentive for youth participants to attend youth meetings. (In our review, we noted that the LWIA paid for meals and for youth and staff to attend field trips.) The fiscal manager also stated some of the expenditures were for events such as the youth Senior Banquet and for SNAAP (Science, Nature, Arts, Adventure, and Proficiency), a week-long event for youth participants that included field trips to a local aquarium and garden. While well intentioned, these expenditures do not demonstrate the best use of federal funds. For the cost associated with staff events, neither LWIA 3 nor LWIA 11 provided documentation that adequately demonstrated that the events were for meetings and conferences, the primary purpose of which was the "dissemination of technical information."

<u>Effect</u>

a. Without ensuring the LWIAs properly track the department's contract expenditures and maintain the required documentation to support their reimbursement requests, the department cannot be certain that the requests are within grant guidelines and allowable. In addition, if the department does not ensure adequate monitoring activities are performed, the department's risk of noncompliance with WIA allowable cost requirements is increased. Also, the LWIAs and the department cannot match grant revenue to expenses in accordance with *Generally Accepted Accounting Principles* when LWIA staff do not take all reasonable and available steps to ensure that their requests for federal funds are based on the expenditures and obligations for specific contracts.

b. By not adequately monitoring subrecipients to ensure funds are expended on allowable activities and costs, the department increases the risk that federal resources may be used to fund unallowable activities and costs instead of providing services to more individuals through the WIA program.

Recommendation

a. Management of the Workforce Services Division should work with the Fiscal Services Section to ensure that the LWIAs' requests for cash advances are only for the immediate cash needs of the agency's WIA programs. Division management should also ensure that the LWIAs keep all accounting records at the contract level and that they maintain documentation in support of drawdown requests. If necessary, the department should require that the LWIAs submit this documentation with their drawdown requests. Finally, management of the Program Accountability Review Office should revise its monitoring procedures to verify that the amounts of the LWIAs' drawdown requests are limited to the expenditures and immediate cash needs for the specific WIA contracts.

b. The commissioner and the Workforce Services Division administrators should ensure that the LWIAs are fully aware of the allowable uses of grant funds and that program monitors adequately assess the allowability of local area expenditures.

Management's Comment

We concur in part.

We do not concur with the auditor's assessment that LWIA 3 food expenditures are an unallowable activity. LWIA 3 food expenditures were related to the SNAAP (Science, Nature, Arts, Adventure, and Proficiency) weeklong Youth event that required participation in the activities, including field trips and the youth Senior Banquet. The department's management feels the provision of food was justified, since it included sharing of technical data. We do not concur with the auditor's assertion regarding the allowability of the event costs of $2,420 included in the expanded test work for LWIA 11. The Workforce Services Division already has provided supporting documentation regarding these costs showing the dissemination of technical information. We also feel that a welding cap and welding jacket are necessary for a participant receiving training in welding. For other questioned costs the division will be in contact with the applicable LWIA and US DOL.

We do concur with needed improvements with the drawdown request process and monitoring. The department has made the following improvements:

- First, beginning on January 7, 2015, the Workforce Services Grants & Budget Unit has implemented a process to match individual drawdown requests to the LWIA's expenditures for the WIA programs. This review occurs on a consistent (usually weekly) basis to help identify possible unallowable charges incurred for LWIA activities prior to any drawdown from the state. The process includes a review of general ledgers, as well as other supporting documentation (e.g., aging reports and items to support accrued expenses) that help justify the immediate cash needs of the WIA program.
- Second, each LWIA has submitted their written procedures documenting their immediate cash needs.

- Third, LWIA 8 is now maintaining the aging reports and documentation showing how the amounts from the aging report are allocated to the respective contracts.
- Fourth, Workforce Services Division has communicated with the other division regarding the applicable sub-recipient's cash needs. LWIA 10 has entered journal entries showing WIA funds were reimbursed from the other non-WIA program.

Lastly, to improve the monitoring efforts regarding drawdowns, the Program Accountability Review Office (PAR) has added steps to their *Detail Review Guide* to evaluate the process used to calculate the individual requested drawdown amounts. Monitoring efforts do not provide absolute assurance regarding the allowability of local area expenditures. PAR examines the applicable general ledgers and, if unusual vendors are noticed, a sample of expenditure transactions with those vendors are selected for detailed testing. PAR also selects a sample of WIA participants' files to determine whether expenditures on behalf of the selected participants are allowable. We feel this level of monitoring is sufficient and adequately monitors the local area expenditures.

Auditor's Comment

In accordance with Office of Management and Budget Circular A-133, we are required to report all known questioned costs which are greater than $10,000. Office of Management and Budget Circular A-133 defines questioned costs as "a cost that is questioned by the auditor…(2) Where the costs, at the time of the audit are not supported by adequate documentation."

Regarding management's comment for the drawdown request process and monitoring, while we recognize absolute assurance is not possible, the Program Accountability Review Office's monitoring activities should be designed to provide reasonable assurance to detect unallowable costs and based on the process through which the subrecipients receive federal funds. The department issued payments to local areas based on their drawdown requests – not based on general ledger reports or participants' files.

Finding Number	2014-050
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-25381-14-55-A-47
Federal Award Year	2013 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	2013-034

Participant data for the Workforce Investment Act Annual Performance Report did not comply with reporting requirements

Background

The Department of Labor and Workforce Development administers the Workforce Investment Act (WIA) cluster of programs through 13 subrecipients, or Local Workforce Investment Areas. The department negotiates performance levels annually with the U.S. Department of Labor and is required to annually report participant performance for the WIA Annual Performance Report in terms of participant activity, progress, and outcome. When a WIA program participant completes an activity (e.g., training), subrecipients are required to update their records to document that the participant completed the activity and is no longer receiving services funded by the WIA program.

In order to report its annual performance, the department submits the WIA Standardized Reporting Data (WIASRD), an extract of participant data from its electronic Case Management and Activity Tracking System (eCMATS). The U.S. Department of Labor reviews WIASRD's accuracy by selecting a sample of data elements from the file and requiring the department to validate the elements with documentation from eCMATS or the participants' files. The department has also implemented a peer review process, whereby the Local Workforce Investment Areas review and validate the data element samples for each other. In addition, the U.S. Department of Labor conducts periodic comprehensive reviews of departments that operate the WIA program. The U.S. Department of Labor performed a comprehensive review of the department during the audit period and released a report in September 2014. For the program year 2012 data element validation, which was the most recent data element validation submitted, the U.S. Department of Labor selected 233 data elements for review for the Adult, Dislocated Worker, and Youth programs.

Condition

As stated in the 2012 and 2013 *Single Audit Reports*, department management and management at its Local Workforce Investment Areas did not comply with the U.S. Department of Labor's Training and Employment Guidance Letter (TEGL) 17-05. While we found some improvement in reporting participant exits from the program compared to the prior-year audit, we still found notable errors in our testwork. Based on our nonstatistical random sample[27] of 135 WIA participant files from 9 of the 13 Local Workforce Investment Areas that were included on the program year 2013[28] WIASRD file, we noted the following:

- For 27 of 135 participants tested (20%), department staff did not exit the participants timely from the program or did not exit the participants at all. See Table 1 for results.

Table 1
WIA PARTICIPANT EXITS

Program	Number Tested	Number of Errors	Percentage of Errors	Prior-Year Error Percentage
Adult	45	5	11%	28%
Dislocated	45	9	20%	12%
Youth	45	13	29%	12%
Total	**135**	**27**		

In addition, we found that for 4 of 64 participants (6%) who received training, LWIA staff did not accurately report the participants' education status in eCMATS to reflect proper credentialing attainment in the participants' files. The participants' paper files contained evidence that two of the participants received Cardiopulmonary Resuscitation (CPR) certificates; one participant received an Occupational Safety and Health Administration (OSHA) certificate; and one participant only completed a few courses at a local college but did not actually attain any certificate or credential. The CPR and OSHA certifications should not have been considered occupational skills certification for the degree/certificate measure.

During our review, we also noted that WIASRD contained information that was inconsistent with information in eCMATS. For 6 of 135 participants in our sample (4%), the exit date listed in WIASRD was later than the exit date listed in eCMATS, creating the appearance that the participants were not exited timely and calling into question the accuracy of the WIASRD, even though WIASRD is an extract of eCMATS.

We also reviewed errors noted in our prior-year testwork to ensure those participants were subsequently exited from the program during the current audit period. We determined at the time of our follow-up that

- 5 of 46 participants (11%) identified in the prior audit were still listed as active and had not been exited from the program.

We also performed an analysis of the department's most recent U.S. Department of Labor data element validation results by comparing the program year 2012 results to the program year 2011 results. While we found a year-over-year improvement, we noted the following:

[27] Our sample consisted of the following: 135 participants from a population of 35,276 were tested from 9 Local Workforce Investment Areas. Of those 135 sampled participants, 54 of the 8,667 WIA participants entered the program during the period July 1, 2013, through June 30, 2014, and 81 of 26,609 WIA participants were either exited from the WIA program prior to March 31, 2014, or had not yet been exited from the program.

[28] The program year extends from July 1, 2013, through June 30, 2014.

- For program year 2012, the department exceeded a 5% error rate threshold for 56 of 215[29] data elements tested (26%). Additionally, 29 of 56 data elements that exceeded the 5% error rate (52%) had error rates that did not improve from program year 2011 to program year 2012.

The U.S. Department of Labor also examined the program year 2012 data element validation results as part of its on-site comprehensive review. Based on its review, the U.S. Department of Labor noted that the department continues to have high error rates (in excess of the 5% allowable error) in the data elements.

Criteria

The U.S. Department of Labor's TEGL 17-05 states, "The term program exit means a participant has not received a service funded by the program or funded by a partner program for 90 consecutive calendar days, and is not scheduled for future services."

TEGL 6-14, Attachment A, EDRVS Field Number 151, "Source Documentation Requirements," states that if a participant has obtained a credential, receipt of the credential must be verified by documentation such as "transcripts, certificates, diploma, surveys, [and] case notes."

The validation instructions in TEGL 6-14, Attachment A, Section C(4), state that if case notes are used, they must contain "a participant's status for a specific data element, the date on which the information was obtained, and the case manager who obtained the information."

By definition in TEGL 15-10, "A credential is awarded in recognition of an individual's attainment of measurable technical or occupational skills necessary to obtain employment or advance within an occupation." According to the U.S. Department of Labor's website under Program Reporting and Record Keeping Information, which includes the WIA program, "While CPR or OSHA training may provide a benefit to participants as they begin to gain general knowledge about occupations and occupational standards, participants are unlikely to gain employment or advance within an occupation based solely upon receiving a CPR or an OSHA certificate."

According to its comprehensive review report, the U.S. Department of Labor noted "high error rates for critical data elements in excess of the 5% percent threshold."

According to Title 20, *Code of Federal Regulations,* Section 667.300(e)(2),

> States submitting annual performance progress reports that cannot be validated or verified as accurately counting and reporting activities in accordance with the reporting instructions, may be treated as failing to submit annual reports, and be subject to sanction. . . . Any sanction would be in addition to having to repay the amount of any incentive funds granted based on the invalid report.

[29] The U.S. Department of Labor selected 233 data elements for their review, but we only analyzed 215 data elements since 18 of the data elements had no data to validate, and therefore no error rates to analyze.

Cause

Based on discussions with staff at Local Workforce Investment Areas (LWIAs) during our on-site visits, LWIAs failed to properly exit participants due to a lack of understanding of which program activities extend participation in the program, and supervisors did not ensure that the case managers were following up with the participants and updating eCMATS timely. In addition, we found that LWIA staff did not understand what qualified as an education credential. In response to a comprehensive review performed by the U.S. Department of Labor, department management stated that they had conducted case management training with LWIA staffs in order to reduce the data element validation error rates, further suggesting that the errors we noted were the result of a lack of training.

We were unable to determine the cause of the errors in WIASRD.

Effect

By not ensuring staff are properly trained and have adequate knowledge of program requirements, and by not ensuring the data reported accurately reflects supporting data, the department increases the risk of submitting inaccurate performance data in the WIA Annual Performance Report.

Recommendation

Management of the Department of Labor's Workforce Services Division should ensure that the LWIAs report accurate and up-to-date information for use in federally required reports. The commissioner or his designee should ensure that personnel at the LWIAs are provided sufficient and proper case management training. Division management should determine the cause of the inaccuracies in WIASRD and take appropriate corrective action. Finally, division management should continue efforts to reduce data element validation error rates to below the 5% threshold.

Management's Comment

We do not concur.

To ensure accuracy of reporting, US DOL established guidelines for WIA services that extend participation. Thus, the finding's assertion is incorrect that, after one service ends, sub-recipients are required to update records that the participant is no longer receiving services funded by the WIA program. These guidelines state that needs-related payments across several program areas may continue beyond training service end dates, as well as all partner program services.

Furthermore, when a program participant is engaged by Workforce Services (WFS) staff, WIA provides for three levels of services: core, intensive, and training. And according to US DOL (20 CFR Part 652 et al., p. 49318 Preamble), it is up to the state and local workforce boards to develop a mix of activities that will best serve the participants to achieve employment goals, and that local program operators are best positioned to determine the appropriate mix and duration of services. For example, there is no minimum duration for intensive or training services.

Also, US DOL's initial determination for the *2013 Single Audit Report* indicates the participant's exit date issue has been corrected, since WFS is continuing to use Participant Tenure Reports to analyze and adjust service end dates. This statement also applies to the current finding, since the final Participant Tenure Report was executed in October 2014. WFS also has launched its new Virtual One-Stop data tracking system that specifically implements a mandatory exit, when there are no services that extend participation in the system.

The data validation error rates cited in the finding are for the 2012 program year, and do not reflect the outcomes for the period under audit (i.e., July 1, 2013, through June 30, 2014). By using data element validation error results for the current audit period, the data element validation results have significantly improved. For program year 2013 the department exceeded a 5% error rate threshold for 13 of 215 data elements (6%), which is a 20% improvement over PY 2012. Also, the finding states that 29 data elements did not improve from program year 2011 to program year 2013; however, we show that only five (5) did not improve. USDOL has confirmed the data element validation error results for program year 2013.

The Workforce Services Division always is focused on accurate and timely reporting for all our programs. The state office staff and the field staff are fully committed to serving Tennesseans to the best of our ability. To this end, the division is and has been delivering in-person training and virtual training to all our staff statewide, especially with regard to compliance in all program areas.

Regarding the US DOL comprehensive review, the Workforce Services Division has provided responses to all points indicated in the comprehensive review report. However, we have not as yet received a response from US DOL.

Auditor's Comment

We performed our participant testwork based on Workforce Investment Act guidance as published in the Training and Employment Guidance Letter 17-05 (as cited in the "Criteria" section) which defines a program exit and specifically names activities that do not extend participation in the program. Our conclusions as stated in the finding were that department staff did not properly exit participants in accordance with federal guidance.

The U.S. Department of Labor issued its Final Determination of Tennessee Department of Labor and Workforce Development's *2013 Single Audit* findings based on the department's submission of documentation and correspondence relevant to correct any unresolved or pending issues from that audit. The U.S. Department of Labor has notified the department that its submission of corrective actions was accepted and will be monitored to ensure effective implementation. The Office of Management and Budget Circular A-133 Compliance Supplement for 2014 requires us to test the WIA Annual Performance Report annually as part of the 2014 Single Audit, and our current audit results demonstrate that management has not corrected all prior conditions – and that new conditions exist.

We could evaluate only data validation error rates for program year 2012 as those were the only rates available to us during our current audit period. Management submitted the data validation error rates for program year 2012 to U.S. DOL during the current audit period, July 1, 2013, through June 30, 2014. We did not claim to review any rates other than those submitted for program year 2012; therefore, management is incorrect in stating we reviewed program year 2013.

The department's comment did not address all conditions identified in the finding.

Finding Number	2014-051
CFDA Number	84.002
Program Name	Adult Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	V002A110043, V002A120043, V002A130043
Federal Award Year	2011 through 2013
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking Subrecipient Monitoring
Questioned Costs	$18,542
Repeat Finding	N/A

Department staff did not review subrecipients' matching expenditures to ensure the expenditures were allowable under the grant

Condition

The Department of Labor and Workforce Development's Adult Education Division administers the Adult Education (AE) – Basic Grants to States federal grant program through 45 local area organizations that serve as program subrecipients. The subrecipients received approximately $9.5 million in federal funding during fiscal year ended June 30, 2014. Based on our analysis, the department's subrecipients are expected to fund approximately $1.6 million per award through their match amounts.

The AE Division did not require subrecipients to submit documentation to support the subrecipients' required match and, therefore, did not ensure that the subrecipients' matching expenditures were allowable grant expenditures. Furthermore, even though the division required subrecipients to maintain documentation at their respective locations, the department's monitoring activities were not sufficient to ensure subrecipients' matches were based on allowable costs.

Due to restructuring of the AE program, the department experienced a reduction in the number of subrecipients, and division management requested that the Program Accountability and Review (PAR) Office only conduct "close-out" reviews of the subrecipients that would no longer receive AE grant funds. PAR did not review the matches claimed by any of the subrecipients remaining in the program (see finding 2014-053).

Our review of a sample of 60 expenditures for the period July 1, 2013, through June 30, 2014, included 10 subrecipient reimbursement requests. These reimbursement requests also included information for the subrecipients' required grant matching amounts. Based on our testwork and review of the requested documentation, we were unable to determine whether $18,542 of $20,842 (89%) matching amounts reported (by nine of the ten subrecipients) were allowable based on the documentation provided by the subrecipients.

In addition, we also found that department management did not identify or assess any risks related to the federal and non-federal matching requirements in its annual risk assessment.

Criteria

The Adult Education and Family Literacy Act (Title II of the Workforce Investment Act of 1998) requires that each state agency providing adult education and literacy services contribute a non-federal contribution (match) of at least 25%. Title 34, *Code of Federal Regulations* (CFR), Section 80.24, states, "Third party in-kind contributions count towards satisfying a cost sharing or matching requirement only where, if the party receiving the contributions were to pay for them, the payments would be allowable costs."

In addition, 34 CFR 80.24 states the following:

> Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of grantees and subgrantee or cost-type contractors. These records must show how the value placed on third party in-kind contributions was derived.

Cause

The AE Division, which administers the Adult Education – Basic Grants to States program, required the subrecipients to maintain documentation to support the reported match, but did not require subrecipients to submit it. Instead, the division relied on PAR to verify the reported matches as a part of its subrecipient monitoring activities; however, PAR did not conduct monitoring activities specifically designed to ensure the subrecipients' matching contributions were based on allowable expenditures.

Effect

The department cannot ensure that it meets the federal matching requirements because it has not ensured that subrecipients properly submitted qualified and sufficient (at least 25%) matching expenditures. Without verification that its subrecipients provided allowable matching funds, the state would be unlikely to meet the match requirements, thus limiting the department's participation in this federal award.

Recommendation

The commissioner and the Adult Education division administrator should ensure that subrecipients are required to provide support for their reported matches and that staff review this documentation to verify that the match amounts claimed are allowable.

Management should assess all significant risks, including the risks noted in this finding, in management's documented risk assessment. The commissioner should ensure management implements effective controls in order to comply with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. In July 2013 the division, recognizing that additional safeguards needed to be in place regarding verification of matching expenditures, provided training to sub-recipients regarding what constitutes an allowable expense for matching expenditure purposes. In July 2014 the division went a step further and began requiring sub-recipients to submit supporting documentation for matching expenditures. Since that time, the supporting documentation for matching expenditures has been reviewed by the division and verified as allowable under the grant.

Finding Number	2014-052
CFDA Number	84.002
Program Name	Adult Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	V002A110043 and V002A120043
Federal Award Year	2011 and 2012
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

Federal Financial Reports were not accurate

Background

For the Adult Education – Basic Grants to States program, Fiscal Services staff from the Department of Finance and Administration (F&A) prepare the annual Federal Financial Reports. (Per executive order, the Department of Labor and Workforce Development [LWD] has an agreement with F&A that financial accounting and reporting functions of LWD will be managed and operated by F&A. This agreement includes F&A's completion of federal reporting for LWD.) F&A Fiscal Services staff prepares both initial and final Federal Financial Reports on the overall status of the Adult Education awards and the English Literacy and Civics portions of the awards. (Congress reserves a percentage of each year's federal grant award for English Literacy and Civics activities.) An initial report covers the first 15 months of an award, and a final report covers the entire 27-month award period.

Condition

Our review of all four Federal Financial Reports (FFRs) due for the period July 1, 2013, through June 30, 2014, disclosed that federal cash receipts were understated by a total of $127,311; federal cash disbursements were understated by a total of $1,129,419; the federal share of expenditures was overstated by a total of $288,824; and the recipient share of expenditures was understated by a total of $342,539. The four FFRs were for program year 2011 (final) and 2012 (initial) reports.

In addition, we found that

- both the federal share of expenditures and the recipient share of expenditures classifications were reported based on allocations of total expenditures, instead of actual outlays of federal and state expenditures in the accounting records;
- on the 2012 federal award, the recipient share of expenditures was not reported on the correct line for the English Literacy and Civics report;
- Fiscal Services staff did not perform a reconciliation between accounting records and the amounts reported on the FFRs;

- only one individual possesses the knowledge to complete the FFRs; and
- no supervisory review was performed on the reports prior to submission.

Criteria

Title 34, *Code of Federal Regulations* (CFR), Section 461.10, states that recipients of the Adult Education federal grant award are required to report information annually about the state's program expenditures. The National Reporting System's *Implementation Guidelines: Measures and Methods for the National Reporting System for Adult Education* contains instructions for the Adult Education financial reporting and indicates that the department is required to prepare the financial reports using actual disbursements or outlays for federal and recipient expenditures.

Federal regulations 2 CFR 200.61 and 200.303 require non-federal entities to implement and maintain internal controls to reasonably ensure compliance with federal laws, regulations, and program compliance requirements, as well as to provide reasonable assurance regarding the reliability of reporting for internal and external use.

Cause

Based on our assessment of internal controls related to the department's preparation and submission of its financial reports, we determined that because management and staff did not reconcile amounts reported in the FFRs to the accounting records and did not review the reports prior to submission, they submitted inaccurate reports to the federal grantor.

Effect

According to 34 CFR 76.720, failure to submit reports "at the quality level specified in the data collection instrument . . . constitutes a failure . . . to comply substantially with a requirement of law applicable to the funds made available under [the Adult Education] program." In addition, incorrect financial reporting to the federal government may result in a future reduction in funding.

Recommendation

The Department of Finance and Administration should ensure that Fiscal Services staff have the proper training to prepare the Federal Financial Reports and that an adequate review of these reports, including review and sign off by LWD management, is completed prior to submission. Fiscal Services staff should properly report expenditures based on amounts in the accounting records or reconcile any other data sources used to the accounting records. Fiscal Services staff should request that the U.S. Department of Education reopen the 2011 final reports so that necessary corrections can be made. As business partners, it is the responsibility of both F&A and LWD to ensure a mutual exchange of accounting, financial, and program information that will result in proper federal financial reporting.

<u>Managements' Comments</u>

Department of Labor and Workforce Development

We concur. Where applicable, we will work with the Department of Finance and Administration to ensure proper financial reporting.

Department of Finance and Administration

We concur. The Department of Finance and Administration (F&A) fiscal staff has corrected and resubmitted the four Federal Financial Reports (FFRs) identified in the finding and has implemented controls to ensure errors are detected, and reconciliations and reviews occur prior to the submittal of the FFRs. F&A will work with LWD to improve the current review process as necessary to ensure proper federal financial reporting.

Finding Number	2014-053
CFDA Number	84.002
Program Name	Adult Education – Basic Grants to States
Federal Agency	Department of Education
State Agency	Department of Labor and Workforce Development
Grant/Contract No.	V002A110043, V002A120043, V002A130043
Federal Award Year	2011 through 2013
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	N/A
Repeat Finding	N/A

The department did not comply with monitoring requirements

Condition

The Department of Labor and Workforce Development's Adult Education Division administers the Adult Education – Basic Grants to States federal grant program through 45 local area organizations that serve as program subrecipients. The organizations received approximately $9.5 million in federal funding during fiscal year ended June 30, 2014. The Adult Education Division and the Program Accountability Review (PAR) Office are each responsible for a part of the subrecipient monitoring for the Adult Education program. Based on our audit work, we found that the division did not obtain subrecipients' A-133 audit reports or complete a subrecipient monitoring plan. We also found that the PAR Office did not include all of the required compliance requirements in its monitoring activities.

In addition, management did not identify and assess any risks related to its failure to obtain A-133 audit reports or complete monitoring plans in its risk assessment. Although management included the risk of not monitoring subrecipients "in accordance with the requirements of A-133" in the annual risk assessment, they did not develop control activities sufficient to ensure that the PAR Office addressed all required core monitoring requirements.

Criteria

According to Office of Management and Budget (OMB) Circular No. A-133, pass-through entities such as the department are required to monitor subrecipients' activities to ensure that federal awards are used for authorized purposes and that performance goals are achieved. They must also ensure that subrecipients expending $500,000 or more in federal awards during their fiscal year have obtained A-133 audits. State monitoring requirements are set forth in Central Procurement Office (CPO) Policy 2013-007, which applies "to all State agencies that award State or federal funds." Policy 2013-007 requires state agencies to submit an annual monitoring plan to the CPO by October 1 of each year.

Cause

Based on our discussions with the Adult Education division administrator, the division did not obtain A-133 audit reports from its subrecipients, nor did it complete a monitoring plan for the period July 1, 2013, through June 30, 2014. The administrator stated that she was unaware that the A-133 reports had not been obtained. She noted that the division had a designated employee to perform the division's monitoring activities several years ago and that the responsibility for obtaining the A-133 reports may not have been reassigned when the position was eliminated.[30] With regard to the completion of the monitoring plan, the administrator stated that she was unaware of the CPO policy requiring the preparation and submission of an annual monitoring plan.

Due to a reduction in the number of subrecipients awarded program funds, approximately half of the Adult Education subrecipients ceased participating in the grant program. As a result, the department limited its monitoring to "close-out" reviews of these entities during the audit period. Based on discussion with the director of the Program Accountability Review (PAR) Office, the office's close-out reviews did not include any monitoring of activities allowed or unallowed, cash management, earmarking, or Title VI compliance. Both the PAR director and the Adult Education division administrator indicated that the close-out reviews did not include these compliance requirements because only a review of fiscal compliance requirements (e.g., allowable costs/cost principles and equipment management) was the main priority for the close-out reviews. Although the PAR Office's Detailed Review Guide (DRG) does not require that the cash management compliance requirement be tested since subrecipients do not receive cash advances, we believe that without testing the requirement, the PAR Office cannot obtain adequate assurance that subrecipients are operating on a reimbursement basis.

Effect

By not obtaining A-133 audit reports for subrecipients, not completing formal monitoring plans and related documented risk assessments, and not monitoring all applicable compliance requirements, the department increases the risk that noncompliance, fraud, waste, and abuse could occur and not be detected and resolved appropriately and timely.

Recommendation

The commissioner and the Adult Education division administrator should ensure that Adult Education program subrecipients' A-133 audit reports are obtained and reviewed, and that the annual monitoring plans are properly completed. If necessary, the commissioner should require the department's PAR Office to obtain subrecipients' audit reports and complete a comprehensive monitoring plan for the department. In addition, the PAR director and the Adult

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[30] According to the director of Internal Audit, he reviews the A-133 reports available through the Local Government Division of the Comptroller's Office to identify any Adult Education program findings. However, he does not ensure that all of the Adult Education program subrecipients receive A-133 reports or provide copies of the reports to Adult Education Division staff unless they include findings that relate specifically to the Adult Education program.

Education division administrator should ensure that all applicable compliance requirements are included in the department's subrecipient monitoring activities.

Management should assess all significant risks, including the risks noted in this finding, in management's documented risk assessment. The commissioner should ensure management implements effective controls in order to comply with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. A sub-recipient monitoring plan was not completed in accordance with Central Procurement Office (CPO) Policy 2013-007. Once the division became aware of this policy, a monitoring plan was submitted on October 1, 2014, in compliance with Policy 2013-007. CPO approved the monitoring plan on October 17, 2014.

We also concur that a copy of each sub-recipient's A-133 audit report was not obtained directly by the Adult Education Division. However, many of the A-133 audits have been completed by the Comptroller's Division of Local Government Audit. The Director of Internal Audit received a summary of the results of the A-133 audits performed by the Comptroller's Division of Local Government Audit. These summary reports are reviewed for findings applicable to Adult Education and, if any are found, they are reported to the division. These summary reports have been and remain on file in the Office of Internal Audit. In response to this finding, the division has started receiving, reviewing, and maintaining the summary reports, in addition to that kept by the Office of Internal Audit.

Finally, the division hired an employee on December 1, 2014, with duties regarding performance monitoring. This individual will direct all fiscal and programmatic monitoring activities, including those addressed in this audit.

Finding Number	2014-054
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Years	2013 and 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$8,399
Repeat Finding	N/A

The Department of Transportation did not implement the internal controls designed to prevent or detect noncompliance with federal allowable activity and allowable cost requirements

Background

The Federal Highway Administration provides funds under the Highway Planning and Construction program to assist states in the planning and development of an integrated, interconnected transportation system by constructing and rehabilitating the National Highway System, including interstate highways and most other public roads. The Department of Transportation (DOT) administers the Highway Planning and Construction program for the State of Tennessee. For federal highway and construction grant and contract expenditures, the Director of Finance explained that DOT's internal control structure is designed so that each division performs the initial review and approval of its related expenditures; the Finance Office then performs a second review and approval of all expenditures.

For vehicle usage charges (an internal cost-allocation process) in particular, the Finance Office provides an Edison Equipment Log for staff at the department's satellite locations across the state to document the information required for billing the Federal Highway Administration. According to the Fiscal Director 2 with the Finance Office, the supervisors assigned the vehicle are responsible for approving vehicle usage for their employees, who are the actual drivers. The Fiscal Director 2 explained that the supervisor would have to enter his or her approval on paper since no approval is required to enter vehicle usage into FleetFocus, the department's work order system. FleetFocus interfaces with Edison, the state's accounting system.

For the period July 1, 2013, through May 31, 2014, we selected a random sample of 65 Highway Planning and Construction expenditures to test. We also tested the entire listing of five significant items (expenditures greater than $1,733,204) for June 1, 2014, through June 30, 2014.

Condition and Criteria

a. We noted that 12 of the 65 expenditures covering the period July 1, 2013, through May 31, 2014 (18%), were not properly supported, resulting in $8,158 of known federal questioned costs. All 12 of these expenditures involved vehicle usage charges. Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," Part C-1-j, states, "To be allowable under Federal awards, costs must . . . [b]e adequately documented." Since satellite location staff threw away the Edison Equipment Log for one expenditure, we could not determine whether the supervisor had documented his approval or checked for mathematical accuracy, reducing our sample size to 64.

b. For 12 of 64 expenditures tested (19%), all involving vehicle usage for the period July 1, 2013, through May 31, 2014, satellite location staff did not document supervisory approval before entering charges into FleetFocus. Obtaining proper supervisory approval is a basic tenet of internal controls. Additionally, on the inside cover of the vehicle mileage log, the instructions state, "Approval By: _____ Signature of supervisor authorizing use of equipment."

c. We discovered that for one expenditure (2%) for the period July 1, 2013, through May 31, 2014, DOT charged vehicle usage costs to an incorrect project number. The department charged 635 miles to a federal project and received federal reimbursement, but based on review, the mileage actually pertained to a state project. The improper recording resulted in federal questioned costs of $241. Proper reporting is one component of a strong internal control structure. Also, OMB Circular A-87, Part C-1-b, states, "To be allowable under Federal awards, costs must . . . [b]e allocable to Federal awards under the provisions of this Circular."

d. We noted that the department did not verify the mathematical accuracy of the invoices supporting 7 of 64 expenditures tested (11%) for the period July 1, 2013, through May 31, 2014, and 1 of 5 significant items (20%) for June 1, 2014, through June 30, 2014, as evidenced by the calculation errors we found. These errors did not result in any improper payments. Part 6 of the "OMB Circular A-133 Compliance Supplement" states that management should check computations for accuracy as part of internal controls for the activities allowed or unallowed and allowable costs/cost principles compliance requirements.

Cause

a. When questioned, the department's satellite location staff gave a variety of reasons for the insufficient documentation, including that they

- were directed by management to discard vehicle logs upon entry into FleetFocus because of storage issues;
- did not realize using the Edison Equipment Log was required since their division possesses vehicle types that other divisions do not;
- were unaware that a newer version of the log was available;
- had extra copies of the old log available and did not want to waste them;

- thought the outdated log was sufficient;
- did not like writing the project number, so they put the contract number instead;
- omitted information due to an oversight;
- felt it was redundant to fill out unchanging information; and
- did not have a place to enter the department ID into FleetFocus.

b. Satellite location staff gave several reasons for not getting logs signed by their supervisors. Eight said they were unaware that approval was required; three asserted that the missing signature was an oversight; and one explained that employees were not following the vehicle mileage log procedures because they felt the instructions were outdated.

c. We observed that the preparer of the Edison Equipment Log had recorded vehicle usage for two separate projects, one state and one federal. Both projects began and ended with the same numbers, so the log preparer inadvertently totaled the mileage as belonging to only the federal project. Satellite location staff then entered the entire mileage into FleetFocus under the federal project. According to the Fiscal Director 2, once staff enter mileage into FleetFocus, Finance Office management does not verify the accuracy of the entries.

d. In contrast to the Director of Finance's statements, the Fiscal Director 1 told us that he did not know that the Finance Office should check invoices for mathematical accuracy; he considered this task a responsibility of the division initially approving the expenditure.

Effect

For the period July 1, 2013, through May 31, 2014, we tested 65 expenditures from a population of 36,451. From this sample, we identified questioned costs totaling $8,399. The sample represented $1,040,887 out of $630,947,231 total expenditures paid for that timeframe. For the $130,333,081 expenditures for June 1, 2014, through June 30, 2014, we also tested all five significant items (expenditures greater than $1,733,204), totaling $17,345,384; no questioned costs resulted from these tested items. Our review of the remaining $112,987,697 for that timeframe did not disclose any unusual transactions.

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

By not obtaining supervisory approval, DOT management increases the risk that expenditures will not be properly authorized and/or may not include adequate supporting documentation for the amount charged to the Federal Highway Administration. Additionally, while management's and staff's failure to identify the computation errors did not result in questioned costs for our testwork, the department might overpay or underpay vendors in the future.

Recommendation

a. Satellite location staff should use the Edison Equipment Log, and approvers should ensure that the logs are completed properly to provide adequate documentation to support expenditures incurred.

b. Supervisors should review and sign the Edison Equipment Logs for vehicles under their purview. Furthermore, we urge Finance Office management to remind satellite location staff of the importance of approving the logs before entering them into FleetFocus.

c. All satellite location staff should use the correct project number when reporting vehicle usage. Additionally, Finance Office management should periodically review vehicle mileage logs to ensure that charges were made to the proper projects.

d. Both the division initially reviewing the invoice and the Finance Office should check invoices for mathematical accuracy. We further urge Finance Office management to issue a checklist of items for verification before approval of each invoice. Finance Office management should distribute this list to all employees who participate in invoice processing.

Management's Comment

We concur. Equipment log instructions were sent to all directors on November 6, 2014 with directions to remind all staff of the importance of completing the log correctly. A meeting was held on November 7, 2014 with all Finance Office personnel involved in payment processing to remind employees of the need to check all invoices for mathematical accuracy and to ensure documentation correctly supports amount paid by TDOT.

Finding Number	2014-055
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Year	2013 and 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Davis-Bacon Act
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Transportation did not always comply with Davis-Bacon and Related Acts

Background and Criteria

Davis-Bacon and Related Acts require laborers and mechanics employed by contractors or subcontractors on federal contracts to be paid no less than the prevailing wage rate established for that locale by the U.S. Department of Labor. In order to ensure that contractors and subcontractors are paying workers the applicable prevailing wage rate, federal regulations stipulate that contractors and subcontractors must submit weekly certified payrolls. Certified payrolls consist of two parts, a copy of the payroll and a statement of compliance with Davis-Bacon and Related Acts. According to Title 29, *Code of Federal Regulations* (CFR), Section 3.4,

> Each weekly statement . . . shall be delivered by the contractor or subcontractor, within seven days after the regular payment date of the payroll period, to a representative of a Federal or State agency in charge at the site of the building or work, or, if there is no representative of a Federal or State agency at the site of the building or work, the statement shall be mailed by the contractor or subcontractor, within such time, to a Federal or State agency contracting for or financing the building or work.

To prevent and detect noncompliance with this federal regulation, the Department of Transportation's (DOT) Construction Division has implemented Policy No. 301-02 ("Davis-Bacon Act and Contractor Payrolls"), which specifies, "Contractor and Subcontractor certified payrolls must be submitted to the Project Supervisor within seven days after the regular payment date of the respective contractor's weekly payroll period. Payrolls should be date stamped, checked for correct classification wage scale rate as stated in the contract and corrected as necessary."

Individual construction offices associated with DOT's regional headquarters in Knoxville, Chattanooga, Nashville, and Jackson oversee compliance with Davis-Bacon and Related Acts by documenting receipt of the certified payrolls and verifying the accuracy of the wage scale rates contained therein. Our entire population of construction contract expenditures for fiscal year

2014 consisted of $242,293,589, which was associated with 75 unique contracts. We focused our testwork on the Jackson construction offices since that region had the highest dollar amount of contract expenditures ($72,479,252). From a listing of all 17 Jackson contracts incurring charges, we randomly selected 8 (representing $21,268,010), from which we then haphazardly chose and tested 60 payroll periods.

Condition

a. For 21 of 60 payroll periods tested (35%), Jackson construction office staff did not record the date the contractor or subcontractor submitted the certified payroll (the "received" date).

b. For 4 of the 21 payrolls discussed above, we obtained alternative evidence—the date Jackson construction office staff checked the payrolls for accuracy—demonstrating that the contractor or subcontractor had submitted the payroll "within seven days after the regular payment date" in accordance with 29 CFR 3.4 and DOT Policy No. 301-02. From the 43 total payrolls where we could evaluate compliance with this 7-day submission deadline, we found 4 payrolls (9%) for which Jackson construction office staff did not ensure the contractor's or subcontractor's timely submission. Submissions ranged from 1 day to 20 days late.

Cause

a. Jackson construction office staff told us that they just did not think about maintaining evidence of the date the contractor or subcontractor submitted the payroll; thus, they failed to comply with the department's own Policy No. 301-02.

b. A Jackson construction office staff member claimed that the contractor had actually submitted one of the payrolls on time, but she had stamped the payroll as "received" the day after the due date. She did not have evidence to support her assertion, though. For the other three late submissions, staff said that they did not keep track of contractors' and subcontractors' "regular payment date."

Effect

Because Jackson construction office staff did not record the date the contractor or subcontractor submitted the certified payroll, they were unable to ensure compliance with timely submission requirements promulgated in 29 CFR 3.4 and DOT Policy No. 301-02. Additionally, Jackson construction office staff could not effectively monitor compliance with federal and departmental regulations since they did not obtain the contractors' and subcontractors' regular payment date. If contractors or subcontractors submit payrolls significantly late, the risk increases that the Construction Division would fail to timely detect workers not receiving the prevailing wage rates.

Recommendation

1. Construction Division management should enforce DOT's existing policy requiring staff to maintain the date the contractor or subcontractor submitted the certified payroll.
2. Construction Division management should also ensure that staff track the regular payment date of its contractors and subcontractors.

Management's Comment

We concur. The Regional Director of Operations will ensure that the requirements of 29 CFR 3.4 and TDOT Policy 301-02 are discussed with Operations personnel and that steps are taken to achieve compliance with the required process. The payrolls submitted via paper copy will be time and date stamped upon arrival to the field office, and the contractors' regular payment date will be requested during the pre-construction conference. The Headquarters Construction Division will have the other Regional Operations Directors discuss these procedures with their staff as well to ensure statewide notification. Also, please note that the electronic submission of payrolls became a requirement for contracts let after January 1, 2014. The time and date received for payrolls on these contracts are established by the date of the email. The Department will need to evaluate the existing policy and make any amendments accordingly based on this change. Contracts let prior to January 2014 will continue to submit paper copies of the payroll until they are complete.

Finding Number	2014-056
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	NH/HPP-I 0401294
Federal Award Years	2013 and 2014
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Questioned Costs	2014 - $3,043,182 2015 - $583,539
Repeat Finding	N/A

The Department of Transportation overcharged the Federal Highway Administration when it used an incorrect matching percentage

Condition

The Department of Transportation overcharged the Federal Highway Administration within the U.S. Department of Transportation by using an incorrect matching contribution rate for the Highway Planning and Construction program. To determine if the department used the allowable matching contributions for project expenditures, we tested 60 nonstatistical, randomly selected federal highway and construction transactions for the period July 1, 2013, through May 31, 2014. We also tested all five significant items (expenditures greater than $1,733,204) for the period June 1, 2014, through June 30, 2014. From the population of non-significant items for that timeframe, we tested five nonstatistical, random transactions. Therefore, we tested 70 transactions in total.

Based on our testwork, we found that for 2 of 70 total transactions tested (3%), the department charged the Federal Highway Administration based on a 90/10 federal/state match instead of the 80/20 match percentage allowed by the grant agreement. Both transactions identified at the improper match rate related to the same state project, as shown in the chart below.

No.	Period Covered	Testwork Type	State Project No.	Total Expenditure Amount	Total Amount Billed to FHWA at 90%	Total Amount FHWA Should Have Been Billed at 80%	Amount Overbilled	Amount Tested	Expenditures for the Period Covered
1	7/1/2013 – 5/31/204	Random Sample	79003319444	$176,821	$159,139	$141,457	$17,682	$1,027,082	$630,947,231
2	6/1/2014 – 6/30/2014	Significant Item	79003319444	$4,096,236	$3,686,612	$3,276,988	$409,624	$17,345,384	$130,333,081
						Total Overbillings:	*$427,306*		

When we informed the Finance Office's management of the overbillings, they took immediate corrective action. Their research (confirmed by us) revealed that the department overbilled an additional $3,199,415 for state project number 79003319444, for a total of $3,626,721. The Finance Office posted a journal entry on September 23, 2014, to correct $3,624,062 in overbillings and reimburse the Federal Highway Administration. Department management posted another journal entry on November 4, 2014, to correct and reimburse the remaining $2,659.

Cause

The department uses speedcharts, accounting tables within the state's general ledger system, to calculate the federal and state shares of expenditures. According to Finance Office management, Finance Office staff set up the project speedchart incorrectly because Program Operations Office staff entered the wrong funding rates into the Program, Project, and Resource Management (PPRM) system, which the department uses as its cradle-to-grave project management system.

Program Operations Office management explained that the funding for state project number 79003319444 had originally been set at 90% federal and 10% state but was later revised to 80% federal and 20% state. The Program Operations Office, however, did not properly update the PPRM screen with the final approved percentages, which resulted in Finance Office staff generating an inaccurate speedchart and overcharging the Federal Highway Administration.

Finance Office management believes that the overbilling errors would have been identified internally during the project's closeout and final voucher process, which requires the department to verify that the applicable federal versus state funding percentages were used. We reviewed the Final Voucher/Project Closeout for Federal Projects instructions, which discuss totaling project expenditures and evaluating whether the department should return funds to the Federal Highway Administration. Therefore, these instructions appear to support management's assertion.

Criteria

The Department of Transportation's agreement with the Federal Highway Administration requires the sharing of project costs as follows: 80% federal and 20% state.

Effect

The difference between the amount the department charged the Federal Highway Administration and the amount the department should have charged, $3,626,721, is federal questioned costs. Of these questioned costs, $3,043,182 relate to fiscal year 2014, while the remaining $583,539 are from fiscal year 2015. Additionally, the timing of detection of the errors might impact cash management and cause the state to incur an interest liability to the federal government.

Recommendation

Management should ensure that when project funding changes, all of the department's records are appropriately updated so that charges to federal grantors are within grant requirements.

Management's Comment

We concur. The Finance Office posted journal entries on September 23, 2014 and November 4, 2014 to correct the overbillings and reimburse FHWA. In addition, Program Operations staff was reminded of the importance of cross-checking all entries into PPRM and Edison, to make sure that the entries match the Federal authorization funding breakdown. We also agree that TDOT's final voucher process provides both detective and corrective controls which help ensure that federal expenditures are not materially misstated.

Finding Number	2014-057
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	ARRA-STP-M-9320(1)
Federal Award Years	2013 and 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Procurement and Suspension and Debarment
Questioned Costs	N/A
Repeat Finding	N/A

The Department of Transportation did not develop specific policies and procedures or maintain adequate support to document compliance with Buy America(n) requirements

Background and Criteria

The federal government passed the American Recovery and Reinvestment Act of 2009 (the Recovery Act) for the purpose of preserving and creating jobs and promoting growth. The Recovery Act authorized monies for investments in transportation and other infrastructure and established Buy American provisions for purchases of certain construction materials. For highway projects, the act defers to existing Buy America guidelines established by the U.S. Department of Transportation and codified in Title 23, *United States Code* (U.S.C.), Section 313. According to 23 U.S.C. 313, "Notwithstanding any other provision of law, the Secretary of Transportation shall not obligate any funds . . . unless steel, iron, and manufactured products used in such project are produced in the United States." In order to ensure compliance with this federal regulation, the Department of Transportation (DOT) included in its contracts *Special Provision 106A*, which states:

> The contractor shall provide a certification to the Engineer with each shipment of iron and steel products to the project site that the manufacturing processes for iron and steel products occurred in the United States.

Condition

Although (as noted above) DOT inserted *Special Provision 106A* into its contracts, the department did not establish specific policies and procedures to track compliance with Buy America provisions and verify that appropriate documentation was obtained "with each shipment of . . . iron and steel products to the project site."

For example, from a list of all 143 Recovery Act transactions for the period of July 1, 2013, through June 30, 2014, we identified 7 projects that involved the purchase of construction materials subject to Buy America provisions. We found that for 1 of 7 projects tested (14%), the department did not ensure that appropriate evidence had been maintained to show that the steel used was produced in the United States. The department had contracted with a local government, the City of White House, for administration of the project in question.

We reviewed project invoices and inquired with White House staff to determine which of the construction materials consisted of steel. We then requested documentation showing that those steel items were made in the United States. The only Buy America documentation that White House obtained from the steel company and provided to us was dated September 15, 2014, and September 19, 2014, after our request; however, staff had billed DOT for use of the steel on December 21, 2011, more than 2.5 years earlier.

Cause

When we asked DOT management to identify the division responsible for monitoring compliance with Buy America requirements, we did not receive a response. As a result, we were unable to obtain an explanation for the lack of specific policies and procedures.

For White House, our audit contact was new and had not been in his position while the project was ongoing. Even though he diligently attempted to assist us with our documentation requests, he was unfamiliar with Buy America requirements.

Effect

The absence of specific policies and procedures and documentation to ensure compliance with Buy America provisions resulted in $21,811 of federal questioned costs for fiscal year 2012.

Recommendation

We recommend that departmental management establish and implement policies and procedures to track projects requiring compliance with Buy America provisions and verify that the necessary documentation is obtained for those projects.

Management's Comment

We concur in part. The Department does have policies and procedures in place. These procedures are referenced in TDOT *Standard Specification 106.04*, *106.07*, and *107.06* and *Special Provision 106A* Buy America Requirements. The project in question was managed by a local government. The issue is a lack of proper documentation, not the uncertainty of foreign steel being installed on the project. The manufacturer can certify the material on the project was, in fact, made in America. The consultant, hired by the City, did not follow these procedures. The City is required to follow all State and federal rules, laws, procedures and regulations, per their contract with the Department, which references the TDOT Local *Government Guidelines Manual*. In Chapters 1 and 8, this manual references the construction inspectors' responsibilities during the construction phase of a State or federal project. The City and the consulting firm have been made aware of the error. The Buy America requirements will be further emphasized during the annual construction inspection training classes where both local governments and consulting firms locally managing State and federal aid projects are required to attend.

Auditor's Comment

We acknowledged in our finding that the department's *Special Provision 106A* addresses Buy America; however, neither this special provision nor the other policies management cited in its response established specific steps for tracking compliance with Buy America requirements. In fact, *Standard Specification 106.04* and *106.07* and Chapter 1 of the *Local Government Guidelines Manual* do not directly reference Buy America at all, while *Standard Specification 107.06* and Chapter 8 of the *Local Government Guidelines Manual* merely state that federal guidelines should be followed.

As a pass-through entity for federal funds, the department is responsible for monitoring compliance with all federal requirements, including those related to Buy America.

Finding Number	2014-058
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	STP-112 (31), STP-253 (8), HSIP-141(27), NHE-111(69), STP-M-67(25), NH-1(297), IM/NH-40-1(319)
Federal Award Year	2013 and 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	$431,821
Repeat Finding	2013-037

The department's Utility and Finance Offices continued to pay utility relocation expenditures that were not adequately supported at the time of payment, and the offices did not properly oversee utility relocation contracts

Background

The Federal Highway Administration (FHWA) provides funds under the Highway Planning and Construction program to assist states in the planning and development of a highway transportation system. The Utility Office within the Right-of-Way Division of the Department of Transportation (DOT) is responsible for the relocation of any utilities affected by highway construction projects. Regional offices located in Knoxville, Chattanooga, Nashville, and Jackson review and approve reimbursement requests for relocation expenditures incurred by utility providers. The department's Finance Office also reviews the requests and approves them for payment.

Utilities may invoice the department and receive reimbursements for their relocation costs on a monthly or quarterly basis or submit a "final bill" after the completion of the relocation work. Once the utilities submit the final bills for relocation projects, the External Audit Section of the Finance Office reviews expenditures for relocation projects exceeding $100,000 in total costs. The Accounts Payable Section of the Finance Office performs the final approval of all relocation expenditures for payment.

The prior finding noted that the Utility and Finance Offices did not receive and maintain adequate support documentation as reimbursements were paid. In addition, the finding specified that the Knoxville, Chattanooga, and Jackson utility offices were not verifying reimbursement requests for mathematical accuracy, as evidenced by the use of a "Not Checked For Mathematical Errors!!!" stamp.

We obtained a listing of 462 Highway Planning and Construction contracts made available for bidding during our current audit period of July 1, 2013, through June 30, 2014. From that listing, we identified 12 construction projects that had utility reimbursements from the department during the audit period. We tested all $1,672,867 relocation reimbursements associated with these projects. Payments for each project can involve multiple utility relocation reimbursements and invoices.

Condition and Criteria

a. In response to the prior finding, management concurred and stated:

> Each Regional Utility Office will be expected to review each invoice and all supporting documents to certify that the services have been received according to the contract and that the necessary supporting documentation is attached. The Finance Office will review the invoices according to procedures already in place and will verify that the necessary supporting documentation is attached to the invoice.

For our current audit, we still noted that for 6 of 12 projects tested (50%), the department reimbursed utilities for expenditures that were not adequately supported or were otherwise improper, which resulted in initial federal questioned costs of $1,272,032 for the relocation expenditures incurred. For example, we discovered the following problems for one of the projects tested:

- DOT paid the utility for the entire $883,184 billed, even though the utility did not provide supporting documentation for $163,750 of that amount.
- Several of the supporting invoices for the reimbursement request specified that they were for "Various projects at the Louisiana office," but DOT improperly reimbursed the utility for these costs. Although the Nashville utility office and the External Audit and Accounts Payable Sections reviewed these invoices, none of them noted any problems.
- When we obtained additional supporting documentation from the utility, we noted that DOT had provided reimbursement for $5,000 in private property damages caused by the utility, even though the department's contract with the utility includes a "hold harmless" clause.

As of December 19, 2014, the department had obtained additional documentation to support the allowability of $840,211 in relocation expenditures, reducing our final federal questioned cost amount to $431,821. We believe, however, that this documentation should have been obtained and maintained at the time of each reimbursement.

Title 23, *Code of Federal Regulations* (CFR), Part 645, Section 103, indicates that expenditures incurred for relocating utilities are eligible for FHWA reimbursement provided these costs are incurred in a manner consistent with state laws and federal regulations. Additionally, Office of Management and Budget Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," Part C-1, states, "To be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards[,] . . . authorized or not prohibited under State or local laws or regulations[, and] . . . adequately documented."

b. We found that the regional utility offices stamped ten invoices as "Not Checked For Mathematical Errors!!!," a condition also noted in last year's finding. The utility offices stamped seven of the invoices after May 2014, which was when management stated it began enforcing the changes that required verifying mathematical accuracy in response to the prior finding. Checking computations for mathematical accuracy is a basic internal control tenet.

c. In addition to the two conditions noted in the prior finding, we identified deficiencies with the department's oversight of required utility relocation contracts related to changes in scope, including estimates. We noted that DOT received and paid a reimbursement request of $331,587 ($265,270 in federal funds) that fell outside the scope of one contract. According to clause 1(a) in the utility relocation contract:

> The Utility shall relocate its facilities in accordance with the estimate of cost, schedule of work and plan as approved by TDOT, incorporated herein by reference, and as otherwise contemplated by this Contract. The . . . Utility shall complete this relocation prior to the date: August 15, 2007. Failure to complete the relocation prior to this date will be considered a material breach of this Contract and subject the Utility to forfeiture of any reimbursement for the relocation of utility facilities located on public highway right-of-way.

We found that the utility requested relocation reimbursement on August 13, 2013, almost six years after the contract period had ended. As part of the reimbursement support, the utility included an email from the State Utility Coordinator, dated August 2, 2012, (nearly five years after the project deadline) stating:

> I'm reviewing [the utility's] request to raise their relocation contract from $181k to $319k. I don't think we need to fool with doing a supplemental to the original contract . . . if that is the only change since TDOT [Tennessee Department of Transportation] pays actual costs for relocations regardless of what is on the contract. If it goes over more than 12.5% it may require a letter of justification (which they included) but we shouldn't have to do a supplement. Hopefully they are nearing completion on this and we can just pay them.

The claims made by the State Utility Coordinator that payments are made for actual costs regardless of contract provisions contradict FHWA regulations that limit federal participation to the approved contract amount plus any written and approved changes or extra work orders. Federal regulations require that utility agreements are properly executed as well. Furthermore, the amount for which this utility billed and received reimbursement from DOT exceeded the contracted amount by $10,764.

We discovered three additional instances where utilities billed and received payments from the department for more than the approved contract amount. One utility billed DOT for a total of $188,067 over the approved utility contract, an increase of 27%. For this contract and one other, the majority of these increases in the billed amounts related to overhead. The following chart presents the variances between the overhead rates and amounts agreed upon in the contract:

	Approved Rate	Approved Amount	Billed Rate	Billed Amount	Rate Variance	Amount Variance
Utility 1	20%	$10,596	439%	$118,403	419%	$107,807
Utility 2	0%	-	129%	2,589	129%	2,589

Additionally, the department paid $2,171 more than the contractual amount to a utility for payments that were related to labor and materials.

23 CFR 645.103(a) states, "The provisions of this regulation apply to reimbursement claimed by a State transportation department (STD) for costs incurred under an *approved and properly executed* transportation department (TD)/utility agreement and for payment of costs incurred under all Federal Highway Administration (FHWA)/utility agreements [emphasis added]." Part (d) goes on to say, "The FHWA's reimbursement to the STD will be governed by State law (or State regulation) or the provisions of this regulation, whichever is more restrictive. . . ." Also, according to 23 CFR 645.113(e), "In the event there are changes in the scope of work, extra work or major changes in the planned work covered by the approved agreement, plans, and estimates, Federal participation shall be limited to costs covered by a modification of the agreement, a written change, or extra work approved by the TD and the FHWA."

Finally, all four utility contracts state in 1(b), "Any change in the approved estimate of cost, schedule of work or plan, shall require the prior written approval of TDOT." Although we requested support showing where these four contract changes had been approved, the department was unable to provide such documentation.

Cause

Inadequate Support and Mathematical Accuracy

In response to the prior finding, the department stated, "The Finance Division will work with the Utilities Office to establish consistency between the invoicing requirements being accepted by the various Regional Utility offices." Based on discussions with departmental personnel, the Finance Office worked with the Utility Office to develop a checklist of items to verify when approving utility reimbursement invoices. According to the Director of Finance, the Finance Office gave presentations in November 2013 and April 2014 to discuss the required support; however, utilities personnel from the Knoxville, Chattanooga, and Nashville regional offices stated that the State Utility Coordinator did not distribute the actual utility invoice checklist until September 23, 2014 (after the current audit period). The State Utility Coordinator maintains that he provided this list to the regional offices in November 2013, but he could not provide sufficient documentation to support his assertion.

In addition, the Director of Right-of-Way remarked that the employees who review the reimbursement requests in the regional utility offices are not accountants and therefore do not understand what support is needed. Discussions with regional utility, External Audit, and Accounts Payable staff revealed that none of these offices, except the Knoxville utility office, are reviewing the requests for mathematical accuracy. We did note that after receiving notification of the problems found in the current audit, the Finance Office further refined the checklist.

Contract Oversight

When we met with members of management, they indicated that as part of their business practice, DOT had an agreement with utilities whether it was in the form of a contract or not. Also, the Director of Finance stated that change orders are only done for unit price increases or additions of entirely new items needed for construction.

Effect

Without a standardized, thorough review performed by both Utility and Finance Office staff, the department cannot ensure that all utility costs are eligible for reimbursement. Furthermore, by not having properly executed utility contracts in place, the department violates federal law and increases its risk of losing legal standing, which could be harmful in the event of a dispute with a utility.

Recommendation

The Commissioner should ensure that the Finance Office and all regional utility offices implement and use on a continuous basis the utility invoice checklist the department developed subsequent to the prior audit finding. Utility and Finance Office management should reach an agreement about which office should review items on the checklist. Finally, for the questioned costs noted in this finding, the Director of Finance and the Director of Right-of-Way should ensure that FHWA is reimbursed for any costs that are determined to be ineligible or for which adequate supporting documentation cannot be obtained.

Management's Comment

We concur in part. TDOT employees have been informed of the requirement that all invoices be checked for mathematical accuracy. The department does not concur with $373,179.30 of the questioned costs. For the questioned costs related to the material breach of contract, the finding does accurately quote paragraph 1(a) of Utility Contract #6811 between TDOT and Tri-County Electric Membership Corp. The purpose of this contract was to reimburse Tri-County for the cost of relocating its electric lines so as to accommodate TDOT's construction of improvements to State Route 141 in Trousdale County. To the extent that part of the electric lines were located on Tri-County's private easement, TDOT was required to reimburse Tri-County for the taking of its property interests (see T.C.A. § 54-5-807), and to the extent that part of the electric lines were on public highway right-of-way the intent of the contract was to reimburse Tri-County for the relocation of those facilities so long as Tri-County removed all conflicting facilities prior to the letting of TDOT's highway construction contract, as provided in T.C.A. § 54-5-804(a)(2)(B).

The intent of paragraph 1(a) is to establish the letting date by which the utility must remove its conflicting facilities. In this case, after Utility Contract #6811 was executed, TDOT's highway project was divided into two smaller projects. The first of these smaller projects was let on July 12, 2013 (the second smaller project has not yet been let). Utility Contract #6811 was not amended. However, Tri-County did complete the relocation of its conflicting facilities on December 3, 2012 (as confirmed by TDOT Project Supervisor on May 17, 2013), which was more than seven months before TDOT's highway project was let to contract. Therefore, the purpose of the contract, and in particular the intent of paragraph 1(a), was met. To refuse to reimburse Tri-County under these circumstances would likely be considered a violation of Tri-County's constitutional right to compensation for the taking of its private property rights, and it would be unfair not to reimburse it for the successful removal of its conflicting facilities from public right-of-way prior to TDOT's project letting date. Tri-County did what it was supposed to do, and TDOT has no contract damages to recover.

For the questioned costs related to an unapproved increase to contracted price, the costs in question relate to the relocation work bid out by the Utility. TDOT approved the bid tabulation awarding the contract to the low bidder. The bid is based upon estimated quantities at a bid unit price. The actual quantities installed differed from the estimate, which is acceptable business practice as the bid was based upon estimated quantities. The bid price per item did not increase. The actual amount paid did not exceed the contract amount.

For one of the questioned costs related to inadequate support, the Utility uses another utility's poles. The utility that owns the poles does not allow other entities access to make their poles ready. The utility that owns the poles submitted an invoice to the contracted Utility for payment. The contracted Utility provided a copy of the agreement as well as documentation of payment.

The department will amend contracts in the future when necessary for situations where actual costs exceed the contract limit, where a change in scope of the contract has occurred or when the contract will expire prior to the utility relocation. The Utility Relocation Office will clarify for staff what is considered a change in scope. The Utility Office and the Finance Office will amend the utility relocation checklist to further clarify required supporting documentation prior to payment being made and to ensure staff is aware of when prior approval needs to be obtained. The Utility and Finance Offices will provide training to staff. The department will update contract language on future utility relocation contracts to clarify the intent of the department and the utility. The department's External Audit section will review the awarding of continuing contracts to ensure competitive selection and will review the actual use of the contract to ensure it is being used for public and private work. External Audit will also sample overhead and indirect construction costs billed by the Utility.

Auditor's Comment

As stated in the finding, 23 CFR 645.103(a) requires the department to have a "properly executed" contract in place in order to receive federal reimbursement. For questioned costs totaling $331,587 ($265,270 in federal funds), the department's contract with the utility had lapsed. It is not sound business practice to seek federal reimbursement without meeting the requirements to receive such reimbursement.

In addition, we believe that when the actual materials used in a construction project significantly differ from the estimated amounts listed in the fully executed contract, the department must document its approval before the utility uses the extra materials. We note again that 23 CFR 645.113(e) limits federal participation to modifications approved by the Transportation Department and the Federal Highway Administration. The department did not provide evidence of this approval, despite our repeated requests.

Finding Number	2014-059
CFDA Number	20.205 and 20.509
Program Name	Highway Planning and Construction Cluster Formula Grants for Rural Areas
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	Various
Federal Award Years	2013 and 2014
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	N/A
Repeat Finding	2013-036

For the second consecutive year, the Department of Transportation did not provide adequate internal controls in one specific area

The Department of Transportation did not design and monitor internal controls in one specific area. Ineffective implementation of internal controls increases the risk of error. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the office with detailed information regarding the specific conditions we identified, as well as our recommendations for improvement.

Recommendation

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

Management's Comment

We concur in part. The Department of Transportation will work to improve internal controls for the processes outside of TDOT's jurisdiction. For TDOT's internal processes, we will develop an appropriate policy.

Finding Number	2014-060
CFDA Number	20.509
Program Name	Formula Grants for Rural Areas
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X032
Federal Award Year	2013
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$258,022
Repeat Finding	2013-035

The department did not establish adequate internal controls over contract revenue to ensure compliance with allowable cost requirements

Background

The Formula Grants for Rural Areas Program provides federal financial assistance for capital, operating, and administrative expenses to initiate, improve, or continue public transportation service in nonurbanized areas. The Division of Multimodal Transportation Resources (DMTR) within the Department of Transportation administers the Formula Grants program through subrecipients that act as transit providers in rural areas. These subrecipients submit to DMTR reimbursement requests for their transit service expenses. After DMTR approves the reimbursement requests, the Accounts Payable Section within the department's Finance Office performs another review, issues payments to the subrecipients, and then bills the Federal Transit Administration (FTA) for the federal share of costs.

Primary Issue

Condition and Criteria

We tested 25 expenditure transactions (representing $779,222) from a population of 324 transactions totaling $18,338,751 charged to the Formula Grants program for the period July 1, 2013, through June 30, 2014. For 2 transactions tested (8%) involving one subrecipient and $257,117 in federal reimbursement, DMTR could not provide us with sufficient evidence to confirm that income generated from human service transportation contracts (contract revenue) was only used for public transportation services.

FTA Circular 9040.1G states the following:

> Income from contracts to provide human service transportation may be used either to reduce the net project cost (treated as revenue) or to provide local match for Section 5311 operating assistance (treated as program income). In either case, the cost of providing the contract service is included in the total project cost. Unlike other forms of program income, income from contracts to provide human

service transportation may be used as the local match for the grant in which the income is generated.

Despite this regulation, DMTR lacked sufficient controls to prevent the subrecipient from using income earned from these human service transportation contracts for non-transportation-related purposes. Because of this control deficiency, DMTR could not provide us with sufficient documentation as to how the subrecipient used earned contract revenue; therefore, we were unable to determine if the department properly charged the Formula Grants program for costs associated with the subrecipient.

Cause

According to the DMTR Director and Assistant Director, the division's current control system related to contract revenue relies on

- on-site monitoring that addresses accounting issues and the segregation of revenues and expenses;
- independent audit reports encompassing the adequacy of the subrecipients' accounting systems; and
- instructions in the State Management Plan (DMTR policies and procedures manual) specifying that contract revenue "must be restricted to use in transportation."

We found, however, that DMTR does not track the income generated from human service transportation contracts and ensure that the subsequent expenditure of this revenue is used for public transportation purposes.

Effect

Without establishing additional controls, DMTR cannot ensure that compliance with federal allowable cost requirements has been met.

Secondary Issue

We noted that as in the prior 4 years, DMTR staff had approved $905 for federal reimbursement that did not meet the allowable cost standards set forth in Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" requirements. OMB Circular A-133, "Audits of States, Local Governments and Non Profit Organizations," requires us to report all known questioned costs when they cumulatively exceed $10,000 for a type of compliance requirement.

Recommendation

DMTR management should strengthen its controls to ensure that subrecipients only use contract revenue for transportation purposes. DMTR management should also ensure that only allowable costs are paid.

Management's Comment

DMTR does not concur. DMTR holds that existing controls provide reasonable assurance that human service contract revenues are restricted for public transportation purposes only.

Sufficient internal controls over contract revenues are provided by the following:

- Annual audit performed by an independent CPA firm on the subrecipients' financial statements, account balances, internal control systems, and operations, provided to the Comptroller; and
- DMTR's subrecipient monitoring program, which includes a review of the subrecipients' financial capacity.

First, annual A-133 audit performed by licensed CPAs on the subrecipients' financial and accounting systems, provided to the Comptroller, affirmed that the subrecipients' accounting system was followed in all material respects per TCA § 13-26-109. To provide objective proof of the adequacy of the subrecipients' internal control system, DMTR provided state auditors with a reconciliation of revenue and expense for the period that was prepared by the independent CPAs. This reconciliation clearly identified excess revenues that are restricted to future public transportation use. Second, DMTR's subrecipient monitoring program provides additional controls by periodically evaluating the subrecipients' accounting systems. Finally, the work conducted by the state auditors did not identify any contract revenue that was used for purposes other than transportation.

Tennessee's 2011 State Management Plan, in force during the audit period, clearly informs transit agencies that all contract revenues must be held in reserve for public transportation purposes. The Plan states, "*Contract revenue generated using vehicles for public transportation that retain a TDOT vested interest will remain in agency accounts as carry over for locally generated match for transportation programs. Any such contract revenue remaining must be restricted to use in transportation. Subrecipients must account for contract revenue earned in their accounting system and the accounting system must be able to identify the purpose for which such contract revenue was used or will be used*." The Federal Transit Administration (FTA) approved the 2011 State Management Plan.

DMTR wishes to stress several points:

- State auditors' test work failed to identify any contract revenue that was used for non-transit purposes. To date, there is no objective information indicating that transportation funds were used for other programs.
- The FTA performed TDOT's triennial State Management Review in the fall of 2014. During the FTA's review, no internal control issues were identified with regard to contract revenue.
- Subrecipients presented, and state auditors accepted, documentation for allowable expenditures that justify the $257,117 in federal expense. State auditors' concern about

the adequacy of internal controls over contract revenue should not translate into questioning costs for which legitimate expenditures have been documented.

Despite the adequacy of controls, DMTR plans to strengthen further existing controls by including additional reporting requirements for contract revenue when the new quarterly reporting form is introduced in April or May 2015. This will increase the transparency and visibility of the subrecipients' restricted revenues, thereby adding another layer of oversight to the controls already in place.

Secondary Issue

With regard to the "Secondary Issue" cited in the finding, DMTR concurs that $467 is unallowable due to mathematical errors. However, DMTR asserts that the remaining $438 of the costs identified in the draft finding should not be questioned based upon applicable federal guidance and standard business practices. The state auditors used inappropriate criteria in place of the appropriate state and federal guidelines against which these charges should be audited. Responses to the questioned costs are in summary form below.

<table>
<tr><th>Description</th><th>Federal Questioned Costs</th><th>DMTR Response</th></tr>
<tr><td>Unreasonable or Unnecessary</td><td>$306</td><td>DMTR does not concur with the finding. Pertinent documentation provided to state auditors in support of the finding included:
A-87 Appendix B: "27. Meetings and conferences" with regard to the allowability of food or beverages provided as part of a meeting.
49 U.S.C. 5335 and FTA Uniform System of Accounts (USOA) Chapter 5.502 Fringe Benefits, section 13. Uniform and Work Clothing Allowances, and Chapter 6.030 Revenue Vehicle Operations, . . . Fringe Benefits. http://www.ntdprogram.gov/ntdprogram/pubs/reference/USOA.pdf
A-87 Appendix B: 1. Advertising and public relations cost, (d) (2). Costs pertaining to services provided by the agency are covered. The advertisement had " Public Transportation" in the title and listed a "Public Transportation" activity and a telephone number, which is communicating with the public pertaining to a specific activity which result from the performance of the award.
Information about normal transit agency operating practices (re: drivers' uniforms, and the role of published advertisements in informing the public about services available.</td></tr>
</table>

Taxes	$132	DMTR does not concur. Transit agencies paid Tennessee state sales tax on certain transactions, and they did not seek a refund from the Tennessee Department of Revenue. These taxes, totaling $132, were billed to grants. • Appendix B of OMB Circular A-87: #40. Taxes. • FTA's Uniform System of Accounts (USOA).
Mathematically Inaccurate	$467	DMTR concurs that mathematical errors resulted in overpayment of subrecipients by $466.87 (including $.20 to South Central Tennessee Development District (SCTDD) and $466.67 to First Tennessee Human Resource Agency).

While DMTR strives to prevent all unallowable expenditures, state auditors' test-work demonstrates that existing controls are effective in providing <u>reasonable assurance</u> that funds are used properly but <u>not absolute assurance</u> that the error rate will be 0%. Because the objective is for controls to provide reasonable assurance rather than absolute assurance, DMTR does not concur that controls are insufficient to prevent payments for unallowable expenditures.

Furthermore, DMTR holds that no further action is required to correct finding 2013-035, as affirmed by FTA in their *Draft Report for the Financial Management Oversight – Agreed Upon Procedure (AUP) Review*, which DMTR received on February 6, 2015. One of the FTA's purposes in performing this review was "to determine the current status of Tennessee's A-133 audit findings not resolved by their external auditor." In regard to 2013-035, the FTA's draft report stated, "Finding has been addressed and can be considered resolved; however, documentation should be required and reviewed for Indirect Costs."

The Federal Transit Administration (FTA) is prohibited from providing input during the course of an audit. However, FTA is able to provide input following the publication of the final audit report. When the 2014 audit report is published, DMTR will provide the FTA with detailed information about each of the costs in question so that the FTA can make a determination about whether or not these costs must be repaid. It is important to note, however, that within the constraints of applicable laws and regulations, the FTA affords states with considerable discretion in the administration of the FTA programs.

DMTR will continue to evaluate the effectiveness and efficiency of operations and controls to maintain and improve reporting and compliance.

<u>Auditor's Comment</u>

Primary Issue

Management has the responsibility to prove that contract revenue was used for public transportation purposes, which it failed to do. As we noted in our finding—and as management indicated in its response—DMTR's controls over contract revenue could be strengthened. Also supporting our evaluation is the DOT Office of Internal Audit's (OIA) agreed-upon procedures report issued on February 28, 2014, which discusses the viability of DMTR's Invoice Checklist in identifying noncompliance related to subrecipients' reimbursement claims. According to the report, OIA noted a control issue with the checklist "in restricting the use of contract revenue for local match dollars." OIA therefore recommended that DMTR "develop other elements necessary for agencies to disclose 'Contract Revenue.' Contract revenue disclosure should reflect the amounts earned and how those funds will be or were used." Without evidence of the implementation of adequate controls, we must call the entire amount charged to FTA into question.

Secondary Issue

As our criteria, we referenced OMB Circular A-87, which provides cost allowability standards for all federal programs. Management and staff did not follow these standards as required.

Furthermore, OMB Circular A-133 requires us to report sampled questioned costs that exceed a projected total of $10,000. The amount of $467 that management concurred was unallowable projects to total questioned costs exceeding $10,000. We acknowledge that the remaining $438 is a small amount; however, because management could not provide sufficient evidence to demonstrate allowability at the time of the audit, we are required to report the amount as questioned costs.

OIA's agreed-upon procedures report also (1) revealed that the additional internal controls DMTR had implemented in response to prior findings remained insufficient to ensure compliance with allowable cost requirements and (2) made several recommendations to enhance the reimbursement claim review process.

Finding Number	2014-061
CFDA Number	20.509
Program Name	Formula Grants for Rural Areas
Federal Agency	Department of Transportation
State Agency	Department of Transportation
Grant/Contract No.	N/A
Federal Award Year	2014
Finding Type	Noncompliance
Compliance Requirement	Other
Questioned Costs	N/A
Repeated Finding	N/A

<u>The status of a prior audit finding on the summary schedule of prior audit findings was misstated</u>

<u>Condition</u>

Management of the Tennessee Department of Transportation indicated on the summary schedule of prior audit findings that, as of June 30, 2014, the Division of Multimodal Transportation Resources (DMTR) had fully corrected the prior audit finding (2013-035) related to staff's

- failure to adequately review subrecipients' reimbursement requests; and
- payment of unallowable costs with funds from the Formula Grants for Rural Areas Program.

Based on our follow-up of the prior audit finding during our current audit, we found the conditions were not corrected. For details, see finding 2014-060.

<u>Criteria</u>

Office of Management and Budget Circular A-133, Section .315 states the following:

> (b) <u>Summary schedule of prior audit findings.</u> The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards…. When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.

Furthermore, Office of Management and Budget Circular A-133, Section .500 (e) requires auditors to

> . . . perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with .315(b), and report, as a current year audit finding, when the auditor concludes that the

> summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. . . .

Cause

The department's management did not concur with audit finding 2014-060 and believed its corrective action had sufficiently reduced the instances of noncompliance such that an audit finding was not warranted.

Effect

Reporting the prior audit finding as corrected when the finding is being repeated in the current Single Audit Report results in incorrect information reported to the Federal Audit Clearinghouse and Federal awarding agency.

Recommendation

The Commissioner of the Department of Transportation should ensure that the staff understand the Office of Management and Budget Circular A-133 reporting requirements and accurately report the status of the department's corrective action on the summary schedule of prior audit findings.

Management's Comment

DMTR does not concur that TDOT has misstated the status of 2013-035. Disagreement regarding the status of 2013-035 as "Corrected" or "Partially Corrected" mirrors the disagreement between DMTR and state auditors regarding the 2014 state audit finding 2014-060. The parties disagree with regard to (1) the correct amount of observed questioned cost in 2014 and (2) the correct amount of likely questioned cost when the incidence of observed questioned costs in the sample is extrapolated to the entire population of transactions. It should be noted that state auditors have not identified any instance where DMTR provided incorrect financial information or omitted pertinent financial information. Finding 2014-061 is based solely on DMTR management's disagreement regarding 2014-060.

First, DMTR implemented corrective actions in response to 2013-035 that resulted in a significant decrease in the mutually agreed questioned costs to $467, well below the $10,000 reporting threshold for observed questioned costs. DMTR provided state auditors with a detailed response to the draft 2014 finding (2014-060), explaining the reasons that all but $467 of the questioned costs are allowable given state and federal requirements.

Office of Management and Budget Circular A-133 §105 provides the following definition:

> Corrective action means action taken by the auditee that:
>
> a) Corrects identified deficiencies;
> b) Produces recommended improvements; or

c) Demonstrates that audit findings are either invalid or do not warrant auditee action.

Because current findings related to questioned costs have been demonstrated as invalid and do not warrant further action, this indicates that corrective actions taken for 2013-035 have produced the desired results. In addition, the Federal Transit Administration, the agency responsible for the program, stated that finding 2013-035 has been resolved.

DMTR also disagrees with the auditors' assertion that even if only $467 in observed questioned costs is correct, the estimated prevalence of questioned costs in the entire population would exceed the $10,000 reporting threshold. DMTR questions the validity of this assertion, unless the auditors' claim that they used a valid statistical technique in extracting their results and in extrapolating the results to the greater population. If the auditors assert that they used a valid statistical method to select items for testing and insist that extrapolated values are valid, then DMTR intends to seek an independent statistician to review the statistical techniques employed by state auditors.

Auditor's Comment

We explain our reasons for repeating prior audit finding 2013-035 in current finding 2014-060. We have complied with OMB Circular A-133 for reporting known and likely questioned costs. In addition, we would like to note that in Section 530, Generally Accepted Auditing Standards permit the use of both statistical and nonstatistical sampling and, under each method, allow the projection of misstatements found in the sample to the population. We provided management with all requested details of our sample.

Finding Number	2014-062
CFDA Number	14.871
Program Name	Housing Voucher Cluster
Federal Agency	Department of Housing and Urban Development
State Agency	Tennessee Housing Development Agency
Grant/Contract No.	N/A
Federal Award Year	N/A
Finding Type	Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	N/A
Repeat Finding	N/A

The Tennessee Housing Development Agency did not comply with the U.S. Department of Housing and Urban Development's depository requirements

Condition

As noted in a U.S. Department of Housing and Urban Development (HUD) report issued by the Office of Public and Indian Housing's Quality Assurance Division (QAD) on October 15, 2012, the Tennessee Housing Development Agency (THDA) has not established a separate account exclusively for all Section 8 Housing Choice Voucher (HCV) funds. QAD's required corrective action states, "The THDA must execute a General Depository Agreement with a financial institution and establish a single depository account solely for the use of HCV funds." Currently, THDA has not implemented QAD's corrective action.

Criteria

According to Title 24, Section 982.156, *Code of Federal Regulations*, "Unless otherwise required or permitted by HUD, all program receipts must be promptly deposited with a financial institution selected as depositary by the PHA [Public Housing Agency] in accordance with HUD requirements. The PHA must enter into an agreement with the depositary in the form required by HUD."

HUD's standard General Depository Agreement, HUD form 51999, requires all HCV monies deposited by the housing agency to be credited to the housing agency in a separate interest-bearing account.

Cause

Because of the complexities involved in moving HCV operations from its state treasury account as well as staffing issues, THDA has not implemented QAD's required corrective action.

Effect

THDA is in noncompliance with HUD's depository requirements. According to QAD's report, not complying with HUD's depository requirements prevents THDA from providing HUD information useful in determining what resources are available for the HCV program.

Recommendation

THDA should execute a General Depository Agreement with a financial institution and establish a single depository account solely for the use of HCV funds.

Management's Comment

We concur.

THDA has complied with policies and procedures as established by the Department of Finance and Administration and the Department of the Treasury in administering the payments under this program. It is the assessment of THDA that such policies and procedures provide adequate controls in administering such payments.

Since HUD's QAD issued the finding, THDA requested a waiver to permit THDA to administer this program in the same manner as the majority of other federal programs that are administered by THDA. That request was denied by HUD.

It is acknowledged that these payments are required to be deposited into a separate interest-bearing account. As noted in the finding, moving these payments to a separate bank account is complex. Also as noted in the finding, THDA's Accounting division incurred a 22% (two of nine) staffing turnover rate during the past twelve months. THDA has been reviewing, and is continuing to review, the parameters involved with compliance with the applicable HUD rules and regulations.

Finding Number	2014-063
CFDA Number	84.063
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee State University
Grant/Contract No.	N/A
Federal Award Year	2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A
Repeat Finding	N/A

The university's financial aid office did not take the necessary action to report Pell Payment Data to the Department of Education within the required time frame during the spring semester

Condition

Tennessee State University did not notify the U.S. Department of Education (ED) of Pell disbursements made during the spring 2014 semester by the required deadline.

We reviewed the accounts of 31 students who received Pell Grant funds during the year. For 2 of the 31 student disbursements tested (6%), notification of the disbursement was not made to ED during the required 15-day time frame. Both Pell disbursements were made during the spring 2014 semester.

In response to the results of our test of 31 student records, we performed additional testwork on Pell recipients who attended the university beginning in the spring semester. While the university awarded Pell funds to a total of approximately 4,830 recipients for the audit period, 360 Pell recipients only attended in the spring semester. We reviewed a sample of 25 of those students. Our testwork revealed notifications for 23 of the 25 Pell disbursements tested (92%) were not made timely to ED. The days late ranged from 2 days to 107 days. The average number of days late was 31.

Criteria

According to the 2013-2014 *Federal Student Aid Handbook*, Volume 4, Page 28, a school must submit Federal Pell Grant disbursement records "no later than 15 days after making a disbursement or becoming aware of the need to adjust a student's disbursement."

Cause

Our discussions with the current Associate Director of Financial Aid revealed that the two disbursement notifications were not made timely due to a vacancy in her department at a critical time in the academic year, which resulted in the delayed update of certain parameters in Banner, the student information system.

The former Associate Director of Financial Aid, who is currently employed by the contractor for the university's accounting and student information system, stated that each year around mid-August, a Banner process is written to automatically notify ED daily of registered students who are Pell-eligible (origination phase). This Banner process is also written to automatically notify ED daily after a disbursement of Pell Grants occurs (disbursement phase). However, according to Financial Aid personnel, if the origination phase has not been run on a particular student, the disbursement phase will not occur for that student, and ED will not be notified.

For Pell-eligible students who are enrolled in the fall, the origination data is sent in the middle of August including the Pell award for the entire academic year. However, if a student does not enroll until the spring semester, he or she would not have automatically been included in the origination phase of the Banner process that notifies ED about Pell-eligible students. As a result, according to the Director of Financial Aid, the Banner process must be updated in January of each year to include the spring term code in order to include origination data for any Pell-eligible students who enroll only in the spring semester. However, with the vacancy in the position of Associate Director of Financial Aid from December 2013 through March 2014, the process was not updated until March 2014.

The current Associate Director of Financial Aid stated that around the beginning of March 2014, while completing the reconciliation for February Pell disbursements, she and the former Associate Director of Financial Aid found that ED was not being notified about spring-only Pell recipients. According to the former Associate Director of Financial Aid, when the problem was found, the Banner process was immediately updated to extract Pell students who were only enrolled in the spring semester.

Of the 23 late disbursement notifications found during our testing, 22 were reported on March 7, 2014. The former Associate Director of Financial Aid further stated he has now modified the process in Banner for the upcoming fiscal year so that updating the process for each semester will not be necessary.

Effect

Although TSU staff did correct this problem when found, untimely reporting could result in adverse actions against the university by the U.S. Department of Education.

Recommendation

The Director and Associate Director of Financial Aid should ensure that the indicated changes to the information system result in the timely reporting of Pell disbursements to the U.S. Department of Education. They should also ensure that federal compliance requirements continue to be met when positions are vacated.

Management's Comment

We concur. The Office of Financial Aid identified this issue in early spring, 2014, during the reconciliation process for Pell. We determined that the parameters set for the extract process only pulled students with both fall and spring enrollment, causing spring-only students to be omitted. The parameter inserted in this process was eliminated so that all records would be extracted. This correction has been in place since March of 2014. We are confident that the corrective action we have implemented will ensure all future Pell disbursements are reported in a timely manner to the Department of Education and that federal compliance requirements will continue to be met when positions are vacated.

Finding Number	2014-064
CFDA Number	10.553, 10.555, 10.556, 10.558, 10.559, 14.228, 17.258, 17.259, 17.278, 20.205, 84.002, 84.010, 84.027, 84.173, 84.287, 84.367, 93.568, and 93.667
Program Name	Child Nutrition Cluster Child and Adult Care Food Program Summer Food Service Program for Children Community Development Block Grant Workforce Investment Act Cluster Highway Planning and Construction Adult Education – Basic Grants to States Title I Grants to Local Educational Agencies Special Education Cluster Twenty-First Century Community Learning Centers Improving Teacher Quality State Grants Low-Income Home Energy Assistance Social Services Block Grant
Federal Agency	Department of Agriculture Department of Housing and Urban Development Department of Labor Department of Transportation Department of Education Department of Health and Human Services
State Agency	Department of Education Department of Human Services Department of Economic and Community Development Department of Labor and Workforce Development Department of Transportation Tennessee Housing Development Agency Department of Finance and Administration
Grant/Contract No.	2013IN109945, 2014(IN&CN)109945, 2013IN109945, 2014(IN&CN)109945, 2013IN109945, 2014(IN&CN)109945, 2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, B-13-DC-47-0001, AA241201355A47, AA229631255A47, AA214231155A47CM/HSIP-9202(109), CM-174(19), CM-7900(40), CM-7900(47), CM-7900(50), CM-9109(160), CM-9400(47), CM-9400(51), CM-NH-57(60), HPP/STP-EN-198(9), HPP-1000(28), HPP-1231(3), SRTS-5500(51), SRTS-5900(21), SRTS-6800(24), SRTS-9207(17), SRTS-9309(15), SRTS-9409(154), STP-EN-11(63), STP-EN-200(33), STP-EN-2600(43), STP-EN-3900(23), STP-EN-412(10), STP-EN-6800(23), STP-EN-9100(39), STP-EN-9108(42), STP-EN-9109(138), STP-EN-9115(16), STP-EN-9303(13), STP-EN-9409(157), STP-EN-NH-40(28), STP-M-258(11), STP-M-3630(10), STP-M-3964(10), STP-M-41(20), STP-M-5431(10), STP-M-5740(10), STP-M-64(18), STP-M-73(56), STP-M-9108(37), STP-M-9109(151),

	STP-M-9112(19), STP-M-9202(112), STP-M-9203(20), STP-M-9302(17), STP-M-9303(12), STP-M-9310(10), STP-M-9318(5), STP-M-9400(56), STP-M-9401(10), STP-M-9402(14), STP-M-9409(158), STP-M-9409(180), STP-M-9409(181), STP-M-9409(185), STP-M-9409(186), STP-M-9410(10), STP-M-9419(8), STP-M-99(35), STP-M-NH-177(36), TAP-M-9101(16), TIGER-M2M(1), V022A120043, V002A130043, S010A100042, S010A1-10042, S010A120042, S010A130042, H027A070052, H027A080052, H027A090052, H027A100052, H027A110052, H027A120052, H027A130167, H173A110095, H173A120095, H173A130095, S287C100043, S287C110043, S287C120043, S367A110040, S367A120040, S367A130040, G11B1TNLIEA, G12B1TNLIEA, G13B1TNLIEA, G14B1TNLIEA, G0901TNSOSR, G1001TNSOSR, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR
Federal Award Year	2007 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A

Six departments did not comply with Federal Funding Accountability and Transparency Act reporting requirements

Background

The United States Congress signed the Federal Funding Accountability and Transparency Act (FFATA) on September 26, 2006. According to the federal reporting website, www.fsrs.gov, the intent of the legislation is to "empower every American with the ability to hold the government accountable for each spending decision" by requiring information on federal awards to be available to the public on a single, searchable website, which is www.USASpending.gov.

The State of Tennessee receives funding from many federal programs. The state passes a portion of this funding through to other entities, via legal agreements known as subawards so that these other entities perform activities that support the federal programs. FFATA requires the state to report financial information for subawards of $25,000 or more for these programs through the FFATA Subaward Reporting System (FSRS), which is a reporting tool maintained by the federal government. The information on FSRS is then uploaded to USASpending.gov.

Condition

Our review of compliance with FFATA requirements for the year ended June 30, 2014, found that six state departments[31] did not report subaward financial information as required by FFATA. For the federal programs we audited, these state departments

- did not report subaward data in FSRS (completeness),
- did not document when they reported subaward information in FSRS (completeness),
- did not promptly report information in FSRS (timeliness), or
- incorrectly reported the Data Universal Numbering System (DUNS) number (a unique nine digit identification number that verifies the existence of a business), the subaward number, the subaward date, the subaward obligation date, and/or the amount of the subaward in FSRS (completeness).

Details are in the chart on the following page.

[31] The six departments not reporting subaward financial information as required were the Department of Economic and Community Development (ECD); Department of Education (DOE); Department of Finance and Administration (F&A), which prepares reports for ECD and LWD (see further details in the "cause" section); Department of Human Services (DHS); Department of Labor and Workforce Development (LWD); Department of Transportation (TDOT); and Tennessee Housing Development Agency (THDA).

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
DHS	Child and Adult Care Food Program (10.558)	-	To test timeliness, we selected a nonstatistical sample of 60 items from a population of 8,116 subaward obligations ($60,767,164), and we determined 51 of 60 subaward obligations (85%) were not reported timely.
		$17,734,316	To test completeness, we summarized the population of 8,116 subaward obligations ($60,767,164) by subrecipients to get a population of 307 subrecipients, and we determined that 74 of 307 subrecipient subaward obligations (24%) were not reported and 218 of 307 subrecipient subaward obligations (71%) were not reported completely.
		-	Based on our review of internal controls, we determined that the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRS.
	Summer Food Service Program for Children (10.559)	-	To test timeliness, we selected a nonstatistical sample of 60 items from 408 subaward obligations ($12,283,348), and we determined 52 of 60 subaward obligations (87%) were not reported timely.
		$7,003,773	To test completeness, we tested the population of 63 subrecipient subaward obligations ($12,344,444), and we determined that 19 of 63 subrecipient subaward obligations (30%) were not reported and 34 of 63 subrecipient subaward obligations (54%) were not reported completely.
		-	Based on our review of internal controls, we determined that the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRS.
	Low-Income Home Energy Assistance (93.568)[32]	$176,400	To test timeliness and completeness, we tested the complete population of 19 subawards ($11,999,999), and we determined 1 of 19 subawards (5%) was not reported to FSRS.
		$10,101,678	To test timeliness and completeness, we tested the complete population of 19 subawards ($11,999,999), and we determined 18 of 19 subawards (95%) were reported with an incorrect subaward amount.
		-	Based on our review of internal controls, we determined that before August 2013 the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRS. After August 2013, the department implemented a review process.

Chart Continued

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
DHS	Social Services Block Grant (93.667)	$2,339,190	To test timeliness and completeness, we tested the complete population of 17 subawards ($3,922,000), and we determined 11 of 17 subawards (65%) were reported with an incorrect subaward amount and /or subaward number.
		$1,415,000	To test timeliness and completeness, we tested the complete population of 17 subawards ($3,922,000), and we determined that 6 of 17 subawards (35%) were not reported to FSRS.
		-	Based on our review of internal controls, we determined that before August 2013 the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRS. After August 2013, the department implemented a review process.
ECD/F&A	Community Development Block Grant (14.228)	$1,650,000	To test timeliness and completeness, we tested the complete population ($26,700,755) of subawards, and we determined that 5 of 67 subawards (7%) were not reported due to incorrect DUNs with no supporting documentation of the error.
		$500,000	To test timeliness and completeness, we tested the complete population ($26,700,755) of subawards, and we determined that 1 of 67 subawards (1%) was reported under an incorrect DUN.
		$2,207,860	To test timeliness and completeness, we tested the complete population ($26,700,755) of subawards, and we determined that 5 of 67 subawards (7%) were not reported timely.
		$630,665	To test timeliness and completeness, we tested the complete population ($26,700,755) of subawards, and we determined that 2 of 67 subawards (3%) were reported before the award was approved.
		-	Based on our review of internal controls, we determined that ECD did not have a review process in place to ensure that the subrecipients' DUNS numbers were valid before they were provided to F&A. F&A did not maintain documentation of errors and communication of these errors to ECD staff.
LWD/F&A	Workforce Investment Act Cluster (17.258, 17.259, 17.278)	$29,140,693	We tested the complete population ($45,841,535) of subawards, and we determined that 51 of 85 subawards (60%) were not reported timely.
		-	Based on our review of internal controls, we determined that F&A did not have an effective review process in place to ensure that all required subrecipients' subaward data was reported accurately and timely in FSRS. In addition, F&A and LWD had not established an effective communication process to ensure compliance with reporting, such as a reconciliation process.

Chart Continued

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
LWD/F&A	Adult Education - Basic Grants to States (84.002)	$10,470,743	We tested the complete population ($10,470,743) of subawards, and we determined that 65 of 65 subawards (100%) were not reported timely.
		$63,566	We subsequently were made aware of 2 additional subawards that were not reported.
		-	Based on our review of internal controls, we determined that F&A did not have an effective review process in place to ensure that all required subrecipients' subaward data was reported accurately and timely in FSRS. In addition, F&A and LWD had not established an effective communication process to ensure compliance with reporting, such as a reconciliation process.
TDOE	Child Nutrition Cluster (10.553, 10.555, and 10.556)	$513,272	To test timeliness and completeness, we selected a nonstatistical sample of 60 items ($11,529,903) from a population of 1,330 reportable subaward obligations ($321,117,996), and we determined 6 of 60 grants (10%) were not reported timely.
		-	Based on our review of internal controls, we determined that the department did not have a review process in place to ensure it reported all of the required subrecipients' data in FSRS.
	Twenty-First Century Community Learning Centers (84.287)	$23,191,963	To test timeliness and completeness, we tested the complete population ($23,191,963) of subrecipients, and we determined that 103 of 103 subawards (100%) were not reported.
		-	Based on our review of internal controls, we determined that the department did not have a review process in place to ensure it reported all of the required subrecipients' data in FSRS.
	Title I, Part A (84.010 and 84.389), Special Education Cluster (84.027 and 84.173), and Improving Teacher Quality State Grants (84.367)	-	Based on our review of internal controls, we determined that the department did not have a review process in place to ensure it reported all of the required subrecipients' data in FSRS.
TDOT	Highway Planning and Construction Program (20.205)	$3,950,496	To test completeness, we selected a nonstatistical sample of 62 items ($23,025,914) from a population of 174 potentially valid subawards ($66,111,556), and we determined 15 of 62 subawards (24%) were not reported.

Chart Continued

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
TDOT	Highway Planning and Construction Program (20.205)	$8,924,220	To test completeness, we selected a nonstatistical sample of 62 items ($23,025,914) from a population of 174 potentially valid subawards ($66,111,556). From the 62 items, we determined that only 47 items ($19,035,977) were reported to FSRS and applicable for testwork. We determined that 21 of 47 subawards (45%) were reported with an incorrect subaward amount.
		$19,035,977	To test completeness, we selected a nonstatistical sample of 62 items ($23,025,914) from a population of 174 potentially valid subawards ($66,111,556). From the 62 items, we determined that only 47 items ($19,035,977) were reported to FSRS and applicable for testwork. We determined that 47 of 47 subawards (100%) were reported with an incorrect subaward and/or subaward obligation date.
		-	Based on our review of internal controls, we determined that the department had not reconciled the list of awards provided by the federal government through FSRS and award documentation. In addition, we determined that no review existed before or after submission of subawards into FSRS to ensure accuracy and completeness.
THDA	Low-Income Home Energy Assistance Program (93.568)[32]	-	See footnote 32 below.

[32] During fiscal year 2014, the Low-Income Home Energy Assistance program (93.568) was administered by the Department of Human Services and the Tennessee Housing Development Agency. THDA assumed responsibility for FFATA reporting in February of 2014. Based on discussion with THDA's Controller, we determined that THDA reported subaward activities in the same manner that DHS did prior to February of 2014. Since DHS reported subaward expenditures, rather than obligations as required by FFATA, no additional audit procedures related to FFATA reporting were performed at THDA.

Criteria

All Six Departments:

According to Title 2, Part 170, Appendix A, *Code of Federal Regulations*, an entity

- must report each obligation of $25,000 or more in federal funds that does not include recovery funds for a subaward to an entity;
- must report each obligation of this subaward term in FSRS;
- must report no later than the end of the month following the month in which the obligation was made; and
- must report this information about each obligation based on the submission instructions posted on FSRS.

Department of Human Services:

- In addition, for the Department of Human Services, according to 75 *Federal Register* 177 (Sept. 14, 2010) pp. 55667 – 55668,

  > . . . The guidance requires reporting of each obligation, rather than each disbursement against the amount obligated. If a recipient obligates a specific known amount for a subaward, even if it may be adjusted later, it must report the obligation when it is made. For a program like the school lunch program, however, where the initial subaward provides the subrecipient with an open-ended authorization of unspecified amount, the obligation date corresponds to the date on which the amount of the obligation is specified. Reporting is required by the end of the month following the month in which the subaward obligation was made.

- Also, according to guidance provided by the USDA, a claim for meal reimbursement establishes a subrecipient's entitlement to federal program funds, thereby establishing both the obligation for FFATA reporting and the related expenditure. Reporting is required by the end of the month following the month in which the subaward obligation was made. (2 CFR section 25.110).

Department of Economic and Community Development:

- In addition, for the Department of Economic and Community Development, according to Title 2, Part 25, Section 205,

  > (a) An agency may not make an award to an entity until the entity has complied with the requirements described in §25.200 to provide a valid DUNS number and maintain an active CCR registration with current information

Cause

Department of Economic and Community Development and Department of Labor and Workforce Development: Per executive order No. 13, *An Order Transferring Positions for Financial Accounting and Reporting Within Certain State Departments to the Department of Finance and Administration Regarding Centralized Accounting by the Department of Finance and Administration*, signed on June 26, 2013, the Department of Economic and Community Development (ECD) and the Department of Labor and Workforce Development (LWD) have agreements with the Department of Finance and Administration (F&A). These agreements state that all financial accounting and reporting functions of both departments will be managed and operated by F&A. Although these agreements include F&A's completion of federal reporting requirements for ECD and LWD, a certain amount of responsibility and accountability for accurate reporting remains with the respective departments. In addition, effective communication between each department and F&A is critical to ensure successful execution of these fiscal arrangements. In fact, communication between the departments is required by the F&A Fiscal Services agreement, which states,

> Initially, the Department [ECD/LWD] will furnish an all-inclusive list of federal, state and other reporting requirements (including associated deadlines) considered the responsibility of the fiscal office. On an ongoing basis, the Department's program staff will continue to communicate with [F&A] fiscal office staff and Accounts regarding new or changed program planning and implementation for purposes of appropriate financial accounting and reporting considerations.

Due to the joint accountability described in the paragraph above, the cause of the conditions at ECD and LWD were attributable to some processes under the respective department's control and some processes under F&A's control. This is reflected immediately below and in the "recommendation" section of the finding.

- **Department of Economic and Community Development:** ECD did not have a review process in place to ensure that all of the required subrecipients' data that was provided to F&A was accurate and timely. Furthermore, F&A did not maintain documentation of FSRS errors and the communication of these errors to ECD staff for investigation and correction.
- **Department of Labor and Workforce Development:** While F&A implemented a FFATA reporting process during our fiscal year 2014 audit period, the process was not in place for awards to be reported in FSRS before December 19, 2013. As a result, subawards issued prior to November 2013 were not reported. Subsequently, F&A did not have an effective review process in place to ensure that all of the required subrecipients' data was reported accurately and timely in FSRS. In addition, F&A and LWD had not established an effective communication process to ensure compliance with reporting, such as a reconciliation process with the LWD program areas.

Department of Education:

The Department of Education did not have a review process in place to ensure it reported all of the required subrecipients' data in FSRS. This review process was not performed for the following federal programs: Child Nutrition Cluster; Title I, Part A; and Improving Teacher Quality State Grants. For the Special Education Cluster, a documented review of subrecipients' data in FSRS could not be provided. In addition, program management responsible for reporting the Twenty-First Century Community Learning Centers program subawards were unaware these subawards were not reported.

Department of Human Services:

For the Social Services Block Grant Program and the Low Income Home Energy Assistance Program, Department of Human Services (DHS) management believed the Transparency Act language was vague; therefore, management instructed staff to report based on the payments toward obligations rather than the obligations as a whole. For the Child and Adult Care Food Program and the Summer Food Service Program, DHS did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRS.

Department of Transportation:

We identified two primary causes for the deficiencies identified.

- The Tennessee Department of Transportation (TDOT) had not reconciled the list of awards provided by the federal government through FSRS and award documentation in the department's program areas in order to ensure all subawards were reported.
- During fiscal year 2014, no review existed before or after submission of subawards into FSRS to ensure accuracy and completeness. On September 8, 2014 (following the end of our audit period), however, TDOT transferred the FFATA reporting responsibilities for the Highway Planning and Construction program from the Consultant Design Office to the Local Programs Development Office. Upon this transfer, TDOT put a control in place which would require an employee to review subaward information before another employee submitted this information into FSRS.

Tennessee Housing Development Agency:

During fiscal year 2014, the Low-Income Home Energy Assistance program (93.568) was administered by the Department of Human Service and the Tennessee Housing Development Agency. THDA assumed responsibility for FFATA reporting in February of 2014. Based on discussion with THDA's Controller, we determined that THDA reported subaward activities in the same manner that DHS did prior to February of 2014. Since DHS reported subaward expenditures, rather than obligations as required by FFATA, no additional audit procedures related to FFATA reporting were performed at THDA.

<u>Effect</u>

All Six Departments:

Noncompliance with the FFATA reporting requirements results in a lack of accountability and transparency to the public.

Department of Economic and Community Development and Department of Labor and Workforce Development:

When the communications outlined in the agreements transferring the management and operations of financial accounting and reporting to F&A are not adequate, the risk of reporting errors increases.

<u>Recommendation</u>

Department of Economic and Community Development:

The Commissioner of ECD should ensure that appropriate ECD staff members review subrecipient data for accuracy and completeness before submitting it to F&A for reporting in FSRS.

Department of Education, Department of Finance and Administration, Department of Human Services, Department of Transportation, and Tennessee Housing Development Agency:

The Commissioners of the Department of Education, F&A, DHS, , TDOT, and Tennessee Housing Development Agency should ensure that the appropriate staff members understand the FFATA reporting requirements and report applicable subawards in accordance with those reporting requirements, such as the requirement that subawards be reported no later than the end of the month following the month in which the subaward was granted and under the correct DUNS number. The Commissioners should also ensure that appropriate staff members are assigned to review the reports submitted, via FSRS, to ensure that all applicable subawards are reported timely and accurately. These reviews should be documented and conducted by someone other than the staff member who initially reports the subaward information in FSRS. In addition, we recommend, specifically for TDOT, that in order to ensure all subawards are reported, TDOT management or designated personnel create an independent list of subawards and reconcile this list to the one provided by the federal government through FSRS.

It should be noted that for the Commissioner of F&A, the recommendations above apply to the FFATA reports staff prepare on behalf of the departments F&A has assumed financial accounting and reporting functions for, such as the ECD and LWD. Also, we recommend that F&A maintain documentation of FSRS errors and communication of these errors to ECD staff for investigation and correction.

Department of Labor and Workforce Development:

The Commissioner of LWD should ensure an effective communication process is established between LWD program staff and F&A fiscal staff in order to ensure compliance with FFATA reporting requirements.

<u>Managements' Comments</u>

Department of Economic and Community Development:

We concur that ECD did not have an additional review process in place to ensure that the subrecipients' DUNs numbers were valid before they were provided to the Fiscal Services personnel provided under contract with F&A. As previously stated in the audit report, ECD contracted with F&A to take over the management and operation of all ECD's financial accounting and reporting functions. Employees were transitioned from ECD to F&A but retained most of their former job duties. The validation of DUNS numbers was one of those functions. An F&A employee now has access to various federal reporting applicationsthat ECD's Program staff do not have. One of these applications is the FSRS system used for FFATA reporting. The FSRS system alerts the user when the DUNS number does not match their records. The IRS and DLA may also perform subsequent reviews when DUNS numbers fail to match. The F&A employee did not communicate these alerts to ECD management although ample opportunities are provided weekly, monthly and quarterly.

We consider the risk of reporting errors relatively small since 443 of our 457 grantees of CDBG funds (96%) are Tennessee counties and municipalities whose DUNS numbers may not have changed for decades.

In accordance with the contract requirements for managing reporting functions, ECD's management and staff remain in continuous communication with the F&A personnel that operate ECD's Fiscal Services section. ECD provides F&A's personnel with a comprehensive list of State and Federal reports as required and furnishes reminders in the form of monthly emails stating which State and Federal reports will be due. The reports direct the individuals responsible for each report to notify ECD's management and internal audit of any errors or delays.

Our shortcoming appears to have been a disconnect between ECD's program staff and F&A personnel related to pre-verification of DUNS numbers. We are instituting a process for program staff to verify the DUNS numbers during the grant application process. This will resolve the timing issue referred to in your reference to CFR Title 2, Part 25, Section 200.

Department of Education:

We concur. Staff persons who have been assigned to perform FFATA reporting have been informed of FFATA reporting requirements. For each program area, a second person has been designated to review data submitted to ensure it is timely and accurate.

Department of Finance and Administration:

We concur. The Department of Finance and Administration (F&A) will continue to work with the Department of Economic and Community Development to ensure that subawards are reported accurately and timely in the FSRS system. F&A staff will maintain documentation of errors encountered during the reporting process and timely communicate these errors to the Department of Economic and Community Development staff.

We concur. The Department of Finance and Administration (F&A) fiscal staff is currently in compliance with FFATA reporting requirements and has implemented a monthly reconciliation process to ensure all required sub-recipient data has been reported in FSRS. F&A fiscal staff will assist LWD program staff and management in developing a reconciliation of program data to FSRS.

Department of Human Services:

We concur in part.

In November 2013, after an extensive study of the FFATA Act by the Department, the Department and State Audit agreed that the reporting requirements were to report sub-recipient payment at the $25,000 interval. This is the reporting process the Department adopted at that time for all programs (SSBG, CSBG, CACFP and SFSP) that required FFATA reporting. It should be noted that the Department has not changed its reporting process since this time. This issue was not identified as a finding in 2013.

The Department agrees that in some instances, reporting was not timely. The Department does not agree that all instances identified by State Audit were not reported timely. In some instances the payments to sub-recipients did not exceed the $25,000 threshold to be reported. Moving forward, the Department will take necessary corrective measures with employees who do not follow the process.

The Department does not agree that we did not report accurately. In the instances identified in the report as not being reported accurately, the Department reported the payment made to the sub-recipient as agreed to with State Audit.

It should be noted that gaining a comprehensive understanding of the FFATA requirement, which was initially signed into law in 2006, has been an ongoing challenge for states and federal entities. The Federal Office of Management and Budget (OMB) provides oversight of FFATA. There have been multiple iterations of the act since its inception in 2006 with the most recent being the 3rd phase of the Act. The 3rd phase started March 2011 and required the reporting of subcontracts under federally awarded contracts and orders valued greater than or equal to $25,000. The multiple iterations at the federal level have contributed to the difficulty with compliance and interpretation across the country. State Audit also agreed with the challenges with the interpretation of the act.

Aside from the challenges noted above, we agree there are opportunities to improve the reporting process. The Department will review the reporting requirements and the process already in place to help ensure accuracy and timeliness.

Auditor's Comment

As noted in the finding above, the department has not reported in accordance with FFATA requirements.

Department of Labor and Workforce Development:

We concur. Where applicable, we will work with the Department of Finance and Administration to ensure proper financial reporting.

Department of Transportation:

We concur. The Finance Office of the Department of Transportation assumed responsibility on September 8, 2014 for compiling the list of subawards each month and of notifying program areas of subawards to be reported in FSRS. The Finance Office will follow up with program areas to ensure subawards are reported as required by FFATA.

Tennessee Housing Development Agency:

We concur with the condition as stated in Footnote 32. THDA will begin to report FFATA based on subaward obligations as required.

Finding Number	2014-065
CFDA Number	10.558, 10.559, 17.258, 17.259, 17.278, 20.509, and 93.600
Program Name	Child and Adult Care Food Program Summer Food Service Program for Children Workforce Investment Act Cluster Formula Grants for Rural Areas Head Start Program
Federal Agency	Department of Agriculture Department of Labor Department of Transportation Department of Health and Human Services
State Agency	Department of Human Services Department of Labor and Workforce Development Department of Transportation
Grant/Contract No.	2013IN109945, 2014IN109945, AA-21423-11-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, TN-18-X032, and 04CH0804/48
Federal Award Year	2011 though 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$78,564
Repeat Finding	N/A

Grant funds were used for unallowable real property acquisition, resulting in federal questioned costs of $78,564

Condition

During our review of subrecipient monitoring for the Workforce Investment Act cluster of programs, we found that Southwest Tennessee Human Resource Agency (SWHRA)[33] used funds from multiple federal grant programs to pay for the acquisition of its central office building. Although numerous state agencies contract with SWHRA to provide services through various federal grant programs, none of them identified that SWHRA's expenditures included principal and interest payments on the promissory note for its building purchase, resulting in federal questioned costs of $78,564[34] for fiscal year 2014.

A summary of the costs charged to the federal grant programs, involving expenditures to acquire the office building, is included in the following table.

[33] Southwest Tennessee Human Resource Agency operates under the authority of Title 13, Chapter 26, *Tennessee Code Annotated*, which provides a regional system to deliver human resource programs to the state's counties and cities.

[34] OMB Circular A-133, "Audits of States, Local Governments and Non Profit Organizations," requires us to report known questioned costs when likely questioned costs are greater than $10,000 for a type of compliance requirement for a major program. The federal questioned costs of $78,564 presented here are for those programs where questioned costs exceed $10,000. Although the questioned costs for the Summer Food Service Program for Children are less than $10,000 in this finding, additional questioned costs are noted in 2014-029.

Table
Southwest Human Resource Agency
Costs for Central Office Building Purchase
Charged to Federal Grant Programs
For the Year Ended June 30, 2014

Federal Awarding Agency	State Awarding Agency (if applicable)	CFDA Number	Federal Program Name	Amount
U.S. Department of Labor and Workforce Development	Tennessee Department of Labor and Workforce Development	17.258, 17.259, and 17.278	Workforce Investment Act Cluster	$46,772
U.S. Department of Transportation	Tennessee Department of Transportation Southwest Tennessee Development District	20.509	Formula Grants for Rural Areas	10,330
U.S. Department of Agriculture	Tennessee Department of Human Services	10.559	Summer Food Service Program for Children	149
U.S. Department of Health and Human Services	N/A; funds received directly from the federal awarding agency.	93.600	Head Start Program	21,313*
U.S. Department of Agriculture	Tennessee Department of Human Services	10.558	Child and Adult Care Food Program	
			Total:	**$78,564**

***** SWHRA charged $21,313 of building-related expenditures to activities funded by both the Head Start Program and the Child and Adult Care Food Program. Since the information provided by SWHRA did not include sufficient detail to determine how the expenditures were charged to the individual federal programs, the total building-related expenditures charged to the related activity codes are listed as questioned costs.

Criteria

Title 2, *Code of Federal Regulations*, Part 225, Attachment B, Section 15.b, states that capital expenditures for buildings are unallowable for state and local governments carrying out federal awards, except when they are approved in advance by the awarding agencies. Additional federal requirements state that building purchases are specifically prohibited for the Summer Food Service Program for Children[35] and the Workforce Investment Act program cluster[36].

Cause

The executive director for SWHRA stated that agency management intended to use grant funds from federal programs to service the debt when they decided to purchase the building in 2011 instead of continuing to rent it. In our discussions with him, he indicated that he was unaware

[35] Food and Nutrition Service Instruction 796-4, Rev. 4.
[36] 20 CFR 667.260.

that this was an unallowable use of grant funds. According to the executive director, no prior approval was sought from the federal or state agencies that awarded SWHRA the grant funds.

SWHRA continued to classify the payments for the central office as rent expenses in its accounting system after it purchased the building. The various state agencies contracting with SWHRA did not verify that these expenditures were presented accurately, nor did they note that the Schedule of Expenditures by Program included in SWHRA's independent auditor's report listed principal retirement and interest for the debt under the heading of "Capital Outlays."

Effect

When federal funds are used for the purchase of capital assets such as buildings, the federal awarding agencies have financial interests in these assets. OMB Circular A-133, "Audits of States, Local Governments and Non Profit Organizations," requires us to report known or likely questioned costs greater than $10,000 for major programs. The known questioned costs for several of the major programs listed in the table above exceed this threshold.

Recommendation

The commissioners of the Human Services, Labor and Workforce Development, and Transportation departments should ensure that the awarding federal agencies are notified of their interests in SWHRA's central office building and, if necessary, that they are reimbursed for all unallowable costs. The managements of these agencies should also take the necessary steps to ensure that subrecipients are aware of the allowable uses of grant funds and that these subrecipients' expenditures and independent audit reports are properly reviewed.

Managements' Comments

Department of Human Services

We concur in part.

The Department concurs with the Summer Food Service Program (SFSP) finding totaling $149 and will start the recoupment process for the questioned costs. The Department does not agree with the $21,313 in questioned costs. The Department needs clarification from State Audit on the dollar amount that is considered unallowable in Table 1 labeled U.S. Department of Health and Human Services and Tennessee Department of Human Services. In the finding, as written by State Audit, funds from the Head Start Program and The Child and Adult Care Food Program (CACFP) have been combined, totaling $21,313. The Department does not have a fiduciary relationship with nor does it grant funds from the Head Start Program, as it is administered by the U.S. Department of Health and Human Services.

As noted in Title 2, *Code of Federal Regulations,* Part 225, Attachment B, Section 15.b, capital expenditures for buildings are unallowable for state and local governments carrying out federal awards, except when they are approved in advance by the awarding agencies for the CACFP program. Once the CACFP unallowed amount in Table 1 is determined, the Department will work with the subrecipient and the USDA to verify that advanced approval for capital expenditures was not obtained. The Department will then work with the USDA on the corrective action to be performed (i.e., notifying them of their interest in the subrecipient's central office building and/or ensuring the USDA is reimbursed for all unallowable costs).

During external program fiscal reviews, Department staff review agency expenditures for accuracy and review independent auditor's reports for program and fiscal findings and internal controls weaknesses that may warrant special attention. For FY 2014, a fiscal audit of the CACFP was not included in the audit plan for the agency noted in this finding. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. The Department is planning a CACFP fiscal review for this agency in FY 2015 and will ensure the subrecipient is aware of allowable uses for grant funds.

Department of Labor and Workforce Development

We concur in part.

Beginning in the early 1990s, SWHRA leased their central office building from the City of Henderson. The lease payment was allocated to the applicable programs, based on occupied square footage and in accordance with their federally approved cost allocation plan. Since the lease amount increased over time, the SWHRA board inquired with the City of Henderson and approved to purchase the building. In calendar year 2010 SWHRA secured a loan and purchased the building being used as their central office. The current amount being allocated is still being allocated based on occupied square footage and is slightly less than the allocated amount immediately prior to being purchased.

We understand that SWHRA did not obtain federal approval for allocating portions of the mortgage payment to the applicable programs. Since occupancy charges are allowable under federal regulations, we will assist SWHRA to obtain federal approval for an appropriate occupancy rate and applicable allocation method from their federal cognizant agency. Depending upon the difference in amounts between the actual allocated amount and the federally approved allocated amount; questioned costs will be handled in accordance with federal guidance.

Department of Transportation

We concur. SWHRA will repay TDOT for unallowable debt payments that were improperly characterized as rent and TDOT will return the funds to the Federal Transit Administration. The DMTR will provide all subrecipients with guidance on when debt payments associated with the acquisition of real property are allowable. DMTR will also review the tenure status of all subrecipients to ensure that real property ownership information has been properly reported.

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, 2014

Unclustered Programs

Department of Agriculture

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001		$ 2,366,030.17
Agriculture	Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 913,108.56	
University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care	10.025	92,296.46	1,005,405.02
University of Tennessee	Wildlife Services	10.028		14,798.88
Agriculture	Conservation Reserve Program	10.069		178,717.00
Agriculture	Market Protection and Promotion	10.163		20,978.06
Middle Tennessee State University	Farmers' Market and Local Food Promotion Program	10.168		30,232.88
Agriculture	Specialty Crop Block Grant Program - Farm Bill	10.170		476,950.56
University of Tennessee	Cooperative Forestry Research	10.202		774,769.05
University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		6,598,952.86
Tennessee State University	1890 Institution Capacity Building Grants	10.216		400,448.38
Tennessee Technological University	Higher Education - Institution Challenge Grants Program	10.217	$ 44,847.23	
University of Tennessee	Higher Education - Institution Challenge Grants Program	10.217	65,661.05	110,508.28
Agriculture	Homeland Security_Agricultural	10.304		22,442.03
Tennessee State University	Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers	10.443		72,739.14
Tennessee State University	Cooperative Extension Service	10.500	$ 5,281,734.05	
University of Tennessee	Cooperative Extension Service	10.500	12,333,353.20	17,615,087.25
Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		119,842,909.78
Human Services	Child and Adult Care Food Program	10.558		65,683,431.60
Agriculture	State Administrative Expenses for Child Nutrition	10.560	$ 218,923.09	
Education	State Administrative Expenses for Child Nutrition	10.560	2,259,785.70	
Human Services	State Administrative Expenses for Child Nutrition	10.560	1,245,313.16	3,724,021.95
Health	WIC Farmers' Market Nutrition Program (FMNP)	10.572		68,601.76
Health	Senior Farmers Market Nutrition Program	10.576		493,491.67
Education	Fresh Fruit and Vegetable Program	10.582		3,202,307.77
Agriculture	Forestry Research	10.652		244,822.16
Agriculture	Cooperative Forestry Assistance	10.664		1,366,350.33
Agriculture	Urban and Community Forestry Program	10.675		273,246.53
Agriculture	Forest Legacy Program	10.676		515,646.15
Agriculture	Forest Stewardship Program	10.678		227,219.83
Agriculture	Forest Health Protection	10.680	$ 396,165.69	
University of Tennessee	Forest Health Protection	10.680	53,843.54	450,009.23
University of Tennessee	Rural Business Enterprise Grants	10.769		61,803.78
Tennessee State University	Norman E. Borlaug International Agricultural Science and Technology Fellowship	10.777		20,792.15

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
East Tennessee State University	Distance Learning and Telemedicine Loans and Grants	10.855	$ 66,732.30	
Jackson State Community College	Distance Learning and Telemedicine Loans and Grants	10.855	11,798.00	78,530.30
Tennessee State University	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856		(18,504.37)
University of Tennessee	Public Television Station Digital Transition Grant Program	10.861		258,538.06
Tennessee State University	Soil and Water Conservation	10.902	$ (2,070.70)	
University of Tennessee	Soil and Water Conservation	10.902	3,000.00	929.30
University of Tennessee	Soil Survey	10.903		14,014.02
University of Tennessee	Environmental Quality Incentives Program	10.912		193,394.64
Tennessee State University	Cochran Fellowship Program-International Training-Foreign Participant	10.962		10,887.11
University of Tennessee	USDA FS Silviculture 2013-Clatterbuck	10 / SILVICULTURE 2013		(56,321.00)
University of Tennessee	USDA FS Silviculture 2014-Clatterbuck	10 / SILVICULTURE 2014		100,274.50
Subtotal Direct Programs				$ 226,444,456.81
Passed Through University of Florida				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1200142137	$ 2,030.29	
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1400281489	2,130.30	$ 4,160.59
University of Tennessee	Homeland Security_Agricultural	10.304 / UFDSP00010249		23,225.63
Passed Through University of Georgia				
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-109/4787876	$ (139.27)	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-117/4893526	9,376.32	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-122/4941326	22,000.00	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-1254940976	24,349.76	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RE675-116/489346	2,605.13	58,191.94
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / RC293365/4693958		66,621.47
University of Tennessee	Cooperative Extension Service	10.500 / RE582-364/4942486	$ 33,807.48	
University of Tennessee	Cooperative Extension Service	10.500 / RE675-167/4940006	15,740.91	49,548.39
Passed Through University of Kentucky Research Foundation				
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / 3048109597-13-034		25,486.61
University of Tennessee	Cooperative Extension Service	10.500 / 3048107580-11-228		4,704.55
Passed Through Alabama Agricultural and Mechanical University				
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2013-38821-21103		714.16
Passed Through Cornell University				
University of Tennessee	Integrated Programs	10.303 / 61384-9312		(1.00)

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through North Carolina State University				
University of Tennessee	Integrated Programs	10.303 / 2012-2604-16		10,174.84
University of Tennessee	Environmental Quality Incentives Program	10.912 / 2012-1632-06		3,072.73
University of Tennessee	Long Term Standing Agreements For Storage, Transportation And Lease	10.999 / 2012-0413-05		19,333.00
Passed Through University of Rhode Island				
Tennessee State University	Integrated Programs	10.303 / 2007-51110-03816		(534.81)
Passed Through Purdue University				
University of Tennessee	Homeland Security_Agricultural	10.304 / 8000037045-AG		4,499.66
Passed Through Brigham Young University				
University of Tennessee	Specialty Crop Research Initiative	10.309 / #12-0356		4,685.71
Passed Through University of Massachusetts				
University of Tennessee	Specialty Crop Research Initiative	10.309 / 12-007055-D-00		32,227.10
Passed Through University of Maryland				
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / Z552802		81,896.20
Passed Through Auburn University				
University of Tennessee	Cooperative Extension Service	10.500 / 13-HHP-3798-UTK		11,186.01
Passed Through Kansas State University				
University of Tennessee	Cooperative Extension Service	10.500 / 4-H CLUB 2013	$ 10,218.58	
University of Tennessee	Cooperative Extension Service	10.500 / S13131	9,137.57	
University of Tennessee	Cooperative Extension Service	10.500 / S14076	2,226.42	21,582.57
Passed Through Michigan State University				
University of Tennessee	Cooperative Extension Service	10.500 / RC103176R		21,680.73
Passed Through University of Arkansas at Little Rock				
University of Tennessee	Cooperative Extension Service	10.500 / 2009 FDP	$ 17,587.20	
University of Tennessee	Cooperative Extension Service	10.500 / 21662-09	2,508.13	
University of Tennessee	Cooperative Extension Service	10.500 / 21662-12	5,420.55	
University of Tennessee	Cooperative Extension Service	10.500 / 21663-03	33,335.41	
University of Tennessee	Cooperative Extension Service	10.500 / 44,21662-06	16,008.61	74,859.90
Passed Through Texas A&M AgriLife Extension Service				
University of Tennessee	TX Coop Water Resource Project-Ludwig	10 / NO 451004 AMD 8		4,512.77
Subtotal Pass-Through Programs				$ 521,828.75
Subtotal Department of Agriculture				$ 226,966,285.56

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Department of Commerce			
Direct Programs			
University of Tennessee	Economic Development_Technical Assistance	11.303	$ 127,814.45
Safety and Homeland Security	State and Local Implementation Grant Program	11.549	11,709.27
University of Tennessee	Manufacturing Extension Partnership	11.611	2,258,913.71
Subtotal Direct Programs			$ 2,398,437.43
Passed Through Georgia Institute of Technology			
University of Tennessee	Manufacturing Extension Partnership	11.611 / T7819-G1	$ 3,800.88
Subtotal Pass-Through Programs			$ 3,800.88
Subtotal Department of Commerce			$ 2,402,238.31
Department of Defense			
Direct Programs			
University of Tennessee	Procurement Technical Assistance For Business Firms	12.002	$ 244,287.88
Environment and Conservation	State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	266,710.14
University of Tennessee	Basic and Applied Scientific Research	12.300	740.51
Military	Military Construction, National Guard	12.400	128,241.15
Military	National Guard Military Operations and Maintenance (O&M) Projects	12.401	29,880,614.27
University of Tennessee	Basic Scientific Research	12.431	20,513.20
University of Tennessee	Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556	90,958.26
University of Tennessee	Army Consumer Affs/Finance 2013-Bartee	12 / ADVANCED ACCOUNT	13,222.10
University of Tennessee	Army Family Advocacy 2013-Bartee	12 / ADVANCED ACCOUNT	7,421.31
University of Tennessee	Army Mobilization Deployment 2013-Bartee	12 / ADVANCED ACCOUNT	8,226.43
University of Tennessee	Army Relocation 2013-Bartee	12 / ADVANCED ACCOUNT	43,819.09
University of Tennessee	Army Soldier Readiness 2013-Bartee	12 / ADVANCED ACCOUNT	5,212.56
Subtotal Direct Programs			$ 30,709,966.90
Passed Through Academy of Applied Science			
University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering	12.630 / W911NF-10-2-0076	$ 12,856.97
Passed Through Defense Equal Opportunity Management Institute			
Austin Peay State University	Defense Equal Opportunity Climate Survey	12 / FA2521-06-P-0292	4,464.42
Subtotal Pass-Through Programs			$ 17,321.39
Subtotal Department of Defense			$ 30,727,288.29

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Department of Housing and Urban Development				
Direct Programs				
Tennessee Housing Development Agency	Emergency Solutions Grant Program	14.231		$ 2,632,857.45
Tennessee Housing Development Agency	Home Investment Partnerships Program	14.239		7,172,830.57
Health	Housing Opportunities for Persons with AIDS	14.241		75,800.28
Southwest Tennessee Community College	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251		1,658.86
University of Tennessee	Continuum of Care Program	14.267	$ 10,006.04	
University of Tennessee	Continuum of Care Program	14.267	127,488.65	137,494.69
Tennessee Human Rights Commission	Fair Housing Assistance Program_ State and Local	14.401		319,859.00
Tennessee State University	Education and Outreach Initiatives	14.416		37,182.59
Tennessee State University	Historically Black Colleges and Universities Program	14.520		471,568.01
Environment and Conservation	Lead Hazard Reduction Demonstration Grant Program	14.905		498,887.08
Subtotal Direct Programs				$ 11,348,138.53
Passed Through City of Knoxville				
University of Tennessee	Emergency Solutions Grant Program	14.231 / C-14-0025	$ 11,977.01	
University of Tennessee	Emergency Solutions Grant Program	14.231 / HUD HMIS	3,672.52	$ 15,649.53
Passed Through City of Johnson City				
East Tennessee State University	Home Investment Partnerships	14.239 / UNKNOWN		12,295.21
Passed Through Knoxville-Knox County Metropolitan Planning Commission				
University of Tennessee	City of Knoxville HUD Regional Everett	14 / HUD REGIONAL PLANNIN		198,608.74
Subtotal Pass-Through Programs				$ 226,553.48
Subtotal Department of Housing and Urban Development				$ 11,574,692.01
Department of the Interior				
Direct Programs				
Environment and Conservation	Abandoned Mine Land Reclamation (AMLR) Program	15.252		$ 2,942,719.53
Environment and Conservation	Cooperative Endangered Species Conservation Fund	15.615	$ 133,489.48	
Tennessee Wildlife Resources Agency	Cooperative Endangered Species Conservation Fund	15.615	945,327.52	1,078,817.00
Tennessee Wildlife Resources Agency	Clean Vessel Act Program	15.616		400,573.20
Tennessee Wildlife Resources Agency	Enhanced Hunter Education and Safety Program	15.626		2,241,092.03
Agriculture	Partners for Fish and Wildlife	15.631	$ 22,731.86	
University of Tennessee	Partners for Fish and Wildlife	15.631	3,782.22	26,514.08
Tennessee Wildlife Resources Agency	State Wildlife Grants	15.634		1,046,234.32

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Tennessee Wildlife Resources Agency	Research Grants (Generic)	15.650		17,186.74
Environment and Conservation	Recovery Act Funds - Habitat Enhancement, Restoration and Improvement	15.656		8,040.33
Tennessee Wildlife Resources Agency	Cooperative Landscape Conservation	15.669		159,487.33
Environment and Conservation	U.S. Geological Survey_Research and Data Collection	15.808	$ 127,306.80	
University of Memphis	U.S. Geological Survey_Research and Data Collection	15.808	33,249.16	160,555.96
Environment and Conservation	National Cooperative Geologic Mapping Program	15.810		2.90
Environment and Conservation	Minerals Resources External Research Program	15.816		(1,030.90)
Environment and Conservation	Historic Preservation Fund Grants-In-Aid	15.904	$ 443,204.44	
Middle Tennessee State University	Historic Preservation Fund Grants-In-Aid	15.904	398,521.86	841,726.30
Environment and Conservation	Outdoor Recreation_Acquisition, Development and Planning	15.916		961,661.16
Tennessee State Museum	Save America's Treasures	15.929		86,539.95
Subtotal Direct Programs				$ 9,970,119.93
Passed Through Alabama Historical Commission				
Middle Tennessee State University	Historic Preservation Fund Grants-In-Aid	15.904 / AL-13-025		$ 5,013.08
Subtotal Pass-Through Programs				$ 5,013.08
Subtotal Department of the Interior				$ 9,975,133.01

Department of Justice

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Finance and Administration	Sexual Assault Services Formula Program	16.017		$ 205,106.89
Alcoholic Beverage Commission	Joint Law Enforcement Operations (JLEO)	16.111		12,950.22
Commission on Children and Youth	Juvenile Accountability Block Grants	16.523		376,429.76
University of Tennessee	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		79,453.92
Commission on Children and Youth	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540		149,133.12
Commission on Children and Youth	Title V_Delinquency Prevention Program	16.548		11,137.24
Tennessee Bureau of Investigation	State Justice Statistics Program for Statistical Analysis Centers	16.550		57,994.28
Finance and Administration	National Criminal History Improvement Program (NCHIP)	16.554		268,144.00
Finance and Administration	Crime Victim Assistance	16.575		7,715,738.08
Treasury	Crime Victim Compensation	16.576		4,937,000.00
University of Tennessee	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		554,017.63
Mental Health and Substance Abuse Services	Drug Court Discretionary Grant Program	16.585		24,559.43

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Finance and Administration	Violence Against Women Formula Grants	16.588		2,026,267.39
Finance and Administration	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		66,319.00
Finance and Administration	Residential Substance Abuse Treatment for State Prisoners	16.593		251,397.65
University of Tennessee	Bulletproof Vest Partnership Program	16.607		(3,002.93)
Tennessee Bureau of Investigation	Regional Information Sharing Systems	16.610		3,924,700.00
Tennessee Bureau of Investigation	Public Safety Partnership and Community Policing Grants	16.710		792,921.54
Commission on Children and Youth	Enforcing Underage Drinking Laws Program	16.727		270.36
Children's Services	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735		44,951.72
Tennessee Bureau of Investigation	DNA Backlog Reduction Program	16.741		1,976,322.04
Finance and Administration	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		224,701.16
Tennessee Bureau of Investigation	Support for Adam Walsh Act Implementation Grant Program	16.750		43,755.36
University of Memphis	Edward Byrne Memorial Competitive Grant Program	16.751		135,478.22
Middle Tennessee State University	Congressionally Recommended Awards	16.753		171,392.51
Mental Health and Substance Abuse Services	Second Chance Act Reentry Initiative	16.812		320,000.00
Tennessee Student Assistance Corporation	John R. Justice Prosecutors and Defenders Incentive Act	16.816		63,701.00
District Attorneys General Conference	Equitable Sharing Program	16.922	$ 232.45	
Revenue	Equitable Sharing Program	16.922	5,736.33	
Safety and Homeland Security	Equitable Sharing Program	16.922	622,828.53	628,797.31
Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	16 / 2013-116	$ 558,197.94	
Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	16 / 2014-115	209,810.64	768,008.58
Tennessee Bureau of Investigation	Public Safe Partnership and Community Policing Grants	16 / 2008-CS-WX-0019		123,726.71
Subtotal Direct Programs				$ 25,951,372.19
Passed Through Radford University				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / 2009-DN-BX-K200		$ 1,164.42
Passed Through National 4-H Council				
Tennessee State University	Juvenile Mentoring Program	16.726 / 2010-JU-FX-0016	$ (7,999.97)	
University of Tennessee	Juvenile Mentoring Program	16.726 / 2013	58,577.99	
University of Tennessee	Juvenile Mentoring Program	16.726 / MENTORING 2014-2015	14,497.88	
University of Tennessee	Juvenile Mentoring Program	16.726 / YEAR 2	(570.22)	64,505.68
Passed Through Shelby County Government				
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / CA1313041	$ 17,322.48	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / CA1413041-1	12,777.64	30,100.12
Subtotal Pass-Through Programs				$ 95,770.22
Subtotal Department of Justice				$ 26,047,142.41

Department of Labor

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Labor and Workforce Development	Labor Force Statistics	17.002		$ 917,158.34
Labor and Workforce Development	Compensation and Working Conditions	17.005		128,002.43
Labor and Workforce Development	Unemployment Insurance	17.225	$ 482,002,210.50	
Labor and Workforce Development	ARRA-Unemployment Insurance	17.225	(304,999.28)	481,697,211.22
Labor and Workforce Development	Senior Community Service Employment Program	17.235		1,657,911.58
Labor and Workforce Development	Trade Adjustment Assistance	17.245		6,310,699.80
Labor and Workforce Development	ARRA-WIA Dislocated Workers	17.260		(9.83)
Labor and Workforce Development	Incentive Grants - WIA Section 503	17.267		1,085,614.82
Pellissippi State Community College	H-1B Job Training Grants	17.268	$ 173,853.46	
Roane State Community College	H-1B Job Training Grants	17.268	245,577.67	419,431.13
Labor and Workforce Development	Work Opportunity Tax Credit Program (WOTC)	17.271		728,815.07
Labor and Workforce Development	Temporary Labor Certification for Foreign Workers	17.273		151,282.20
Roane State Community College	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275		1,152,595.21
Southwest Tennessee Community College	Health Care Tax Credit (HCTC) National Emergency Grants (NEGs)	17.276		106,884.90
Labor and Workforce Development	Workforce Investment Act (WIA) National Emergency Grants	17.277		525,841.15
Chattanooga State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	$ 1,078,298.05	
Motlow State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	674,054.75	
Northeast State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	49,846.17	
Pellissippi State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	142,623.89	
Roane State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	2,831,447.81	
Southwest Tennessee Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282	397,927.89	5,174,198.56
Labor and Workforce Development	Occupational Safety and Health_ State Program	17.503		3,634,703.67
Labor and Workforce Development	Consultation Agreements	17.504		1,083,493.94
Labor and Workforce Development	OSHA Data Initiative	17.505		(387.11)
Labor and Workforce Development	Mine Health and Safety Grants	17.600		139,864.00
Subtotal Direct Programs				$ 504,913,311.08

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Memphis Bioworks Foundation				
Southwest Tennessee Community College	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275 / HG-22604-12-60-A-47		$ 140,890.35
Passed Through Henry Ford Community College				
Motlow State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282 / SGA/DFA PY 11-08	$ 351,631.53	
Pellissippi State Community College	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282 / PO#B0004798	353,588.75	705,220.28
Subtotal Pass-Through Programs				$ 846,110.63
Subtotal Department of Labor				$ 505,759,421.71

Department of State

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Direct Programs				
University of Tennessee	Public Diplomacy Programs	19.040		$ 18,912.99
University of Tennessee	Counter Narcotics	19.704		101,910.58
Subtotal Department of State				$ 120,823.57

Department of Transportation

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Direct Programs				
Transportation	Airport Improvement Program	20.106		$ 16,806,166.02
Tennessee State University	Highway Training and Education	20.215		323.15
Safety and Homeland Security	National Motor Carrier Safety	20.218		5,641,300.55
Transportation	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505		1,365,492.59
Transportation	Formula Grants for Rural Areas	20.509	$ 20,420,548.02	
Transportation	ARRA-Formula Grants for Rural Areas	20.509	2,007,170.50	22,427,718.52
University of Tennessee	Public Transportation Research	20.514		66,075.46
Transportation	Clean Fuels	20.519		77,882.40
Transportation	Alcohol Open Container Requirements	20.607		20,914,059.16
Safety and Homeland Security	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614	$ 111,040.30	
Transportation	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614	92,191.32	203,231.62
Transportation	National Priority Safety Programs	20.616		3,484,704.60
Tennessee Regulatory Authority	Pipeline Safety Program State Base Grant	20.700		613,350.80
Military	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		368,781.76
Subtotal Direct Programs				$ 71,969,086.63

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through North Carolina State University				
University of Tennessee	NCST Thermochemical Process-Taylor	20 / 2011-1498-01		$ (4.58)
Subtotal Pass-Through Programs				$ (4.58)
Subtotal Department of Transportation				$ 71,969,082.05
Department of the Treasury				
Direct Programs				
Safety and Homeland Security	Equitable Sharing Program	21 / UNKNOWN		$ 63,732.69
Subtotal Direct Programs				$ 63,732.69
Passed Through Neighborhood Reinvestment Corporation				
Tennessee Housing Development Agency	National Foreclosure Mitigation Counseling (NFMC) Program	21 / PL113-6X1350		$ 675,123.16
Subtotal Pass-Through Programs				$ 675,123.16
Subtotal Department of the Treasury				$ 738,855.85
Appalachian Regional Commission				
Direct Programs				
Economic and Community Development	Appalachian Regional Development (See individual Appalachian Programs)	23.001		$ 35,852.45
East Tennessee State University	Appalachian Area Development	23.002	$ 15,548.50	
Tennessee Technological University	Appalachian Area Development	23.002	6,757.76	22,306.26
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	$ 102,771.24	
Economic and Community Development	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	200,000.00	
Roane State Community College	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	5,000.00	
University of Tennessee	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	55,698.56	363,469.80
Subtotal Appalachian Regional Commission				$ 421,628.51
Equal Employment Opportunity Commission				
Direct Programs				
Tennessee Human Rights Commission	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts	30.002		$ 233,600.00
Subtotal Equal Employment Opportunity Commission				$ 233,600.00

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
General Services Administration				
Direct Programs				
General Services	Donation of Federal Surplus Personal Property (Noncash Award)	39.003	$	1,538,727.29
Secretary of State	Election Reform Payments	39.011		451,551.09
Subtotal General Services Administration			$	1,990,278.38
Library of Congress				
Direct Programs				
Middle Tennessee State University	Teaching with Primary Sources	42 / GA08C0077	$	123,363.42
Subtotal Library of Congress			$	123,363.42
National Aeronautics and Space Administration				
Direct Programs				
Tennessee Technological University	Science	43.001	$	75,468.78
Tennessee State University	NASA Science Engineering Mathematics Aerospace Academy (SEMAA)	43 / NAS3-02123-STSU		37,568.39
Subtotal Direct Programs			$	113,037.17
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		106,297.20
Passed Through Mathematical Sciences Research Institute				
University of Tennessee	Math Sci & Research Inst (MSRI) Lenhart	43 / MOU-MEMO OF UNDERSTA		23,427.44
Subtotal Pass-Through Programs			$	138,474.64
Subtotal National Aeronautics and Space Administration			$	251,511.81
National Endowment for the Arts				
Direct Programs				
Tennessee Arts Commission	Promotion of the Arts_Partnership Agreements	45.025	$	713,800.00
Subtotal National Endowment for the Arts			$	713,800.00
National Endowment for the Humanities				
Direct Programs				
University of Tennessee	Promotion of the Humanities_ Division of Preservation and Access	45.149	$	239,272.07

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Promotion of the Humanities_ Fellowships and Stipends	45.160		51,534.10
University of Tennessee	Promotion of the Humanities_ Professional Development	45.163		72,355.24
Subtotal Direct Programs				$ 363,161.41
Passed Through Humanities Tennessee				
University of Tennessee	Humanities Tennessee A1-2468 Chapman	45 / A1-2468		$ 2,081.60
Subtotal Pass-Through Programs				$ 2,081.60
Subtotal National Endowment for the Humanities				$ 365,243.01
	Institute of Museum and Library Services			
Direct Programs				
Secretary of State	Grants to States	45.310		$ 3,041,316.45
University of Tennessee	National Leadership Grants	45.312		28,556.76
University of Memphis	Laura Bush 21st Century Librarian Program	45.313	$ 52,762.52	
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313	447,468.25	500,230.77
Subtotal Direct Programs				$ 3,570,103.98
Passed Through Drexel University				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / SUBAWARD# 219067-UTK		$ 73,029.35
Subtotal Pass-Through Programs				$ 73,029.35
Subtotal Institute of Museum and Library Services				$ 3,643,133.33
	National Science Foundation			
Direct Programs				
University of Tennessee	Engineering Grants	47.041		$ 11,128.42
East Tennessee State University	Mathematical and Physical Sciences	47.049	$ 649.80	
University of Tennessee	Mathematical and Physical Sciences	47.049	96,871.10	97,520.90
Austin Peay State University	Computer and Information Science and Engineering	47.070		105,431.24
East Tennessee State University	Education and Human Resources	47.076	$ 119,754.76	
Jackson State Community College	Education and Human Resources	47.076	6,760.09	
Middle Tennessee State University	Education and Human Resources	47.076	961,220.95	
Tennessee State University	Education and Human Resources	47.076	31,578.73	
Tennessee State University	Education and Human Resources	47.076	907,468.82	
University of Tennessee	Education and Human Resources	47.076	1,187,128.61	
Volunteer State Community College	Education and Human Resources	47.076	3,600.00	3,217,511.96
East Tennessee State University	Office of International and Integrative Activities	47.079		86,025.25
University of Tennessee	Office of Cyberinfrastructure	47.080		361,938.40
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	$ 161,724.11	
Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	(7,517.24)	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	120,134.45	274,341.32
University of Memphis	Intergov Personnel Act IPA	47 / AST-1356908		128,641.80
Subtotal Direct Programs				$ 4,282,539.29
Passed Through American Physical Society				
Middle Tennessee State University	Mathematical and Physical Sciences	47.049 / PHY-0808790		$ 19,270.51
Passed Through Mathematical Association of America				
University of Tennessee	Mathematical and Physical Sciences	47.049 / LETTER DATED 11/7/13		1,260.96
Passed Through Vanderbilt University				
Chattanooga State Community College	Computer and Information Science and Engineering	47.070 / 2019-015199		1,836.80
Passed Through EdLab Group				
Middle Tennessee State University	Education and Human Resources	47.076 / HRD-0631789	$ 1,248.59	
Middle Tennessee State University	Education and Human Resources	47.076 / HRD-1103073	325.52	
Middle Tennessee State University	Education and Human Resources	47.076 / EQ2012-39	1,560.56	3,134.67
Passed Through Howard University				
Tennessee State University	Education and Human Resources	47.076 / DUE-1255441		33,194.65
Passed Through Indian River State College				
Chattanooga State Community College	Education and Human Resources	47.076 / RCNET CSCC 0002	$ 4,554.55	
Chattanooga State Community College	Education and Human Resources	47.076 / RCNET CSCC 0003	41,822.39	46,376.94
Passed Through Kentucky Community and Technical College System				
Jackson State Community College	Education and Human Resources	47.076 / DUE-1204975		53,006.57
Passed Through Lorain County Community College				
Chattanooga State Community College	Education and Human Resources	47.076 / 1104107		4,471.26
Passed Through National Center for Science and Civic Engagement				
Middle Tennessee State University	Education and Human Resources	47.076 / 11224488		66.50
Passed Through Stevens Institute of Technology				
University of Memphis	Education and Human Resources	47.076 / HRD-0833076		576.16
University of Tennessee	Stevens Institute of Technology Bennett	47 / EVERYDAY ENGINEERING		1,804.53
Passed Through Twin Cities Public Television				
Middle Tennessee State University	Education and Human Resources	47.076 / 20921		138.97
Passed Through University of Tulsa				
Jackson State Community College	Education and Human Resources	47.076 / DUE-0856482		29,369.44

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Subtotal Pass-Through Programs				$ 194,507.96
Subtotal National Science Foundation				$ 4,477,047.25
Small Business Administration				
Direct Programs				
Roane State Community College	7(j) Technical Assistance	59.007		$ 31,881.66
Middle Tennessee State University	Small Business Development Centers	59.037	$ 1,030,824.43	
Tennessee Board of Regents	Small Business Development Centers	59.037	1,510,403.15	2,541,227.58
University of Tennessee	Federal and State Technology Partnership Program	59.058		5,684.07
Economic and Community Development	State Trade and Export Promotion Pilot Grant Program	59.061		333,060.42
Subtotal Small Business Administration				$ 2,911,853.73
Department of Veterans Affairs				
Direct Programs				
Tennessee State Veterans' Homes Board	Grants to States for Construction of State Home Facilities	64.005		$ 5,295,474.30
Commission on Aging and Disability	Veterans Medical Care Benefits	64.009		38,331.80
Tennessee State Veterans' Homes Board	Veterans State Nursing Home Care	64.015		17,373,839.83
East Tennessee State University	Veterans Home Based Primary Care	64.022		139,303.56
Veterans' Affairs	Burial Expenses Allowance for Veterans	64.101		1,171,170.00
Tennessee Higher Education Commission	All-Volunteer Force Educational Assistance	64.124		323,824.06
Veterans' Affairs	State Cemetery Grants	64.203		2,675,328.75
Tennessee Technological University	Educational Assistance Annual Reporting Fees	64 / ANNUAL REPORTING FEES		1,591.30
Subtotal Direct Programs				$ 27,018,863.60
Passed Through Volunteers of America				
University of Tennessee	Volunteers of America VOA SSVF Patterson	64 / VOA SSVF EVALUATION		$ 2,646.72
Subtotal Pass-Through Programs				$ 2,646.72
Subtotal Department of Veterans Affairs				$ 27,021,510.32
Environmental Protection Agency				
Direct Programs				
Environment and Conservation	Air Pollution Control Program Support	66.001		$ 1,099,725.42
Environment and Conservation	State Indoor Radon Grants	66.032		222,831.48
Environment and Conservation	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		478,659.90
Environment and Conservation	State Clean Diesel Grant Program	66.040		53,648.00

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Environment and Conservation	Water Pollution Control State, Interstate, and Tribal Program Support	66.419				1,626,865.83
Environment and Conservation	State Public Water System Supervision	66.432				1,033,391.14
Environment and Conservation	Water Quality Management Planning	66.454				260,171.41
Agriculture	Nonpoint Source Implementation Grants	66.460				2,553,703.02
Environment and Conservation	Regional Wetland Program Development Grants	66.461				27,369.17
Environment and Conservation	Water Protection Grants to the States	66.474				9,999.49
Agriculture	Performance Partnership Grants	66.605				505,187.91
Environment and Conservation	Environmental Information Exchange Network Grant Program and Related Assistance	66.608				86,877.69
Environment and Conservation	Toxic Substances Compliance Monitoring Cooperative Agreements	66.701				171,436.26
Environment and Conservation	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707				647,193.96
Environment and Conservation	Pollution Prevention Grants Program	66.708				57,461.91
Environment and Conservation	Hazardous Waste Management State Program Support	66.801				2,048,635.60
Environment and Conservation	Superfund State, Political	66.802				189,852.34
Environment and Conservation	Underground Storage Tank	66.804				980,021.73
Environment and Conservation	Leaking Underground Storage Tank	66.805				2,047,187.67
Environment and Conservation	Superfund State and Indian Tribe	66.809				124,829.90
Environment and Conservation	State and Tribal Response Program	66.817				1,011,962.49
Subtotal Direct Programs					$	15,237,012.32
Passed Through Knox County Soil Conservation District						
University of Tennessee	Nonpoint Source Implementation Grants	66.460 / EFFECTIVE 9/23/2013			$	11,644.75
Passed Through Alaska Department of Environmental Conservation						
.						
University of Tennessee	Alaska-DEC 18-9008-14 Dolislager	66 / 18-9009-14				8,914.58
Subtotal Pass-Through Programs					$	20,559.33
Subtotal Environmental Protection Agency					$	15,257,571.65

Department of Energy

Direct Programs

State Grantee Agency	Program Name	CFDA / Other Identifying Number				
Environment and Conservation	State Energy Program	81.041	$	849,706.13		
Environment and Conservation	ARRA-State Energy Program	81.041		1,406,091.13	$	2,255,797.26
Human Services	Weatherization Assistance for Low-Income Persons	81.042	$	51,464.84		
Human Services	ARRA-Weatherization Assistance for Low-Income Persons	81.042		7,004,488.65		
Tennessee Housing Development Agency	Weatherization Assistance for Low-Income Persons	81.042		2,581,983.90		9,637,937.39
Roane State Community College	Office of Science Financial Assistance Program	81.049	$	9,377.50		
University of Tennessee	Office of Science Financial Assistance Program	81.049		26,102.53		35,480.03

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Conservation Research and Development	81.086		616,719.15
Environment and Conservation	Renewable Energy Research and Development	81.087		78,437.24
Tennessee State University	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	$ 381,466.78	
Tennessee Technological University	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	154,381.97	535,848.75
Environment and Conservation	ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		175,683.43
Environment and Conservation	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		(428.08)
Environment and Conservation	Long-Term Surveillance and Maintenance	81.136		2,840,589.58
Environment and Conservation	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	81.214	$ 2,323,220.72	
Military	Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency Response Research, Outreach, Technical Analysis	81.214	1,112,355.72	3,435,576.44
Tennessee Wildlife Resources Agency	Oak Ridge Wildlife Management Area	81 / REORDER-3-97-0702		192,044.44
Subtotal Direct Programs				$ 19,803,685.63
Passed Through Argonne National Laboratory				
University of Tennessee	Argonne Natl Lab-Workshops-IESP-Dongarra	81 / 9F-31202		$ (22,103.82)
Passed Through Battelle Memorial Institute				
University of Tennessee	Battelle Memorial Inst PNNL217110 French	81 / 217110		29,285.77
Passed Through Los Alamos National Laboratory				
University of Tennessee	Los Alamos National Lab 159500-1-M1 Hall	81 / 159500-1 MOD NO. 1		(1.00)
Subtotal Pass-Through Programs				$ 7,180.95
Subtotal Department of Energy				$ 19,810,866.58

Department of Education

Direct Programs			
Labor and Workforce Development	Adult Education - Basic Grants to States	84.002	$ 10,547,986.81
Education	Title I Grants to Local Educational Agencies	84.010	294,614,855.30
Education	Migrant Education_State Grant Program	84.011	636,148.16

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Education	Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		462,448.68
University of Tennessee	Undergraduate International Studies and Foreign Language Programs	84.016		(6,440.25)
Austin Peay State University	Higher Education_Institutional Aid	84.031	$ 146,482.51	
Cleveland State Community College	Higher Education_Institutional Aid	84.031	442,684.77	
Dyersburg State Community College	Higher Education_Institutional Aid	84.031	264,222.36	
Nashville State Community College	Higher Education_Institutional Aid	84.031	129,086.25	
Northeast State Community College	Higher Education_Institutional Aid	84.031	47,000.00	
Southwest Tennessee Community College	Higher Education_Institutional Aid	84.031	100,316.61	
Tennessee State University	Higher Education_Institutional Aid	84.031	9,932,597.92	11,062,390.42
Tennessee Student Assistance Corporation	Federal Family Education Loans	84.032		148,130,285.55
Education	Career and Technical Education - Basic Grants To States	84.048		19,393,878.10
East Tennessee State University	Fund for the Improvement of Postsecondary Education	84.116	$ 53,866.02	
Middle Tennessee State University	Fund for the Improvement of Postsecondary Education	84.116	(1,175.64)	
University of Tennessee	Fund for the Improvement of Postsecondary Education	84.116	94,761.40	147,451.78
Human Services	Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126		57,556,858.05
University of Memphis	Rehabilitation Long-Term Training	84.129	$ 129,844.75	
University of Tennessee	Rehabilitation Long-Term Training	84.129	40,062.90	169,907.65
Education	Migrant Education_Coordination Program	84.144		154,600.67
Human Services	Independent Living_State Grants	84.169		154,708.01
Human Services	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177		965,986.26
Education	Special Education-Grants for Infants and Families	84.181		9,570,244.99
Education	Safe and Drug-Free Schools and Communities_National Programs	84.184	$ 3,294,502.00	
University of Tennessee	Safe and Drug-Free Schools and Communities_National Programs	84.184	1,068.47	3,295,570.47
Human Services	Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		468,238.00
University of Tennessee	Adult Education_National Leadership Activities	84.191		365,726.46
Education	Education for Homeless Children and Youth	84.196		1,421,770.01
Middle Tennessee State University	Graduate Assistance in Areas of National Need	84.200	$ 135,499.00	
University of Tennessee	Graduate Assistance in Areas of National Need	84.200	259,602.86	395,101.86
Education	Fund for the Improvement of Education	84.215		357,037.16
Human Services	Assistive Technology	84.224		477,247.26
Human Services	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265		93,721.01
Education	Charter Schools	84.282		3,190,817.07
Education	Twenty-First Century Community Learning Centers	84.287		22,453,408.04
Education	Special Education - State Personnel Development	84.323		694,957.61

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	$ 294,033.79	
University of Tennessee	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	110,358.80	404,392.59
Education	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		6,678.65
Tennessee Higher Education Commission	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	$ 4,039,704.44	
University of Tennessee	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	740,075.14	4,779,779.58
East Tennessee State University	Child Care Access Means Parents in School	84.335		17,095.90
Education	Transition to Teaching	84.350		(125.00)
Tennessee Arts Commission	Arts in Education	84.351		485,892.58
Education	Rural Education	84.358		4,529,967.82
Education	English Language Acquisition State Grants	84.365	$ 5,928,559.24	
University of Tennessee	English Language Acquisition State Grants	84.365	393,656.24	6,322,215.48
Education	Mathematics and Science Partnerships	84.366		2,089,166.24
Education	Improving Teacher Quality State Grants	84.367	$ 40,060,280.98	
Tennessee Higher Education Commission	Improving Teacher Quality State Grants	84.367	1,143,804.21	41,204,085.19
Education	Grants for State Assessments and Related Activities	84.369		7,208,472.45
Education	Striving Readers	84.371		46,233.16
Roane State Community College	Academic Competitiveness Grants	84.375	$ 127,759.00	
University of Tennessee	Academic Competitiveness Grants	84.375	275.00	128,034.00
Tennessee Higher Education Commission	College Access Challenge Grant Program	84.378		1,372,780.90
Southwest Tennessee Community College	Strengthening Minority-Serving Institutions	84.382		837,146.02
Human Services	ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390		(31.58)
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395		165,428,894.11
Health	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397		(0.54)
Human Services	ARRA-Independent Living State Grants, Recovery Act	84.398		71.04
Human Services	ARRA-Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399		(28.42)
Education	NCES Task Order Contract: National Assessment of Educational Progress	84 / ED-03-CO-0091		66,019.84
Subtotal Direct Programs				$ 821,701,645.14

Passed Through Hamilton County Department of Education

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Chattanooga State Community College	Title I Grants to Local Educational Agencies	84.010 / P38826	$ 168,533.03

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Kent State University				
University of Tennessee	Adult Education_National Leadership Activities	84.191 / 401000-UT		19,108.63
Passed Through Bedford County Department of Education				
Middle Tennessee State University	Fund for the Improvement of Education	84.215 / U215X100126		(523.97)
Passed Through California State University, Northridge				
University of Tennessee	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326 / F11-2963UTK		248,721.20
Passed Through Signal Centers, Incorporated				
University of Tennessee	Child Care Access Means Parents in School	84.335 / EAST CCR&R		28.13
Passed Through Drexel University				
University of Tennessee	Transition to Teaching	84.350 / 213025 AMENDMENT #3		3,136.72
Passed Through University of Louisiana at Monroe				
University of Tennessee	Transition to Teaching	84.350 / TEACH PROJECT		22,536.15
Passed Through National Writing Project Corporation				
Middle Tennessee State University	Improving Teacher Quality State Grants	84.367 / 05-TN03-SEED2012	$ 6,218.07	
University of Tennessee	Improving Teacher Quality State Grants	84.367 / 94-TN02-SEED2012	15,692.83	21,910.90
Middle Tennessee State University	Investing in Innovation (i3) Fund	84.411 / 05-TN03-I32013		130,347.99
University of Tennessee	National Writing Project	84 / 94-TN02		(1,129.31)
Passed Through Alliance for Business and Training				
Northeast State Community College	College Access Challenge Grant Program	84.378 / CAGC-GR1134839		122,664.66
Passed Through Battelle Memorial Institute				
East Tennessee State University	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 326365	$ 306,847.19	
Tennessee Technological University	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / P.O. US001-0000326351 C.O. 1	351,382.42	658,229.61
Passed Through Florida Department of Education				
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 91Z-PS111-3R001		96,388.50

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Metropolitan Nashville Public Schools				
Middle Tennessee State University	State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 2-213324-07		29,562.51
Passed Through Tennessee College Access and Success Network				
Pellissippi State Community College	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / GR1338950		36,885.55
Passed Through New Schools for New Orleans				
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Investing in Innovation (i3) Fund, Recovery Act	84.396 / U396B100118		198,028.24
Passed Through National Board for Professional Teaching Standards				
Tennessee State University	Investing in Innovation (i3) Fund	84.411 / U411P120508		6,468.74
Passed Through WestEd				
University of Tennessee	WestEd Using DWW Resources Ebert	84 / S12-049		3,441.77
Subtotal Pass-Through Programs			$	1,764,339.05
Subtotal Department of Education			$	823,465,984.19
National Archives and Records Administration				
Direct Programs				
Secretary of State	National Historical Publications and Records Grants	89.003	$	26,300.00
Subtotal National Archives and Records Administration			$	26,300.00
U.S. Election Assistance Commission				
Direct Programs				
Secretary of State	Help America Vote Act Requirements Payments	90.401	$	5,358,676.22
Subtotal U.S. Election Assistance Commission			$	5,358,676.22
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	$	66,600.00
Commission on Aging and Disability	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042		322,900.00

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043		389,500.00
Commission on Aging and Disability	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048		152,767.07
Commission on Aging and Disability	Alzheimer's Disease Demonstration Grants to States	93.051		338,823.34
Commission on Aging and Disability	National Family Caregiver Support, Title III, Part E	93.052		2,734,900.00
Health	Public Health Emergency Preparedness	93.069		12,849,415.19
Health	Environmental Public Health and Emergency Response	93.070		483,736.76
University of Tennessee	Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		817,981.23
Mental Health and Substance Abuse Services	Enhance Safety of Children Affected by Substance Abuse	93.087		1,560,863.67
Children's Services	Guardianship Assistance	93.090	$ 3,722,431.43	
Children's Services	ARRA-Guardianship Assistance	93.090	(100.79)	3,722,330.64
Children's Services	Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		659,424.29
Agriculture	Food and Drug Administration_ Research	93.103	$ 293,355.09	
Health	Food and Drug Administration_ Research	93.103	51,700.91	
University of Tennessee	Food and Drug Administration_ Research	93.103	1,109,491.86	1,454,547.86
Mental Health and Substance Abuse Services	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		2,922,936.62
Health	Maternal and Child Health Federal Consolidated Programs	93.110	$ 666,825.24	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110	162,733.31	829,558.55
Health	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		908,887.67
University of Tennessee	Oral Diseases and Disorders Research	93.121		36,853.90
University of Tennessee	Nurse Anesthetist Traineeships	93.124		61,910.60
Health	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		117,248.52
Health	Injury Prevention and Control Research and State and Community Based Programs	93.136		622,656.98
Mental Health and Substance Abuse Services	Projects for Assistance in Transition from Homelessness (PATH)	93.150		825,672.85
University of Tennessee	Centers of Excellence	93.157		155,679.76
Health	Grants to States for Loan Repayment Program	93.165		275,877.92
University of Tennessee	Nursing Workforce Diversity	93.178		191,680.51
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		8,729.49
Health	Surveillance of Hazardous Substance Emergency Events	93.204		13,199.04
Health	Family Planning_Services	93.217		5,928,174.58
Health	Traumatic Brain Injury State Demonstration Grant Program	93.234		238,197.36

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Health	Affordable Care Act (ACA) Abstinence Education Program	93.235		1,149,404.55
Health	Grants to States to Support Oral Health Workforce Activities	93.236		373,687.43
Health	State Capacity Building	93.240		225,563.64
Health	State Rural Hospital Flexibility Program	93.241		463,219.53
Administrative Office of the Courts	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	$ 330,603.82	
Health	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	2,668.99	
Mental Health and Substance Abuse Services	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	7,786,265.09	
University of Memphis	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	37,541.59	
University of Tennessee	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	1,443,196.85	9,600,276.34
East Tennessee State University	Advanced Nursing Education Grant Program	93.247	$ 356,525.87	
University of Memphis	Advanced Nursing Education Grant Program	93.247	(2,183.66)	
University of Tennessee	Advanced Nursing Education Grant Program	93.247	1,586,532.08	1,940,874.29
Health	Universal Newborn Hearing Screening	93.251		264,750.33
Health	Immunization Cooperative Agreements	93.268	$ 4,265,393.88	
Health	Immunization Cooperative Agreements (Noncash Award)	93.268	69,059,946.00	73,325,339.88
Health	Adult Viral Hepatitis Prevention and Control	93.270		119,298.71
Health	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		6,375,982.46
Health	State Partnership Grant Program to Improve Minority Health	93.296		11,485.64
Health	Small Rural Hospital Improvement Grant Program	93.301		299,415.53
University of Tennessee	Advanced Education Nursing Traineeships	93.358		237,467.52
East Tennessee State University	Nurse Education, Practice Quality and Retention Grants	93.359	$ 278,355.65	
University of Tennessee	Nurse Education, Practice Quality and Retention Grants	93.359	1,344,502.05	1,622,857.70
University of Tennessee	Nursing Research	93.361		29,507.73
East Tennessee State University	Cancer Research Manpower	93.398		202,050.02
Health	ARRA-State Primary Care Offices	93.414		41.30
Health	Pregnancy Assistance Fund Program	93.500		1,281,487.56
Health	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505		8,250,447.52
Health	PPHF National Public Health Improvement Initiative	93.507		904,406.25
Commerce and Insurance	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511		220,148.76

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
East Tennessee State University	ARRA-Affordable Care Act (ACA) Advanced Nursing Education Expansion Initiative	93.513		460,080.00
East Tennessee State University	ARRA-Affordable Care Act (ACA) Nurse-Managed Health Clinics	93.515		160,321.87
East Tennessee State University	Affordable Care Act (ACA) Public Health Training Centers Program	93.516		349,040.62
Commission on Aging and Disability	Affordable Care Act - Medicare Improvements for Patients and Providers	93.518		218,776.33
Health	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements;PPHF	93.521		2,065,714.59
Health	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease prevention and Health Promotion Program	93.544		187,045.86
Children's Services	Promoting Safe and Stable Families	93.556		10,396,881.92
Human Services	Child Support Enforcement	93.563		37,097,320.49
Human Services	Child Support Enforcement Research	93.564		161,748.43
Human Services	Low-Income Home Energy Assistance	93.568	$ 41,959,698.70	
Tennessee Housing Development Agency	Low-Income Home Energy Assistance	93.568	2,829,413.60	44,789,112.30
Human Services	Community Services Block Grant	93.569		12,282,636.74
Administrative Office of the Courts	State Court Improvement Program	93.586		742,344.29
Children's Services	Community-Based Child Abuse Prevention Grants	93.590		1,344,766.54
Human Services	Grants to States for Access and Visitation Programs	93.597		157,451.21
Children's Services	Chafee Education and Training Vouchers Program (ETV)	93.599		580,557.94
Education	Head Start	93.600	$ 166,324.96	
Tennessee State University	Head Start	93.600	2,188,618.22	2,354,943.18
Children's Services	Adoption Incentive Payments	93.603		212,000.00
Secretary of State	Voting Access for Individuals with Disabilities_Grants to States	93.617		196,635.17
Intellectual & Developmental Disabilities	Developmental Disabilities Basic Support and Advocacy Grants	93.630		1,257,916.98
University of Tennessee	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632		527,310.86
Children's Services	Children's Justice Grants to States	93.643		332,425.00
Children's Services	Stephanie Tubbs Jones Child Welfare Services Program	93.645		5,275,421.73
University of Tennessee	Child Welfare Research Training or Demonstration	93.648		653,849.42
Children's Services	Foster Care_Title IV-E	93.658	$ 46,654,739.50	
Children's Services	ARRA-Foster Care_Title IV-E	93.658	(196.40)	46,654,543.10
Children's Services	Adoption Assistance	93.659	$ 41,518,379.45	
Children's Services	ARRA-Adoption Assistance	93.659	(43.85)	41,518,335.60
Human Services	Social Services Block Grant	93.667		30,154,402.62
Children's Services	Child Abuse and Neglect State Grants	93.669		484,716.51
Finance and Administration	Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671		1,627,665.35
Children's Services	Chafee Foster Care Independence Program	93.674		3,250,671.69

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Education	ARRA-Head Start	93.708		1,624,893.67
Human Services	ARRA-Child Care and Development Block Grant	93.713		7,818.79
Health	ARRA-Preventing Healthcare-Associated Infections	93.717		(953.97)
Finance and Administration	ARRA-State Grants to Promote Health Information Technology	93.719		6,111,013.54
Health	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – financed in part by the Prevention and Public Health Fund (PPHF)	93.733		121,385.08
Health	State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by Prevention and Public Health Funds (PPHF)	93.735		319,473.45
Health	PPHF: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by Prevention and Public Health Funds	93.744		162,491.00
Health	PPHF: Health Care Surveillance/Health Statistics – Surveillance Program Announcement: Behavioral Risk Factor Surveillance System Financed in Part by Prevention and Public Health Fund	93.745		43,944.00
Finance and Administration	Children's Health Insurance Program	93.767		136,009,482.33
Commission on Aging and Disability	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		1,157,350.39
Finance and Administration	Money Follows the Person Rebalancing Demonstration	93.791		7,624,445.95
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		137,121.29
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855		73,773.52
Tennessee State University	Biomedical Research and Research Training	93.859	$ 367,978.06	
University of Tennessee	Biomedical Research and Research Training	93.859	929,401.66	1,297,379.72
University of Tennessee	Child Health and Human Development Extramural Research	93.865		8,016.92
University of Tennessee	Aging Research	93.866		32,199.44
East Tennessee State University	Grants for Primary Care Training and Enhancement	93.884		362,762.55
Health	National Bioterrorism Hospital Preparedness Program	93.889		5,351,014.89
Health	Grants to States for Operation of Offices of Rural Health	93.913		172,551.61
Health	HIV Care Formula Grants	93.917		23,256,887.56
Health	Special Projects of National Significance	93.928		35,779.14
Education	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		73,842.90
Health	HIV Prevention Activities_Health Department Based	93.940		5,732,826.51

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Health	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		735,654.35
Health	Assistance Programs for Chronic Disease Prevention and Control	93.945		260,217.71
Health	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		108,321.78
Mental Health and Substance Abuse Services	Block Grants for Community Mental Health Services	93.958		8,321,643.65
Mental Health and Substance Abuse Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959		28,322,584.96
Health	Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977		2,507,633.49
Health	Preventive Health and Health Services Block Grant	93.991		1,180,868.81
Health	Maternal and Child Health Services Block Grant to the States	93.994		11,467,704.43
Subtotal Direct Programs				$ 633,703,532.89
Passed Through Vanderbilt University				
Tennessee State University	Maternal and Child Health Federal Consolidated Programs	93.110 / T73 MC00050	$ 10,313.00	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / VUMC-6915 AMEND 2	8,312.69	$ 18,625.69
University of Tennessee	Cardiovascular Diseases Research	93.837 / 1 F32 HL116175-01		52,743.31
Passed Through National Partnership for Environmental Technology Education				
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 10491	$ 19,464.65	
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 10514	79,020.22	98,484.87
Passed Through University of Cincinnati				
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 5U45ES006184-22		304,740.02
Passed Through Community Health Network				
East Tennessee State University	Telehealth Programs	93.211 / H2AIT16623-01-04 ETSU		(552.32)
Passed Through National Council on Aging				
Commission on Aging and Disability	Affordable Care Act - Medicare Improvements for Patients and Providers	93.518 / ADNCOABEC2014		4,415.04
Passed Through National Safe Place				
University of Tennessee	Transitional Living for Homeless Youth	93.550 / 90-CY6498-01-00		15,046.66
Passed Through Shelby County Government				
Southwest Tennessee Community	Head Start	93.600 / CA128778A	$ 281,966.35	
University of Memphis	Head Start	93.600 / CA114475	(1,770.44)	280,195.91

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Methodist LeBonheur Healthcare				
University of Tennessee	Health Care Innovation Awards	93.610 / CMS331046		175,665.90
Passed Through Pitt Community College				
Dyersburg State Community College	ARRA-State Grants to Promote Health Information Technology	93.719 / 90CC0078		30,729.31
Walters State Community College	ARRA-Health Information Technology Professionals in Health Care	93.721 / 90CC0078/01		50,903.26
Passed Through Carnegie Mellon University				
Tennessee State University	Biomedical Research and Research Training	93.859 / 5T36GM008789-08	$ (0.05)	
Tennessee State University	Biomedical Research and Research Training	93.859 / 5T36GM095335-03	16,600.68	16,600.63
Passed Through University of Maryland				
University of Tennessee	Medical Library Assistance	93.879 / HHSN276201100004C	$ 390.00	
University of Tennessee	Medical Library Assistance	93.879 / NO1-LM-6-3502	702.88	1,092.88
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		582.80
Passed Through Meharry Medical College				
Tennessee State University	PPHF Geriatric Education Centers	93.969 / 5UB4HP19055-03-00	$ 83.64	
Tennessee State University	PPHF Geriatric Education Centers	93.969 / 6UB4HP19055-04-01	24,468.04	24,551.68
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	PPHF Geriatric Education Centers	93.969 / 3048109594-14-070		98,974.00
Passed Through Douglas-Cherokee Economic Authority, Incorporated				
University of Tennessee	Douglas-Cherokee EconAuthority Campbell	93 / TEEN PREG PREV YR 2		(255.55)
University of Tennessee	Douglas Cherokee Econ Authr Cunningham	93 / TEEN PREG PREV YR 3		4,517.84
Passed Through Knoxville-Knox County Community Action Committee				
University of Tennessee	Knoxville Knox Co CAC Head Start Moran	93 / HEAD START TEACHERS		5,881.73
Subtotal Pass-Through Programs				$ 1,182,943.66
Subtotal Department of Health and Human Services				$ 634,886,476.55

Corporation for National and Community Service

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Direct Programs				
Finance and Administration	State Commissions	94.003		$ 270,475.87
Finance and Administration	AmeriCorps	94.006		3,376,341.57

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Finance and Administration	Program Development and Innovation Grants	94.007		6,397.00
Finance and Administration	Training and Technical Assistance	94.009		29,917.68
Subtotal Corporation for National and Community Service				$ 3,683,132.12
Executive Office of the President				
Direct Programs				
Alcoholic Beverage Commission	High Intensity Drug Trafficking Areas Program	95.001	$ 27,118.74	
Tennessee Bureau of Investigation	High Intensity Drug Trafficking Areas Program	95.001	193,384.24	$ 220,502.98
Subtotal Direct Programs				$ 220,502.98
Passed Through Laurel County Fiscal Court				
Safety and Homeland Security	High Intensity Drug Trafficking Areas Program	95.001 / 15PAPP501		$ 67,383.30
Subtotal Pass-Through Programs				$ 67,383.30
Subtotal Executive Office of the President				$ 287,886.28
Department of Homeland Security				
Direct Programs				
Tennessee Wildlife Resources Agency	Boating Safety Financial Assistance	97.012		$ 2,320,490.81
Economic and Community Development	Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		150,264.31
Military	Flood Mitigation Assistance	97.029		56,376.74
Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		15,515,819.70
Military	Hazard Mitigation Grant	97.039		20,063,139.90
Environment and Conservation	National Dam Safety Program	97.041		98,548.70
Military	Emergency Management Performance Grants	97.042		6,541,919.87
Finance and Administration	Cooperating Technical Partners	97.045		41,206.79
Military	Pre-Disaster Mitigation	97.047		447,365.32
Southwest Tennessee Community College	Scientific Leadership Awards	97.062		44,167.01
Commerce and Insurance	Homeland Security Grant Program	97.067	$ 11,155.14	
Military	Homeland Security Grant Program	97.067	7,282,508.86	7,293,664.00
University of Tennessee	Competitive Training Grant	97.068		328,050.38
Military	Earthquake Consortium	97.082		45,917.10
Safety and Homeland Security	Driver's License Security Grant Program	97.089		239,955.05
Subtotal Direct Programs				$ 53,186,885.68
Passed Through Eastern Kentucky University				
East Tennessee State University	State and Local Homeland Security National Training Program	97.005 / 452026-10-241		$ 40,579.91

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Passed Through Colorado Division of Homeland Security and Emergency Management				
Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036 / UNKNOWN		5,564.06
Passed Through Mississippi Emergency Management Agency				
Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036 / UNKNOWN		1,285.29
Passed Through Shelby County Government				
University of Memphis	Homeland Security Grant Program	97.067 / CA1415211	$ 2,295.98	
University of Memphis	Homeland Security Grant Program	97.067 / PO S006423	(24.13)	
University of Memphis	Homeland Security Grant Program	97.067 / PO S007794	74,606.72	
University of Memphis	Homeland Security Grant Program	97.067 / PO S007795	53,524.57	130,403.14
Passed Through Vanderbilt University				
Austin Peay State University	NASA - EPSCOR Phase III	97 / 1783-010697		24,759.52
Austin Peay State University	NASA - EPSCOR Research Infrastructure Development	97 / 20948-S3		21,507.24
Subtotal Pass-Through Programs				$ 224,099.16
Subtotal Department of Homeland Security				$ 53,410,984.84
Agency for International Development				
Passed Through Purdue University				
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				$ (5,271.88)
Other Federal Assistance				
Peace Corps				
Direct Programs				
University of Tennessee	Peace Corps-PC-12 -8-070 Wood	08 / PC-12-8-070		$ 695.95
Subtotal Peace Corps				$ 695.95
Tennessee Valley Authority				
Direct Programs				
Pellissippi State Community College	Tennessee Valley Region_Economic Development	62.004		$ 36,924.63
Environment and Conservation	Ocoee Trust Fund	62 / UNKNOWN		38,506.65
Military	Tennessee Valley Authority Emergency Preparedness	62 / FFY 2010 TVA AWARD	$ 123,328.42	
Military	Tennessee Valley Authority Emergency Preparedness	62 / FY 2010-2014 TVA AWAR	1,221,446.22	1,344,774.64
Tennessee Technological University	Diversity Alliance Partnership	62 / CONTRACT NO. 299056	$ 134.70	

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Tennessee Technological University	Diversity Alliance Partnership	62 / CONTRACT NO. 453192	4,516.12	
Tennessee Technological University	Diversity Alliance Partnership	62 / CONTRACT NO. 583488	4,000.00	8,650.82
University of Tennessee	TVA-8500020705 - Patterson	62 / 8500020705		218,771.30
University of Tennessee	TVA-Solar Farm 8500021516 - Patterson	62 / 8500021516		351,624.99
University of Tennessee	TVA Diversity Alliance - Ridley	62 / A13-0413-001		4,896.01
Subtotal Tennessee Valley Authority				$ 2,004,149.04
		Nuclear Regulatory Commission		
Direct Programs				
University of Tennessee	U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		$ 90,302.77
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		4,997.02
Subtotal Nuclear Regulatory Commission				$ 95,299.79
Subtotal Other Federal Assistance				$ 2,100,144.78
Total Unclustered Programs				$ 2,486,716,683.86
		Research and Development Cluster		
		Department of Agriculture		
		Agricultural Marketing Service		
Direct Programs				
University of Tennessee	Federal-State Marketing Improvement Program	10.156		$ 61,184.13
Subtotal Direct Programs				$ 61,184.13
Passed Through The Works, Incorporated				
University of Memphis	Farmers' Market and Local Food Promotion Program	10.168 / 12-25-G-1418		$ 8,852.56
Passed Through North Carolina State University				
University of Tennessee	Specialty Crop Block Grant Program - Farm Bill	10.170 / 2012-2253-01		27,262.75
Subtotal Pass-Through Programs				$ 36,115.31
Subtotal Agricultural Marketing Service				$ 97,299.44
		Agricultural Research Service		
Direct Programs				
Middle Tennessee State University	Agricultural Research_Basic and Applied Research	10.001	$ 27,914.48	
Tennessee State University	Agricultural Research_Basic and Applied Research	10.001	330,317.12	

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Tennessee Technological University	Agricultural Research_Basic and Applied Research	10.001	28,237.02	
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001	868,256.24	$ 1,254,724.86
Subtotal Direct Programs				$ 1,254,724.86
Passed Through Arkansas Children's Hospital				
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001 / USDA 58-6251-7-032		$ 17,156.50
Subtotal Pass-Through Programs				$ 17,156.50
Subtotal Agricultural Research Service				$ 1,271,881.36
		Animal and Plant Health Inspection Service		
Direct Programs				
Tennessee State University	Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ (17,056.51)
University of Tennessee	Wildlife Services	10.028		172,626.19
Subtotal Animal and Plant Health Inspection Service				$ 155,569.68
		Economic Research Service		
Direct Programs				
Tennessee State University	Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations	10.250		$ (0.11)
Subtotal Economic Research Service				$ (0.11)
		Forest Service		
Direct Programs				
University of Memphis	Forestry Research	10.652	$ 5,314.68	
University of Tennessee	Forestry Research	10.652	52,929.25	$ 58,243.93
University of Tennessee	Forest Health Protection	10.680		427,766.31
Subtotal Direct Programs				$ 486,010.24
Passed Through Kansas State University				
University of Tennessee	Cooperative Forestry Assistance	10.664 / S14159		$ 859.11
Passed Through U.S. Endowment for Forestry and Communities, Incorporated				
University of Tennessee	Cooperative Forestry Assistance	10.664 / 2013-017		26,308.62
Passed Through National Fish and Wildlife Foundation				
University of Tennessee	National Fish and Wildlife Foundation	10.683 / 30533	$ 63,274.92	
University of Tennessee	National Fish and Wildlife Foundation	10.683 / 36872	188,195.64	
University of Tennessee	National Fish and Wildlife Foundation	10.683 / 2011-0065-000/25760	(87.50)	251,383.06

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Subtotal Pass-Through Programs				$ 278,550.79
Subtotal Forest Service				$ 764,561.03
	National Institute of Food and Agriculture			
Direct Programs				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200		$ (703.97)
Tennessee State University	Cooperative Forestry Research	10.202		75,734.67
Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205		4,465,874.29
Tennessee State University	1890 Institution Capacity Building Grants	10.216		1,697,667.52
University of Tennessee	Higher Education - Institution Challenge Grants Program	10.217		150,153.10
University of Memphis	Biotechnology Risk Assessment Research	10.219	$ 22,869.65	
University of Tennessee	Biotechnology Risk Assessment Research	10.219	268,351.44	291,221.09
Tennessee State University	Integrated Programs	10.303	$ 25,453.92	
University of Tennessee	Integrated Programs	10.303	658,074.83	683,528.75
University of Tennessee	Organic Agriculture Research and	10.307		368,906.54
Middle Tennessee State University	Agriculture and Food Research Initiative (AFRI)	10.310	$ 52,829.20	
Tennessee State University	Agriculture and Food Research Initiative (AFRI)	10.310	1,269,450.83	
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310	3,827,181.14	5,149,461.17
University of Tennessee	Sun Grant Program	10.320		351,908.48
University of Tennessee	Cooperative Extension Service	10.500		29,647.93
Subtotal Direct Programs				$ 13,263,399.57
Passed Through Oklahoma State University				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / AB-5-67940-UTN		$ 17,967.98
Passed Through Purdue University				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 8000050955-AG		6,567.63
Passed Through University of Florida				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1200139947		289.58
University of Tennessee	Specialty Crop Research Initiative	10.309 / UF 11284		16,386.94
Passed Through University of Hawaii				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO Z960240		3.05
University of Tennessee	Biotechnology Risk Assessment Research	10.219 / 2889453		3,859.04

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues		
Passed Through Virginia Polytechnic Institute and State University					
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 422317-19121			24,488.45
University of Tennessee	Integrated Programs	10.303 / 545850-19121			3,610.63
Passed Through South Dakota State University					
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / 3TN017			(295.97)
Passed Through University of Georgia					
East Tennessee State University	Sustainable Agriculture Research and Education	10.215 / RD309-122/4944806	$	3,136.58	
Tennessee State University	Sustainable Agriculture Research and Education	10.215 / 2013-38640-20856		9,681.93	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309-122/4941266		24,536.20	37,354.71
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / RC294-323/4943246	$	42,990.05	
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / RC294-330/4945556		13,149.78	56,139.83
Passed Through Virginia State University					
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2010-38821-21614			14,637.52
Passed Through North Carolina State University					
University of Tennessee	Integrated Programs	10.303 / 2001-2893-01	$	70,671.86	
University of Tennessee	Integrated Programs	10.303 / 2012-E-04		4,308.68	74,980.54
Passed Through Texas A&M University					
Tennessee State University	Integrated Programs	10.303 / 2004-51130-03114	$	(2,540.11)	
Tennessee State University	Integrated Programs	10.303 / 2008-51130-19537		(24,279.51)	(26,819.62)
University of Tennessee	Cooperative Extension Service	10.500 / 2012FDP			13,500.00
Passed Through Rutgers, The State University of New Jersey					
University of Tennessee	Organic Agriculture Research and Extension Initiative	10.307 / SUB 4828			43,626.00
Passed Through Cornell University					
University of Tennessee	Specialty Crop Research Initiative	10.309 / 613414-9392 YEAR 2			132,325.41
Passed Through University of Arkansas at Little Rock					
University of Tennessee	Specialty Crop Research Initiative	10.309 / UA AES 91111-02			29,994.49
Passed Through Washington State University					
University of Tennessee	Specialty Crop Research Initiative	10.309 / 112674-G002611			39,675.57
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 115334 G002889			212,948.55

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Passed Through Iowa State University				
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 416-23-11A		103,512.54
Passed Through The Pennsylvania State University				
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 4774-UTIA-USDA-9752		48,950.61
Passed Through University of Illinois				
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 2013-00998-01		57,633.12
Passed Through University of Maine				
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / UM-S878		65,722.22
Passed Through University of Nebraska				
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310 / 25-6239-0235-310		36,474.24
Passed Through Auburn University				
University of Tennessee	Sun Grant Program	10.320 / 13-FWS-368030-UTK`		1,767.00
Passed Through University of Wyoming				
University of Tennessee	Sun Grant Program	10.320 / ADVANCED ACCOUNT		6,287.78
Passed Through New York University				
University of Tennessee	Cooperative Extension Service	10.500 / USDA2010-48696-21892		17,228.28
Subtotal Pass-Through Programs			$	1,038,816.12
Subtotal National Institute of Food and Agriculture			$	14,302,215.69
Natural Resources Conservation Service				
Direct Programs				
University of Tennessee	Soil and Water Conservation	10.902	$	7,152.91
University of Tennessee	Soil Survey	10.903		12,760.40
University of Tennessee	Environmental Quality Incentives Program	10.912		655,193.50
Subtotal Natural Resources Conservation Service			$	675,106.81
Rural Business-Cooperative Service				
Direct Programs				
Tennessee Technological University	Rural Business Enterprise Grants	10.769	$	24,750.00
Subtotal Rural Business-Cooperative Service			$	24,750.00

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Other Programs			
Direct Programs			
Austin Peay State University	Monitoring Responses of Herpetofaunal Communities To Prescribed Burns	10 / 13-CR-11242302-040	$ 3,576.53
Austin Peay State University	USDA Forest Service, Land Between the Lakes Botany Survey	10 / 11-PA-11086000-017	12,281.39
University of Tennessee	NRCS 693A759133 Grazing-Keyser	10 / 693A759133	520.64
University of Tennessee	USDA FS 09CR11330145029 FIA 2009-Belli	10 / 09CR11330145029	56,266.47
University of Tennessee	USDA FS 09CS11080400029 Sngbd-Buehler	10 / 09CS11080400029	1,566.92
University of Tennessee	USDA FS 09JV11242311106 Pln-Schlarbaum	10 / 09JV11242311-106	993.12
University of Tennessee	USDA FS 10CR11330134023 Data-Belli	10 / 10CR11330134023	13,068.70
University of Tennessee	USDA FS 10CS11330144082 TCM/NVUM-Cho	10 / 10-CS-11330144-082	(3,005.74)
University of Tennessee	USDA FS 14CR11330134009 Chsnt-Schlarbaum	10 / 14CR11330134009	6,489.29
University of Tennessee	USDA FS 14CS11080400010 Avian-Buehler	10 / 14CS11080400010	2,206.94
University of Tennessee	USDA FS Chattahoochee-Oconee-Schexnayder	10 / 13-CS-11080300-020	46,968.99
University of Tennessee	USDA FS Genetic Specialist 13-Schlarbaum	10 / 10-CS-08-31-33-01	17,484.03
University of Tennessee	USDA FS Industries of the South-Hodges	10 / 12-CR-11330145-045	1,485.18
University of Tennessee	USDA FS Nat'l Visitor Use Monitoring-Fly	10 / 12-CS-1181116-023	46,962.74
University of Tennessee	USDA FS Rearing WTB Walnut TN-Klingeman	10 / 12-CR-11242310-056	(1,572.14)
University of Tennessee	USDA FS Sudden Oak Death-Lamour MATCH	10 / 11-DG-1108350-002	116.00
Subtotal Direct Programs			$ 205,409.06
Passed Through Alabama Agricultural and Mechanical University			
University of Tennessee	AAMU Expand Canola Acreage-West	10 / 2011-38624-31002-UTN	$ 982.78
Passed Through Indiana University of Pennsylvania			
University of Tennessee	IUP-RI Warbler Breeding Mgt-Buehler	10 / 1112-045UT	58,479.32
Subtotal Pass-Through Programs			$ 59,462.10
Subtotal Other Programs			$ 264,871.16
Subtotal Department of Agriculture			$ 17,556,255.06
Department of Commerce			
National Oceanic and Atmospheric Administration (NOAA)			
Direct Programs			
University of Tennessee	Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478	$ 127,567.24

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Subtotal National Oceanic and Atmospheric Administration (NOAA)				$ 127,567.24
Other Programs				
Direct Programs				
University of Tennessee	Special Oceanic and Atmospheric Projects	11.460		$ 40,500.65
East Tennessee State University	Meteorologic and Hydrologic Modernization Development	11.467		129,432.76
Middle Tennessee State University	Measurement and Engineering Research and Standards	11.609	$ 8,335.00	
University of Memphis	Measurement and Engineering Research and Standards	11.609	57,294.32	
University of Tennessee	Measurement and Engineering Research and Standards	11.609	16,378.18	82,007.50
Subtotal Other Programs				$ 251,940.91
Subtotal Department of Commerce				$ 379,508.15
Department of Defense				
Department of the Air Force, Materiel Command				
Direct Programs				
University of Tennessee	Air Force Defense Research Sciences Program	12.800		$ 360,848.65
Subtotal Direct Programs				$ 360,848.65
Passed Through Iowa State University				
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / 421-21-03B		$ 199,383.63
Passed Through University of Dayton				
Tennessee State University	Air Force Defense Research Sciences Program	12.800 / FA8650-09-D-3944		55,113.40
Passed Through University of Houston				
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / SUB NO R-09-0127-04		41,583.44
Passed Through University of Illinois				
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / 2012-02298-05		50,420.61
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / SUB 450174-19121		119,168.61
Subtotal Pass-Through Programs				$ 465,669.69
Subtotal Office of the Air Force, Materiel Command				$ 826,518.34

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Department of the Navy, Office of the Chief of Naval Research				
Direct Programs				
Tennessee State University	Basic and Applied Scientific Research	12.300	$ (0.04)	
Tennessee Technological University	Basic and Applied Scientific Research	12.300	410,306.64	
University of Memphis	Basic and Applied Scientific Research	12.300	877,801.66	
University of Tennessee	Basic and Applied Scientific Research	12.300	2,655,518.05	$ 3,943,626.31
Subtotal Direct Programs				$ 3,943,626.31
Passed Through University of Colorado				
University of Tennessee	Basic and Applied Scientific Research	12.300 / 1548375		$ 170,334.24
Subtotal Pass-Through Programs				$ 170,334.24
Subtotal Department of the Navy, Office of the Chief of Naval Research				$ 4,113,960.55
National Security Agency				
Direct Programs				
Middle Tennessee State University	Mathematical Sciences Grants Program	12.901		$ 26,561.89
University of Memphis	Information Security Grant Program	12.902		44,940.09
Subtotal National Security Agency				$ 71,501.98
U.S. Army Materiel Command				
Direct Programs				
Tennessee State University	Basic Scientific Research	12.431	$ 383,959.89	
University of Memphis	Basic Scientific Research	12.431	316,770.08	
University of Tennessee	Basic Scientific Research	12.431	514,403.36	$ 1,215,133.33
Subtotal Direct Programs				$ 1,215,133.33
Passed Through State University of New York				
Tennessee State University	Basic Scientific Research	12.431 / W911NF-09-1-0392		$ 77,010.19
Passed Through The Pennsylvania State University				
University of Tennessee	Basic Scientific Research	12.431 / 4542-UTK-USA-0531		38,712.36
Subtotal Pass-Through Programs				$ 115,722.55
Subtotal U.S. Army Materiel Command				$ 1,330,855.88
Other Programs				
Direct Programs				
University of Tennessee	Basic Scientific Research - Combating Weapons of Mass Destruction	12.351		$ 673,115.14
East Tennessee State University	Military Medical Research and Development	12.420	$ 63,158.44	

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University of Memphis	Military Medical Research and Development	12.420	1,199,067.17	
University of Tennessee	Military Medical Research and Development	12.420	817,994.99	2,080,220.60
Tennessee State University	Basic, Applied, and Advanced Research in Science and Engineering	12.630	$ 174,799.59	
University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering	12.630	231,514.39	406,313.98
University of Memphis	Research and Technology Development	12.910	$ 305,123.74	
University of Tennessee	Research and Technology Development	12.910	1,516,014.74	1,821,138.48
University of Memphis	STEP-DISA: Skill Gap and Training	12 / HC1028-13-C-0026		282,874.89
University of Tennessee	AF FA7014-10-D-0012-T3-CMO	12 / FA7014-10-D-0012-T3		3,037,054.47
University of Tennessee	AF FA9101-06-D-0001/0006 MOELLER	12 / FA9101-06-D-00010006		46,105.90
University of Tennessee	AF FA9101-06-D-0001/0014 MOELLER	12 / FA9101-06-D-0001/014		34,001.59
University of Tennessee	AF FA9101-06-D-0001/0017 MOELLER	12 / FA9101-06-D-00010017		19,122.99
University of Tennessee	AF FA9101-06-D-0001/0018 MOELLER	12 / FA9101-06-D-00010018		33,585.91
University of Tennessee	AF FA9101-06-D-0001/0019 ANUSONTI-INTHRA	12 / FA9101-06-D-0001-019		12,011.39
University of Tennessee	AF FA9101-06-D-0001/0020 MOELLER	12 / FA9101-06-D-0001/020		4,304.49
University of Tennessee	AF FA9101-06-D-0001/0021 MOELLER	12 / FA9101-06-D-00010021		12,369.73
University of Tennessee	Air Force FA8650-13-C-2326 Frankel	12 / FA8650-13-C-2326		96,060.93
University of Tennessee	DLA-SPE300-13-G-0003-0001-TO#4 Sawhney	12 / SPE300-13G-0003-0001		37,429.01
University of Tennessee	DLA-SPE300-13-G-0003-0002-TO#1 Sawhney	12 / SPE300-13G-0003-0002		53,777.25
University of Tennessee	DOD Stream Bank Mapping-Ayers	12 / W9132T-12-2-0041		11,371.76
University of Tennessee	Missile Defense HQ0147-12-C-6019 Abidi	12 / HQ0147-12-C-6019		273,175.85
University of Tennessee	Navy N62583-11-C-0521 Loeffler 49%	12 / N62583-11-C-0521		80,611.01
University of Tennessee	NRL N00173-12-P-3227 Dmowski	12 / N00173-12-P-3227		19,059.43
University of Tennessee	SERDP W912HQ11C0067 Bioremedial-Jardine	12 / W912HQ-11-C-00067		206,701.77
University of Tennessee	TSNRP Gr HU0001-08-1-TS10B	12 / HU0001081TS10-N08003		5,744.83
University of Tennessee	TSNRP Gr HU0001-10-1-TS04-N10-P01	12 / HU0001101TS04-N10P01		57,089.67
University of Tennessee	US Army "Cool" Plasma Methods-Ye	12 / W911QY-13-P-0151		5,037.87
University of Tennessee	USACE W912HQ-13-C-0055 Loeffler	12 / W912HQ-13-C-0055		142,415.95
University of Tennessee	USACE W912HQ-13-C-0069 Parker	12 / W912HQ-13-C-0069		194,577.76
Subtotal Direct Programs				$ 9,645,272.65
Passed Through American Burn Association				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH0920194		$ 20,604.61
Passed Through Children's Hospital of Pittsburgh of UPMC				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-04-1-0851		(200.54)

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Children's Research Institute				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-09-1-0592	$ (7,577.55)	
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-12-1-0417	4,601.31	(2,976.24)
Passed Through Denver Research Institute				
University of Memphis	Military Medical Research and Development	12.420 / MSRC FY13 026		5,426.89
Passed Through Foundation Fighting Blindness, Incorporated				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH0710720		183,510.67
Passed Through Indiana University				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-11-1-0347		44,370.70
Passed Through National Trauma Institute				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH1110841		50,996.54
Passed Through The University of Texas Health Science Center at Houston				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-08-2-0135		73,898.16
Passed Through University of Connecticut				
University of Tennessee	Military Medical Research and Development	12.420 / KFS#5253310PSA#24810		3,013.47
Passed Through University of Pittsburgh				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-12-2-0023		154,968.24
Passed Through Vanderbilt University				
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-10-1-0528		2,652.70
Passed Through Prairie View A&M University				
University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering	12.630 / FC10053 ACCT 416270		32,160.00
Passed Through Thurgood Marshall College Fund				
Tennessee State University	Basic, Applied, and Advanced Research in Science and Engineering	12.630 / 32698		(11.01)
Passed Through Academy of Applied Science				
Tennessee State University	Research and Engineering Apprentice Program	12 / DAAH04-93-G-0163		1,861.50

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through Auburn University			
Tennessee Technological University	Technological Advisory Support	12 / 13-ECE-202623-TTU	4,082.75
Tennessee Technological University	Manufacturing Consulting Study	12 / 13-ENG-202609-TTU MODIFICATION 1	23,261.79
University of Tennessee	Auburn Univ Ultra HighEfficiency Tolbert	12 / 12-ECE-202626-UTK	184,904.33
Passed Through Sandia National Laboratories			
University of Tennessee	Sandia Natl Lab PO1445803 Andrew Yu	12 / PO# 1445803	36,866.68
Passed Through Southern Methodist University			
University of Tennessee	Southern Methodist Univ-AS107 - Williams	12 / SUBCONTRACT#20499-10	57,080.25
Passed Through Texas A&M University			
University of Tennessee	Texas A & M 06-S130656 Washington-Allen	12 / AGREEMENT #06-S130656	11,731.12
Passed Through The Charles Stark Draper Laboratory, Incorporated			
University of Tennessee	Draper Lab SC001-0000000637 Holleman	12 / SC001-0000000637	79,903.79
Passed Through The Geneva Foundation			
University of Tennessee	The Geneva Fnd S-1315-01 Speraw	12 / S-1315-01	5,469.43
Passed Through Tufts University			
University of Tennessee	Tufts University IN Situ RemedI Loeffler	12 / USAF68	90,059.82
Passed Through University of Dayton			
Tennessee State University	State Awareness for Increased Autonomy: Control of Autonomous Ground Vehicles in Dynamic Environments	12 / FA8650-11-D-3134	38,935.47
Passed Through University of Michigan			
Tennessee State University	Advanced Battery Manufacturing for Testing and Evaluation and Nanosensors for Explosives Detection; Testing and Analysis of Lithium-Ion Batteries for Performance, Reliability, Safety and Life Cycle Evaluation	12 / N65540-10-C-0003	120,111.81
Passed Through Vertical Lift Consortium			
University of Tennessee	Vertical Lift 2013001 DeSmidt	12 / 2013001	165,443.46
Subtotal Pass-Through Programs			$ 1,388,126.39
Subtotal Other Programs			$ 11,033,399.04

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Subtotal Department of Defense			$	17,376,235.79
		Central Intelligence Agency		
Direct Programs				
University of Memphis	Computationally Estimating Geographical Information from User-Contributed Data	13 / 2012-12062700004	$	113,301.32
Subtotal Central Intelligence Agency			$	113,301.32
		Department of Housing and Urban Development		
Passed Through Knoxville-Knox County Metropolitan Planning Commission				
University of Tennessee	Sustainable Communities Regional Planning Grant Program	14.703 / C-13-0292	$	19,248.79
University of Tennessee	Knox County MPC Moir-McClean	14 / AGREEMNT DTD		45,000.00
University of Tennessee	Knox County CAC Planning Transp Sawhney	14 / INCLUSIVE PLANNING		6,277.77
University of Tennessee	Knoxville Knox County Metro Plan Collett	14 / LOW IMPACT STORM WAT		7,188.11
University of Tennessee	Knoxville Knox County Metro Plan Shelton	14 / REIMAGINING URBAN HI		37,395.56
Passed Through Memphis and Shelby County Division of Planning and Development				
University of Memphis	Sustainable Communities Regional Planning Grant Program	14.703 / CA1315554		120,297.07
University of Memphis	Community Challenge Planning Grants and the Department of Transportation's TIGER II Planning Grants	14.704 / 29045		7,468.56
Passed Through Shelby County Government				
University of Memphis	Sustainable Communities Regional Planning Grant Program	14.703 / CA1416948		13,490.03
Passed Through City of Memphis				
University of Memphis	Community Challenge Planning Grants and the Department of Transportation's TIGER II Planning Grants	14.704 / 30786		49,545.79
Subtotal Department of Housing and Urban Development			$	305,911.68
		Department of the Interior		
		Bureau of Land Management		
Direct Programs				
University of Tennessee	Wildland Fire Research and Studies Program	15.232	$	111,899.20
Subtotal Bureau of Land Management			$	111,899.20

State of Tennessee
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For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Bureau of Reclamation				
Direct Programs				
University of Tennessee	Water Desalination Research and Development Program	15.506		$ 63,142.39
Subtotal Bureau of Reclamation				$ 63,142.39
Fish and Wildlife Service				
Direct Programs				
University of Tennessee	Cooperative Endangered Species Conservation Fund	15.615		$ 2,613.46
University of Tennessee	Multistate Conservation Grant Program	15.628		69,284.50
University of Tennessee	Coastal Program	15.630		980.31
Tennessee Technological University	Research Grants (Generic)	15.650		7,788.77
University of Tennessee	Migratory Bird Monitoring, Assessment and Conservation	15.655		14,855.80
Middle Tennessee State University	Endangered Species Conservation – Recovery Implementation Funds	15.657		2,976.47
Subtotal Direct Programs				$ 98,499.31
Passed Through University of Nevada, Reno				
Austin Peay State University	Fish and Wildlife Management Assistance	15.608 / UNR-13-01		$ 4,208.93
Passed Through The Nature Conservancy				
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-080110-3830-02 AMEND 2	$ (200.24)	
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-100111-3850-01 AMEND 1	77,987.42	77,787.18
Passed Through University of Texas at Tyler				
University of Tennessee	Cooperative Endangered Species Conservation Fund	15.615 / SC14-26218151A		13,563.87
Passed Through Kentucky Department of Fish and Wildlife Resources				
Austin Peay State University	Research Grants (Generic)	15.650 / PON2 660 1300002994 1		20,056.30
Subtotal Pass-Through Programs				$ 115,616.28
Subtotal Fish and Wildlife Service				$ 214,115.59
National Park Service				
Direct Programs				
University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	15.916		$ 67,238.74
Middle Tennessee State University	Cooperative Research and Training Programs – Resources of the National Park System	15.945	$ 63,358.92	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Tennessee Technological University	Cooperative Research and Training Programs – Resources of the National Park System	15.945	9,335.17	
University of Memphis	Cooperative Research and Training Programs – Resources of the National Park System	15.945	7,933.37	
University of Tennessee	Cooperative Research and Training Programs – Resources of the National Park System	15.945	218,538.72	299,166.18
University of Tennessee	Cultural Resources Management	15.946		21,919.33
East Tennessee State University	National Park Service Conservation, Protection, Outreach, and Education	15.954	$ 2,279.97	
Tennessee State University	National Park Service Conservation, Protection, Outreach, and Education	15.954	3,604.95	5,884.92
Subtotal Direct Programs				$ 394,209.17
Passed Through New Mexico State University				
University of Tennessee	Cooperative Research and Training Programs – Resources of the National Park System	15.945 / Q01537		$ 1,110.96
Subtotal Pass-Through Programs				$ 1,110.96
Subtotal National Park Service				$ 395,320.13
U.S. Geological Survey				
Direct Programs				
University of Tennessee	Assistance to State Water Resources Research Institutes	15.805		$ 68,311.20
University of Memphis	Earthquake Hazards Research Grants	15.807		998,258.16
Tennessee Technological University	U.S. Geological Survey_Research and Data Collection	15.808	$ 14,180.31	
University of Memphis	U.S. Geological Survey_Research and Data Collection	15.808	8,352.38	
University of Tennessee	U.S. Geological Survey_Research and Data Collection	15.808	60,155.87	82,688.56
University of Memphis	National Cooperative Geologic Mapping Program	15.810	$ 2,287.09	
University of Tennessee	National Cooperative Geologic Mapping Program	15.810	6,744.88	9,031.97
Tennessee Technological University	Cooperative Research Units Program	15.812		200,727.42
Subtotal U.S. Geological Survey				$ 1,359,017.31
Other Programs				
Direct Programs				
Tennessee Technological University	Conservation Grants Private Stewardship for Imperiled Species	15.632		$ 554.93
University of Tennessee	NPS J5471100059 Treatment Mgt Plan-Grant	15 / P11AC91105		25,883.63
University of Tennessee	USDI-NPS-NTP Hollenbach	15 / USDI DOI-NPS		9,305.46
University of Tennessee	USFW Wetland Inv and Monitoring-Gray	15 / F13PC00188		29,773.56

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For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Subtotal Direct Programs			$ 65,517.58
Passed Through Southern Conservation Corp			
Austin Peay State University	Clarks River National Wildlife Refuge	15 / C-09-0503	$ 684.02
Subtotal Pass-Through Programs			$ 684.02
Subtotal Other Programs			$ 66,201.60
Subtotal Department of the Interior			$ 2,209,696.22
Department of Justice			
Bureau of Justice Assistance			
Direct Programs			
University of Memphis	Congressionally Recommended Awards	16.753	$ 731,179.30
Subtotal Bureau of Justice Assistance			$ 731,179.30
National Institute of Justice			
Direct Programs			
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	$ 333,381.39
Subtotal National Institute of Justice			$ 333,381.39
Office of Juvenile Justice and Delinquency Prevention			
Passed Through City of Knoxville			
University of Tennessee	Missing Children's Assistance	16.543 / C-14-0202	$ 8,334.51
Subtotal Office of Juvenile Justice and Delinquency Prevention			$ 8,334.51
Other Programs			
Passed Through Shelby County Office of Early Childhood and Youth			
University of Memphis	Reduction and Prevention of Children's Exposure to Violence	16.730 / CA1312948A	$ 6,626.24
Passed Through Lincoln Memorial University			
University of Tennessee	Lincoln Memorial Univ Sub #002 Jantz	16 / 213-DN-BX-K038-002	18,953.01
Passed Through Virginia Polytechnic Institute and State University			
University of Tennessee	Virginia Tech-Sub 425977-19121 Liu 10&11	16 / SUB 425977-19121	(4,688.17)
Subtotal Other Programs			$ 20,891.08
Subtotal Department of Justice			$ 1,093,786.28

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Department of Labor						
Direct Programs						
University of Tennessee	Wage and Hour Standards	17.303			$	1,911,307.80
Subtotal Department of Labor					$	1,911,307.80
Department of State						
Bureau of Educational and Cultural Affairs						
Direct Programs						
University of Tennessee	Professional and Cultural Exchange Programs - Citizen Exchanges	19.415			$	816,247.24
Subtotal Bureau of Educational and Cultural Affairs					$	816,247.24
Bureau of International Security and Nonproliferation						
Direct Programs						
University of Tennessee	Global Threat Reduction	19.033			$	59,393.63
Subtotal Bureau of International Security and Nonproliferation					$	59,393.63
Subtotal Department of State					$	875,640.87
Department of Transportation						
Federal Highway Administration (FHWA)						
Direct Programs						
University of Tennessee	Highway Research and Development Program	20.200			$	170,986.88
Subtotal Federal Highway Administration (FHWA)					$	170,986.88
Office of the Secretary (OST) Administration Secretariate						
Direct Programs						
University of Memphis	University Transportation Centers Program	20.701	$	3,646.66		
University of Tennessee	University Transportation Centers Program	20.701		608,834.72	$	612,481.38
University of Tennessee	Biobased Transportation Research	20.761				1,008,471.22
Subtotal Direct Programs					$	1,620,952.60
Passed Through Georgia Institute of Technology						
University of Memphis	University Transportation Centers Program	20.701 / RC614-G9			$	4,871.80

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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Passed Through Louisiana State University				
University of Tennessee	University Transportation Centers Program	20.701 / 83708		31,749.52
Passed Through Old Dominion University Research Foundation				
University of Tennessee	University Transportation Centers Program	20.701 / 14-156-521702		45,951.19
Passed Through University of Illinois				
University of Tennessee	University Transportation Centers Program	20.701 / 2012-02061-04 A0694		115,507.52
Passed Through University of Wisconsin-Madison				
University of Memphis	University Transportation Centers Program	20.701 / 396K594		814,145.07
Passed Through University of Georgia				
Middle Tennessee State University	Biobased Transportation Research	20.761 / RR722-134/4893566		65,711.27
Subtotal Pass-Through Programs			$	1,077,936.37
Subtotal Office of the Secretary (OST) Administration Secretariate			$	2,698,888.97
Pipeline and Hazardous Materials Safety Administration				
Direct Programs				
University of Tennessee	Pipeline Safety Program State Base Grant	20.700	$	40,171.99
Subtotal Pipeline and Hazardous Materials Safety Administration			$	40,171.99
Other Programs				
Direct Programs				
University of Tennessee	DOT FAA Altrnt Jet Fuel & Envrnnt-Rials	20 / AJFE	$	3,750.29
University of Tennessee	USDOT DTFH64-13-G-00021 Han	20 / DTFH64-13-G-00021		4,997.68
University of Tennessee	USDOT-FAA DTFACT-13-P-00013 Ryerson	20 / DTFACT-13-P-00013		19,248.34
Subtotal Direct Programs			$	27,996.31
Passed Through University of Kentucky Research Foundation				
University of Tennessee	State Planning and Research	20.515 / 3048110277-13-194	$	87,836.28
Passed Through Hampton University				
University of Tennessee	Hampton University HU-140006 - Jin	20 / MACRO-LEVEL		31,340.85
Passed Through Louisiana State University				
University of Tennessee	Louisiana State Univ 70521 Jin	20 / 70521		7,675.20

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State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues	
Passed Through Mississippi State University					
University of Tennessee	Mississippi State 061300-363994-02 JIn	20 / 061300-363994-02			5,169.56
Passed Through Virginia Department of Transportation					
University of Tennessee	VDOT VCTIR Unmet Data Needs Khattak	20 / 31646			36,448.20
Subtotal Pass-Through Programs				$	168,470.09
Subtotal Other Programs				$	196,466.40
Subtotal Department of Transportation				$	3,106,514.24
		Department of the Treasury			
Direct Programs					
University of Tennessee	IRS-BPA-TIRNO09-Z-00019-TO-0004-Vossler	21 / TIRNO-09-Z-00019 TK4		$	140,294.44
Subtotal Department of the Treasury				$	140,294.44
		Appalachian Regional Commission			
Direct Programs					
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011		$	30,516.86
Subtotal Appalachian Regional Commission				$	30,516.86
		National Aeronautics and Space Administration			
Direct Programs					
East Tennessee State University	Science	43.001	$ 15,519.01		
Tennessee Technological University	Science	43.001	135,501.84		
University of Tennessee	Science	43.001	909,282.70	$	1,060,303.55
University of Tennessee	Aeronautics	43.002			62,925.00
University of Tennessee	Exploration	43.003			161,840.91
University of Tennessee	Education	43.008			8,773.53
University of Tennessee	Cross Agency Support	43.009			24,682.02
University of Tennessee	JPL 1480487 Blalock	43 / 1480487			4,945.26
University of Tennessee	JPL Moersch	43 / 1242851			3,763.99
University of Tennessee	JPL-NASA-RSA#1416716 Emery Proposal 1	43 / RSA# 1416716			(1,777.11)
University of Tennessee	NASA JPL 1451872 Moersch	43 / CONTRACT NO.			124,148.59
University of Tennessee	NASA JPL RSA # 1439682 Emery	43 / RSA 1439682			(970.82)
University of Tennessee	NASA NNL14AB3P Islam	43 / NNL14AB3P			19,827.95
University of Tennessee	NASA-MARSHALL NNM09AB71P MARTOS	43 / NNM09AB71P			1,505.39
Subtotal Direct Programs				$	1,469,968.26
Passed Through Arizona State University					
University of Tennessee	Science	43.001 / 01-082 AMEND # 26	$ 133,473.27		

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Science	43.001 / 10-254 MOD 4	36,368.95	$ 169,842.22
Passed Through SETI Institute				
University of Tennessee	Science	43.001 / SC-3020	$ 12,536.82	
University of Tennessee	Science	43.001 / SUB#08-SC-1062 MOD#1	12,506.99	25,043.81
University of Tennessee	SETI Ins 08-SC-1091 Moersch (AtacamaDes)	43 / 08-SC-1091		41,552.60
University of Tennessee	SETI Ins 08-SC-1092 Moersch (LakeLander)	43 / 08-SC-1092		37,734.92
University of Tennessee	SETI Institute SC-3067 Moersch	43 / SC-3067		2,480.94
University of Tennessee	SETI Institute SC-3068 Moersch	43 / SC-3068		2,933.32
Passed Through Smithsonian Astrophysical Observatory				
East Tennessee State University	Science	43.001 / GO3-14003D	$ 12,608.10	
East Tennessee State University	Science	43.001 / GO3-14008X	10,343.29	22,951.39
University of Memphis	Solar B X Ray Telescope	43 / SV4-84001		20,688.58
University of Memphis	Solar B XRT	43 / SV7-77005 AMEND 16		48,718.12
Passed Through University of Idaho				
University of Tennessee	Science	43.001 / IDK746-SB-001		50,568.17
Passed Through Vanderbilt University				
Austin Peay State University	Science	43.001 / 21603-S2	$ 25,642.09	
University of Memphis	Science	43.001 / 21631-S1	33,864.10	
University of Tennessee	Science	43.001 / 21603-S11 AMEND 5	72,157.52	
University of Tennessee	Science	43.001 / 21630-S1	39,334.36	
University of Tennessee	Science	43.001 / SUB.#21603-S12	12,098.21	183,096.28
University of Tennessee	Education	43.008 / 2016-015735 AMEND 01		279,755.83
Middle Tennessee State University	Tennessee Space Grant College and Fellowship Program	43 / 21603-S6		33,547.65
Tennessee State University	NASA EPSCoR (Experimental Program to Stimulate Competitive Research) Subspace Segmentation and High Dimensional Data Analysis	43 / NNX12AI14A		77,316.14
Tennessee Technological University	Tennessee Space Grant Consortium Award (Tennessee Space Grant College and Fellowship Program)	43 / SUBCONTRACT #21603-S8 AMEND 5		19,648.72
University of Memphis	Simulation of Magnetically Induced Fluid Motion in Reduced Gravity	43 / 21603-S9		13,639.76
Passed Through Cornell University				
University of Tennessee	Aeronautics	43.002 / OSP39361-6446		7,392.51
Passed Through University of California, Los Angeles				
University of Tennessee	Aeronautics	43.002 / 2090-S-JB694 AMEND23		41,322.86
Passed Through Colorado State University				
University of Tennessee	Cross Agency Support	43.009 / G-6560-1		84,449.30
Passed Through Brown University				
University of Tennessee	Brown Univ - PO# P258656 - Taylor	43 / PO258656/SUB00000242		37,130.69

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Public Broadcasting Service				
University of Memphis	PBS Teaching Climate Change Project	43 / NASAPBS		466.62
Passed Through Space Telescope Science Institute				
Tennessee State University	Follow the Water: The Ultimate WFC3 Exoplanet Atmosphere Survey; An Optical Transmission Spectral Survey of hot-Jupiter Exoplanetary Atmospheres	43 / NAS5-26555		34,768.20
Passed Through University of Arizona				
University of Tennessee	University of Arizona PO #30948 Emery	43 / PO # 30948		110,228.45
Passed Through University of New Hampshire				
University of Tennessee	Univ of New Hampshire 11-107-01 Townsend	43 / 11-107 AMENDMENT# 05		88,589.58
Passed Through University of Northern Iowa				
University of Tennessee	Univ of Northern Iowa S564B Papanicolaou	43 / SUBCONTRACT #S5645B		43,890.39
Subtotal Pass-Through Programs				$ 1,477,757.05
Subtotal National Aeronautics and Space Administration				$ 2,947,725.31
National Endowment for the Arts				
Direct Programs				
University of Tennessee	Promotion of the Arts_Grants to Organizations and Individuals	45.024		$ 15,000.00
Subtotal Direct Programs				$ 15,000.00
Passed Through Arts Center of Cannon County				
Middle Tennessee State University	Promotion of the Arts_Grants to Organizations and Individuals	45.024 / 12-5500-7101		$ (1.71)
Subtotal Pass-Through Programs				$ (1.71)
Subtotal National Endowment for the Arts				$ 14,998.29
National Endowment for the Humanities				
Direct Programs				
Middle Tennessee State University	Promotion of the Humanities_ Division of Preservation and Access	45.149		$ 88,438.40
University of Memphis	Promotion of the Humanities_ Research	45.161	$ 39,145.40	
University of Tennessee	Promotion of the Humanities_ Research	45.161	199,031.20	238,176.60
Subtotal National Endowment for the Humanities				$ 326,615.00

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Institute of Museum and Library Services				
Direct Programs				
University of Tennessee	National Leadership Grants	45.312		$ 27,506.81
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313		182,425.72
Subtotal Direct Programs				$ 209,932.53
Passed Through University of Illinois				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / 2010-03028-02		$ 20,380.95
Subtotal Pass-Through Programs				$ 20,380.95
Subtotal Institute of Museum and Library Services				$ 230,313.48
National Science Foundation				
Direct Programs				
East Tennessee State University	Engineering Grants	47.041	$ 20,974.21	
Middle Tennessee State University	Engineering Grants	47.041	24,768.69	
Tennessee State University	Engineering Grants	47.041	4,591.07	
Tennessee Technological University	Engineering Grants	47.041	338,327.98	
University of Memphis	Engineering Grants	47.041	567,531.57	
University of Tennessee	Engineering Grants	47.041	5,967,926.55	$ 6,924,120.07
East Tennessee State University	Mathematical and Physical Sciences	47.049	$ 277,317.89	
Middle Tennessee State University	Mathematical and Physical Sciences	47.049	32,928.28	
Tennessee State University	Mathematical and Physical Sciences	47.049	311,306.27	
University of Memphis	Mathematical and Physical Sciences	47.049	415,877.08	
University of Tennessee	Mathematical and Physical Sciences	47.049	3,384,261.57	4,421,691.09
East Tennessee State University	Geosciences	47.050	$ 146,514.79	
Middle Tennessee State University	Geosciences	47.050	107,728.35	
University of Memphis	Geosciences	47.050	438,525.17	
University of Tennessee	Geosciences	47.050	777,543.40	1,470,311.71
Tennessee Technological University	Computer and Information Science and Engineering	47.070	$ 51,011.95	
University of Memphis	Computer and Information Science and Engineering	47.070	743,425.23	
University of Tennessee	Computer and Information Science and Engineering	47.070	2,243,597.26	3,038,034.44
East Tennessee State University	Biological Sciences	47.074	$ 393,740.82	
Middle Tennessee State University	Biological Sciences	47.074	90,540.08	
Tennessee State University	Biological Sciences	47.074	74,490.61	
University of Memphis	Biological Sciences	47.074	219,799.04	
University of Tennessee	Biological Sciences	47.074	7,194,012.46	7,972,583.01
Austin Peay State University	Social, Behavioral, and Economic Sciences	47.075	$ 1,003.20	
Middle Tennessee State University	Social, Behavioral, and Economic Sciences	47.075	173,761.19	
University of Memphis	Social, Behavioral, and Economic Sciences	47.075	95,010.94	

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075	435,995.50	705,770.83
Austin Peay State University	Education and Human Resources	47.076	$ 2,870.67	
East Tennessee State University	Education and Human Resources	47.076	113,576.67	
Middle Tennessee State University	Education and Human Resources	47.076	80,016.21	
Tennessee State University	Education and Human Resources	47.076	510,063.27	
Tennessee Technological University	Education and Human Resources	47.076	1,288,746.38	
University of Memphis	Education and Human Resources	47.076	550,921.52	
University of Tennessee	Education and Human Resources	47.076	1,545,382.36	4,091,577.08
University of Memphis	Polar Programs	47.078	$ 64,634.92	
University of Tennessee	Polar Programs	47.078	70,879.28	135,514.20
University of Tennessee	Office of International and Integrative Activities	47.079		17,951.29
University of Tennessee	Office of Cyberinfrastructure	47.080		3,644,097.16
University of Tennessee	Office of Experimental Program to Stimulate Competitive Research	47.081		4,257,373.79
East Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	$ 24,791.79	
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	359,196.36	
Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	7,510.41	
Tennessee Technological University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	119,629.50	
University of Memphis	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	98,268.98	
University of Tennessee	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082	1,888,623.95	2,498,020.99
University of Memphis	IPA Position with NSF	47 / DUE-1352047		172,996.70
University of Tennessee	NSF 0711134 Project Management-Peterson	47 / OCI-0711134		6,260,410.29
University of Tennessee	NSF VSEE Retirement - D Roberts Year 2	47 / 12-MOR-1390		(97.13)
Subtotal Direct Programs				$ 45,610,355.52
Passed Through University of Arkansas				
University of Memphis	Engineering Grants	47.041 / 304026		$ 10,582.55
Passed Through University of Colorado				
University of Tennessee	Engineering Grants	47.041 / SPO# 0000075352		29,772.37
University of Memphis	Geosciences	47.050 / PO 1000278842		2,537.19
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075 / PROJECT NO. 1548373		27,263.14
Passed Through University of Georgia				
Middle Tennessee State University	Engineering Grants	47.041 / RR722-136/4786866		31,063.80
Passed Through University of Iowa				
University of Tennessee	Engineering Grants	47.041 / REQ ID # W000548843		14,630.16
Passed Through University of North Carolina				
University of Tennessee	Engineering Grants	47.041 / SUB 5-37373		63,731.03

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Engineering Grants	47.041 / 478583-19121		44,651.23
Passed Through Vanderbilt University				
University of Tennessee	Mathematical and Physical Sciences	47.049 / 20726-S2 AMEND #3		28,755.08
Passed Through Washington State University				
University of Tennessee	Mathematical and Physical Sciences	47.049 / 118207 G003113		52,404.95
Passed Through Florida International University				
University of Tennessee	Geosciences	47.050 / 800001191-02		57,066.65
Passed Through University of Illinois				
University of Tennessee	Geosciences	47.050 / 2013-04254-01 /AA713		25,055.49
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2010-07-189-03	$ 104,494.79	
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2011-00318-04 AMEND1	4,646,391.11	
University of Tennessee	Office of Cyberinfrastructure	47.080 / SUB # 2007-01077-12	518,929.90	
University of Tennessee	Office of Cyberinfrastructure	47.080 / SUB2009-02232-02	393,875.27	5,663,691.07
Passed Through University of Southern California				
University of Tennessee	Geosciences	47.050 / SUBAWARD #157595	$ 47,848.32	
University of Tennessee	Geosciences	47.050 / SUBAWARD #36202823	26,137.54	
University of Tennessee	Geosciences	47.050 / SUBAWARD #42525882	72,492.80	146,478.66
Passed Through University of Texas at El Paso				
University of Tennessee	Geosciences	47.050 / EAR-1009533		3,342.80
Passed Through SimCenter Enterprises, Incorporated				
University of Tennessee	Computer and Information Science and Engineering	47.070 / NSF CNS-1236706		4,615.50
Passed Through University of New Mexico				
University of Tennessee	Computer and Information Science and Engineering	47.070 / 063014-87H2 AMEND #9		989,520.15
Passed Through University of South Florida				
Tennessee Technological University	Computer and Information Science and Engineering	47.070 / 2108-1039-00-A MOD NO. 2		19,638.95
Passed Through Auburn University				
Middle Tennessee State University	Biological Sciences	47.074 / 10-FAA-360030-MTSU		881.15
Passed Through New York Botanical Garden				
University of Tennessee	Biological Sciences	47.074 / NYBG-1206197-02-UT		3,751.76
Passed Through Portland State University				
University of Tennessee	Biological Sciences	47.074 / 201REY307		20,644.57

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Purdue University				
University of Tennessee	Biological Sciences	47.074 / 4101-35203-01		7,242.57
University of Tennessee	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082 / 4101-31975 AMEND #3		30,782.30
Passed Through The Pennsylvania State University				
University of Tennessee	Biological Sciences	47.074 / 4373-UT-NSF-5974	$ 141,049.56	
University of Tennessee	Biological Sciences	47.074 / 4729-UT-NSF-5974	4,472.82	145,522.38
Passed Through University of California, Santa Barbara				
University of Tennessee	Biological Sciences	47.074 / KK1321		32,070.46
Passed Through University of California, Santa Cruz				
University of Tennessee	Biological Sciences	47.074 / S0184089		47,384.34
Passed Through University of Nebraska				
University of Tennessee	Biological Sciences	47.074 / 25-6235-0199-002		80,699.44
Passed Through University of South Carolina				
University of Tennessee	Biological Sciences	47.074 / SUB11-1890-PO#13010-F		31,259.79
Passed Through Arizona State University				
East Tennessee State University	Social, Behavioral, and Economic Sciences	47.075 / 14-301		9,818.07
Passed Through Carnegie Mellon University				
University of Memphis	Social, Behavioral, and Economic Sciences	47.075 / 1121361-298439		24,148.68
Tennessee Technological University	Education and Human Resources	47.076 / 1121770-294173 - AMEND #2		28,438.68
Passed Through Central State University				
University of Tennessee	Education and Human Resources	47.076 / P0085626 /8460-003		2,625.00
Passed Through Illinois Institute of Technology				
University of Memphis	Education and Human Resources	47.076 / SA460-1201-7993		103,050.27
Passed Through Loyola Marymount University				
University of Memphis	Education and Human Resources	47.076 / LMU ACCT #12-019		81,066.62
Passed Through North Carolina State University				
University of Memphis	Education and Human Resources	47.076 / P0042123		2,741.71
Passed Through San Diego State University Research Foundation				
Tennessee Technological University	Education and Human Resources	47.076 / DUE-1044172 Subaward 56825A-P1623-7803-211 AMEND #1		6,480.41

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through Stark State College			
University of Tennessee	Education and Human Resources	47.076 / NSFFC-0802536-11-12	21,195.03
Passed Through University of Notre Dame			
University of Memphis	Education and Human Resources	47.076 / 202002	105,510.47
Passed Through University of Wisconsin-Madison			
University of Memphis	Education and Human Resources	47.076 / DRL-0918409	101,063.66
Passed Through Columbia University			
University of Tennessee	Office of International and Integrative Activities	47.079 / 1(GG002739)	7,024.35
Passed Through Georgia Institute of Technology			
University of Tennessee	Office of Cyberinfrastructure	47.080 / RA241-G1	213,918.25
Passed Through Indiana University			
University of Tennessee	Office of Cyberinfrastructure	47.080 / BL-4812439-UTK	110,246.43
Passed Through University at Buffalo, The State University of New York			
University of Tennessee	Office of Cyberinfrastructure	47.080 / R813071	37,523.81
Passed Through Claflin University			
University of Tennessee	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082 / 02-20-2678-6211-0003	52,126.75
Passed Through Dartmouth College			
University of Tennessee	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082 / SUBWARD NO. 969	29,008.12
Passed Through Louisiana State University			
University of Tennessee	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082 / SUBAWARD NO. 64512	3,644.66
Passed Through University of Minnesota			
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082 / A001887402	34,898.31
Passed Through Washington University			
University of Tennessee	ARRA-Trans-NSF Recovery Act Reasearch Support	47.082 / WU-HT-10-51-AMEND#3	4,047.21
Passed Through The Ohio State University			
University of Tennessee	Ohio St Univ. Math/Biosci Inst.-Lenhart	47 / 616893	12,332.70
Passed Through U.S. Civilian Research and Development Foundation			
University of Tennessee	US CRDF Global CO-8666-14 Hall	47 / CO-8666-14	31,588.06

State Grantee Agency	Program Name	CFDA / Other Identifying Number		Disbursements / Issues
Subtotal Pass-Through Programs				$ 8,637,536.78
Subtotal National Science Foundation				$ 54,247,892.30
	Securities and Exchange Commission			
Direct Programs				
University of Memphis	Intergovernmental Personnel Act Appointment with the Securities and Exchange Commission	58 / MOD 3500 FY12 IPA6		$ 253,075.29
Subtotal Securities and Exchange Commission				$ 253,075.29
	Small Business Administration			
Direct Programs				
University of Memphis	8(a) Business Development Program	59.006		$ 35,657.91
Subtotal Small Business Administration				$ 35,657.91
	Department of Veterans Affairs			
Direct Programs				
University of Memphis	Support of Veteran's Service Office	64 / 11908142		$ 9,732.00
University of Tennessee	VA Medical Center Agmt-Slominski	64 / UNKNOWN		4,694.89
University of Tennessee	VA Medical Center IPA Agreement	64 / UNKNOWN		29,906.41
Subtotal Direct Programs				$ 44,333.30
Passed Through University of Pittsburgh				
University of Tennessee	Univ of Pittsburgh VA OR Schedulin Shylo	64 / 0039825-1		$ 16,584.47
Subtotal Pass-Through Programs				$ 16,584.47
Subtotal Department of Veterans Affairs				$ 60,917.77
	Environmental Protection Agency			
	Office of Air and Radiation			
Direct Programs				
University of Tennessee	Air Pollution Control Program	66.001		$ 161,408.75
University of Tennessee	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		11,130.64
Subtotal Direct Programs				$ 172,539.39
Passed Through Shelby County Health Department				
Middle Tennessee State University	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034 / 95490112	$ 95,086.26	

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University of Memphis	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034 / CA1315008	90,718.82	$	185,805.08
Subtotal Pass-Through Programs				$	185,805.08
Subtotal Office of Air and Radiation				$	358,344.47
		Office of Enforcement and Compliance Assurance			
Passed Through Community Development Council of Greater Memphis					
University of Memphis	Environmental Justice Small Grant Program	66.604 / Prime EPA 00D10213		$	9,182.08
Subtotal Office of Enforcement and Compliance Assurance				$	9,182.08
		Office of Research and Development (ORD)			
Direct Programs					
University of Tennessee	P3 Award: National Student Design Competition for Sustainability	66.516		$	20,219.81
Subtotal Office of Research and Development (ORD)				$	20,219.81
		Office of the Chief Financial Officer			
Passed Through The Consortium for Plant Biotechnology Research, Incorporated					
University of Tennessee	Congressionally Mandated Projects	66.202 / EM83438801		$	43,755.01
Subtotal Office of the Chief Financial Officer				$	43,755.01
		Office of Water			
Direct Programs					
Tennessee Technological University	Regional Wetland Program Development Grants	66.461		$	50,352.63
Subtotal Direct Programs				$	50,352.63
Passed Through Blount County Soil Conservation District					
University of Tennessee	Targeted Watersheds Grants	66.439 / FIELD MONITORING		$	0.04
Passed Through Auburn University					
University of Tennessee	Lake Champlain Basin Program	66.481 / 13-ACES-375474-UT			19,495.22
Subtotal Pass-Through Programs				$	19,495.26
Subtotal Office of Water				$	69,847.89
		Other Programs			
Direct Programs					
University of Memphis	EPA Energy Conservation Projects	66 / 1304MG3001		$	16,719.38

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	Training Public Water and Waste	66 / 1304TC3027		7,900.00
University of Tennessee	EPA Reserve Program Land-Hellwinckel	66 / PR-ORD-12-03529		30,632.44
Subtotal Direct Programs				$ 55,251.82
Passed Through Alaska Department of Environmental Conservation				
University of Tennessee	Alaska-DEC(CleanupCalculator)-Dolislager	66 / CLEANUP CALCULATOR		$ 27,964.10
Subtotal Pass-Through Programs				$ 27,964.10
Subtotal Other Programs				$ 83,215.92
Subtotal Environmental Protection Agency				$ 584,565.18
Nuclear Regulatory Commission				
Direct Programs				
University of Tennessee	U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		$ 23,368.32
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		167,230.18
University of Tennessee	U.S. Nuclear Regulatory Commission Office of Research Financial Assistance Program	77.009		88,547.90
Subtotal Direct Programs				$ 279,146.40
Passed Through Virginia Polytechnic Institute and State University				
University of Memphis	U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006 / 417005-19A62		$ 7,188.90
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		2,752.00
Subtotal Pass-Through Programs				$ 9,940.90
Subtotal Nuclear Regulatory Commission				$ 289,087.30
Department of Energy				
Direct Programs				
Tennessee Technological University	Office of Science Financial Assistance Program	81.049	$ 73,781.01	
University of Memphis	Office of Science Financial Assistance Program	81.049	57,509.93	
University of Tennessee	Office of Science Financial Assistance Program	81.049	6,632,539.59	$ 6,763,830.53
University of Tennessee	University Coal Research	81.057		112,805.72
University of Tennessee	Conservation Research and Development	81.086		186,561.27
Education	ARRA-Renewable Energy Research and Development	81.087	$ 980,570.87	

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University of Memphis	Renewable Energy Research and Development	81.087	150,288.36	
University of Tennessee	Renewable Energy Research and Development	81.087	134,995.22	1,265,854.45
Tennessee State University	Fossil Energy Research and Development	81.089	$ 67,433.77	
Tennessee Technological University	Fossil Energy Research and Development	81.089	121,349.60	
University of Tennessee	Fossil Energy Research and Development	81.089	208,819.77	397,603.14
University of Tennessee	Stewardship Science Grant Program	81.112		1,559,303.81
University of Tennessee	Defense Nuclear Nonproliferation Research	81.113		403,963.42
University of Tennessee	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		31,729.49
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121		41,588.14
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123		286,246.19
University of Tennessee	Advanced Research Projects Agency - Energy	81.135		399,393.02
University of Tennessee	Fermi Research Alliance, LLC - Spanier	81 / P.O. #580849 REV #4		11,910.99
University of Tennessee	Lawrence Berkeley Natl Lab 6956606 Liu	81 / 6956606 MOD 1		4,576.70
University of Tennessee	NREL ZCO-0-40616-01 Zawodzinski 12	81 / ZCO-0-40616-01-MOD 1		(39,674.67)
Subtotal Direct Programs				$ 11,425,692.20
Passed Through Georgia Institute of Technology				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / RD059-S1	$ 96,637.12	
University of Tennessee	Office of Science Financial Assistance Program	81.049 / RD537-S1	109,892.33	$ 206,529.45
Passed Through Louisiana State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 44159-4		57,825.80
Passed Through Oregon State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / F0760B-A		98,138.48
Passed Through Princeton University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / SUBAWARD #00001871		109,881.77
Passed Through Purdue University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 4105-29625 MOD 3		156,846.60

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through The Pennsylvania State University				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 4230-UT-DOE-5267		150,509.03
Passed Through The Samuel Roberts Noble Foundation				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 2012-961-002		56,068.95
Passed Through University Corporation for Atmospheric Research				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / Z12-93537		21,959.10
Passed Through University of California, Berkeley				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 00007727 AMENDMENT 2		363,858.82
Passed Through University of Notre Dame				
University of Tennessee	Office of Science Financial Assistance Program	81.049 / SUBAWARD NO. 209008		180,704.34
Passed Through University of Illinois				
University of Tennessee	University Coal Research	81.057 / 2013-04279-0		1,669.66
Passed Through South Dakota State University				
University of Tennessee	Regional Biomass Energy Programs	81.079 / 3TA157		31,424.67
University of Tennessee	Renewable Energy Research and Development	81.087 / 3TB157		3,986.07
Passed Through Northeastern University				
University of Tennessee	Renewable Energy Research and Development	81.087 / 50301678052		(9,122.08)
Passed Through University of Missouri				
Tennessee State University	Fossil Energy Research and Development	81.089 / DE-FE0005865		29,848.57
Passed Through Rutgers, The State University of New Jersey				
University of Tennessee	Stewardship Science Grant Program	81.112 / 5110	$ 292,356.72	
University of Tennessee	Stewardship Science Grant Program	81.112 / SUB#3538 PO#S1135633	77,925.00	370,281.72
Passed Through University of Michigan				
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121 / SUB # 3002964739		15,252.31
University of Tennessee	Univ of Michigan Sub #3002412323 Wirth	81 / SUB #3002412323		114,302.37
Passed Through Prairie View A&M University				
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123 / DE-NA0001861		49,273.26

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Passed Through Argonne National Laboratory			
University of Tennessee	Argonne Natl Lab 2F-33122 Ruggles	81 / 2F-33122	19,873.93
University of Tennessee	Argonne Natl Lab 2J-30081-0001A Ostrowsk	81 / 2J-30081	15,573.23
University of Tennessee	Argonne Natl Lab 3F-32544 Dongarra	81 / 3F-32544	111,909.26
University of Tennessee	Argonne Natl Lab 4F-30621 Greene	81 / 4F-30621	9,087.39
Passed Through Battelle Memorial Institute			
University of Tennessee	Battelle Memorial Inst PNNL 169906 Wirth	81 / 169906	(10,470.54)
University of Tennessee	Battelle Memorial Inst PNNL 194994 Blalo	81 / 194994	81,587.03
University of Tennessee	Battelle Memorial Inst PNNL 218860 Coble	81 / 218860	18,026.09
Passed Through Electric Power Research Institute, Incorporated			
University of Tennessee	EPRI EP-10001803 Sun	81 / EP-P46540/C19974	258,351.74
Passed Through Los Alamos National Security, Limited Liability Company			
Tennessee Technological University	Simulation and Analysis of the SLIMER (Scintillating Layer Imaging Microscope for Environmental Research) Detector	81 / 257632	2,400.00
Passed Through North Carolina State University			
University of Tennessee	NCSU-2007-1694-03 - Sanders	81 / 2007-1694-03 MOD 5	11,572.47
University of Tennessee	NC State Univ-Sub2010-1691-01 Weber Yr1	81 / SUB2010-1691-01	62,693.24
Passed Through Oak Ridge Associated Universities			
University of Tennessee	ORAU SubC 600139 S BROOKS	81 / SUBC 600139	4,305.68
Passed Through Sandia National Laboratories			
University of Tennessee	Sandia National Lab PO1314356 Bosilca	81 / PO#1314356	21,093.19
Passed Through Savannah River Nuclear Solutions, Limited Liability Company			
University of Tennessee	Savannah River Nat Lab 102193 Miller	81 / 102193	7,336.72
University of Tennessee	Savannah River Nat Lab 102195 Miller	81 / 102195	20,000.00
Passed Through Universities Space Research Association			
University of Tennessee	USRA SubC 03575-01 MARTOS	81 / 03575-01	13,219.76
Passed Through University of Arizona			
University of Tennessee	Univ of Arizona PO#Y561966 Maldonado Y 3	81 / PO # Y561966-MOD #2	3,463.89
Passed Through UT-Battelle, Limited Liability Company			
Middle Tennessee State University	IMAGINE operations support	81 / 4000115634	9,766.57

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Middle Tennessee State University	Development of Flowable Fill and Conrete Mixtures Using Wood Ash Research	81 / 40001177831		8,652.75
Tennessee Technological University	Molecular Photoredox Chemistry of Mercury on Aquatic Systems	81 / 4000069118 MOD 5		(2,751.66)
Tennessee Technological University	Environmental Remediation of Radioactive Waste and Chemical Process of Spent Nuclear Fuel	81 / 4000101346 MOD 11		98,970.50
Tennessee Technological University	Stonecipher Professor of Distinction Joint Faculty Agreement with ORNL	81 / 4000102091 MOD 8		101,205.56
Tennessee Technological University	Resiliency Techniques for Large-Scale and Heterogeneous Environments	81 / 4000112013 MOD 04		35,833.35
Tennessee Technological University	Design and Development of Wireless Low Cost Power Data Loggers	81 / 4000127628		10,000.00
University of Memphis	Robust Network Algorithms	81 / 4000127414		1,311.78
University of Tennessee	UT-Battelle	81 / B0199BTL	$ 21,982,378.01	
University of Tennessee	ARRA-UT-Battelle	81 / B0199BTL	102,103.21	22,084,481.22
Subtotal Pass-Through Programs				$ 25,006,732.04
Subtotal Department of Energy				$ 36,432,424.24
Department of Education				
Institute of Education Sciences				
Direct Programs				
University of Memphis	Education Research, Development and Dissemination	84.305	$ 657,103.17	
University of Tennessee	Education Research, Development and Dissemination	84.305	279,375.02	$ 936,478.19
University of Tennessee	Research in Special Education	84.324		354,342.64
Subtotal Direct Programs				$ 1,290,820.83
Passed Through Georgia State University				
University of Memphis	Education Research, Development and Dissemination	84.305 / SP00010952-03		$ 461,789.91
Passed Through University of Wisconsin-Madison				
University of Memphis	Education Research, Development and Dissemination	84.305 / 480K303		96,375.28
Subtotal Pass-Through Programs				$ 558,165.19
Subtotal Institute of Education Sciences				$ 1,848,986.02
Office of Elementary and Secondary Education				
Passed Through Illinois State Board of Education				
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / MY10624		$ 26,753.35
Passed Through Virginia Department of Education				
University of Memphis	Twenty-First Century Community Learning Centers	84.287 / 780-86788-S287C110047		88,963.81

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Subtotal Office of Elementary and Secondary Education					$	115,717.16
Office of Innovation and Improvement						
Passed Through Hardin County Schools						
University of Memphis	Fund for the Improvement of Education	84.215 / Q215E110461	$	18,562.22		
University of Memphis	Fund for the Improvement of Education	84.215 / Q215E110461-12		10,292.05	$	28,854.27
Subtotal Office of Innovation and Improvement					$	28,854.27
Office of Postsecondary Education						
Direct Programs						
University of Memphis	Centers for International Business Education	84.220			$	125,737.68
University of Tennessee	Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407				258,810.94
Subtotal Direct Programs					$	384,548.62
Passed Through Smithsonian Institution						
University of Memphis	ARRA-Overseas Programs - Doctoral Dissertation Research Abroad	84.022 / 11-SUBC-440-0000220859			$	943,147.03
Passed Through Commonwealth of Kentucky						
University of Memphis	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334 / 1400000388 1				27,616.11
Subtotal Pass-Through Programs					$	970,763.14
Subtotal Office of Postsecondary Education					$	1,355,311.76
Other Programs						
Passed Through Battelle Memorial Institute						
University of Memphis	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 366844			$	304,818.96
Passed Through Vanderbilt University						
University of Tennessee	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395 / 2039-012724				21,467.70
Subtotal Other Programs					$	326,286.66
Subtotal Department of Education					$	3,675,155.87

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
National Archives and Records Administration				
Direct Programs				
University of Tennessee	National Historical Publications and Records Grants	89.003	$	145,485.54
Subtotal National Archives and Records Administration			$	145,485.54
Department of Health and Human Services				
Administration for Community Living				
Passed Through Knoxville-Knox County Metropolitan Planning Commission				
University of Tennessee	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048 / COMMUNICAT BARRIERS	$	12,856.10
Subtotal Administration for Community Living			$	12,856.10
Agency for Healthcare Research and Quality				
Direct Programs				
University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	93.226	$	313,235.11
Subtotal Direct Programs			$	313,235.11
Passed Through Olmsted Medical Center				
University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	93.226 / HS019408	$	(631.16)
Subtotal Pass-Through Programs			$	(631.16)
Subtotal Agency for Healthcare Research and Quality			$	312,603.95
Centers for Disease Control and Prevention				
Passed Through Emory University				
University of Tennessee	Environmental Public Health and Emergency Response	93.070 / S712303	$	7,956.42
Passed Through University of Massachusetts Worchester				
East Tennessee State University	Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135 / 6145605/RFS2013068		133,580.81
Passed Through Colorado State University				
University of Tennessee	Occupational Safety and Health Program	93.262 / G-4681-1		123,689.77
Passed Through CPWR - The Center for Construction Research and Training				
University of Tennessee	Occupational Safety and Health Program	93.262 / LETTER DTD 10/28/13		17,649.81

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	Occupational Safety and Health Program	93.262 / 3048110720-14-118	$ 7,670.53	
East Tennessee State University	Occupational Safety and Health Program	93.262 / 3049024627-12-474	3,484.82	11,155.35
Passed Through Hemophilia of Georgia				
University of Tennessee	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283 / 6 H30 MC24046-02		14,927.56
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283 / IP000489		57,673.87
Passed Through American College of Sports Medicine				
University of Tennessee	Assistance Programs for Chronic Disease Prevention and Control	93.945 / 5U58DP001132-05 CDC		13,807.26
Subtotal Centers for Disease Control and Prevention				$ 380,440.85
Centers for Medicare and Medicaid Services				
Direct Programs				
University of Tennessee	Health Care Innovation Awards (HCIA)	93.610		$ 1,128,421.75
Subtotal Direct Programs				$ 1,128,421.75
Passed Through Methodist LeBonheur Community Health and Well-Being				
University of Memphis	Health Care Innovation Awards (HCIA)	93.610 / 1C1CMS331046-01-00		$ 45,825.00
Subtotal Pass-Through Programs				$ 45,825.00
Subtotal Centers for Medicare and Medicaid Services				$ 1,174,246.75
Food and Drug Administration				
Direct Programs				
University of Tennessee	Food and Drug Administration_ Research	93.103		$ 33,047.47
Subtotal Direct Programs				$ 33,047.47
Passed Through Auburn University				
University of Memphis	Food and Drug Administration_ Research	93.103 / 14 AUFSI 360490 UM		$ 18,721.80
Subtotal Pass-Through Programs				$ 18,721.80
Subtotal Food and Drug Administration				$ 51,769.27

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Health Resources and Services Administration				
Direct Programs				
University of Tennessee	Nursing Workforce Diversity	93.178		$ 265,433.58
University of Tennessee	Nurse Education, Practice Quality and Retention Grants	93.359		321,882.05
Subtotal Direct Programs				$ 587,315.63
Passed Through Vanderbilt University				
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / MC22220		$ 6,594.53
Passed Through University of Kentucky				
University of Tennessee	Public Health Training Centers Program	93.249 / 3048109820-13-081		6,156.71
Passed Through Methodist LeBonheur Healthcare				
University of Memphis	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505 / 97212UMCHANG		7,122.85
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		6,040.24
Subtotal Pass-Through Programs				$ 25,914.33
Subtotal Health Resources and Services Administration				$ 613,229.96
National Institutes of Health				
Direct Programs				
University of Tennessee	Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		$ 201,975.57
University of Memphis	Environmental Health	93.113	$ 317,926.38	
University of Tennessee	Environmental Health	93.113	470,642.11	788,568.49
University of Tennessee	Oral Diseases and Disorders Research	93.121		200,503.51
University of Memphis	Research Related to Deafness and Communication Disorders	93.173	$ 784,995.75	
University of Tennessee	Research Related to Deafness and Communication Disorders	93.173	453,180.78	1,238,176.53
East Tennessee State University	Mental Health Research Grants	93.242	$ 262,122.93	
University of Tennessee	Mental Health Research Grants	93.242	419,489.44	681,612.37
University of Memphis	Alcohol Research Programs	93.273	$ 263,512.30	
University of Tennessee	Alcohol Research Programs	93.273	1,706,148.82	1,969,661.12
East Tennessee State University	Drug Abuse and Addiction Research Programs	93.279	$ 584,027.35	
University of Memphis	Drug Abuse and Addiction Research Programs	93.279	323,727.11	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279	195,723.59	1,103,478.05
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		57,891.78
East Tennessee State University	Minority Health and Health Disparities Research	93.307		184,830.34
University of Tennessee	Research Infrastructure Programs	93.351		(4,145.56)
University of Tennessee	Nursing Research	93.361		224,163.99
University of Tennessee	National Center for Research Resources	93.389		285,397.78
East Tennessee State University	Cancer Cause and Prevention Research	93.393	$ 28,278.86	
Tennessee State University	Cancer Cause and Prevention Research	93.393	843,132.56	
University of Memphis	Cancer Cause and Prevention Research	93.393	305,342.48	
University of Tennessee	Cancer Cause and Prevention Research	93.393	2,034,529.85	3,211,283.75
East Tennessee State University	Cancer Detection and Diagnosis Research	93.394		493,364.43
University of Tennessee	Cancer Treatment Research	93.395		1,230,278.27
University of Tennessee	Cancer Biology Research	93.396		544,430.55
University of Tennessee	Cancer Research Manpower	93.398		(2,397.66)
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701		3,640.50
East Tennessee State University	ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702		2,141,804.57
East Tennessee State University	Cardiovascular Diseases Research	93.837	$ 348,476.59	
University of Tennessee	Cardiovascular Diseases Research	93.837	8,273,745.04	8,622,221.63
University of Tennessee	Lung Diseases Research	93.838		166,395.69
University of Tennessee	Blood Diseases and Resources Research	93.839		26,736.05
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846		1,433,729.60
East Tennessee State University	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	$ 289,048.50	
Tennessee State University	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	105,432.27	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	3,245,355.72	3,639,836.49
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	$ 202,171.50	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	2,931,680.85	3,133,852.35
East Tennessee State University	Allergy, Immunology and Transplantation Research	93.855	$ 500,397.00	
University of Memphis	Allergy, Immunology and Transplantation Research	93.855	774,966.18	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855	3,737,897.16	5,013,260.34
University of Tennessee	Microbiology and Infectious Diseases Research	93.856		367,346.67
East Tennessee State University	Biomedical Research and Research Training	93.859	$ 731,989.45	
Middle Tennessee State University	Biomedical Research and Research Training	93.859	144,578.32	

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For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
University of Memphis	Biomedical Research and Research Training	93.859	103,933.19	
University of Tennessee	Biomedical Research and Research Training	93.859	1,014,540.54	1,995,041.50
Middle Tennessee State University	Child Health and Human Development Extramural Research	93.865	$ 16,514.91	
University of Tennessee	Child Health and Human Development Extramural Research	93.865	1,320,190.16	1,336,705.07
East Tennessee State University	Aging Research	93.866	$ 25,665.42	
University of Tennessee	Aging Research	93.866	2,176,545.16	2,202,210.58
University of Memphis	Vision Research	93.867	$ 23,971.15	
University of Tennessee	Vision Research	93.867	2,782,243.23	2,806,214.38
Middle Tennessee State University	Medical Library Assistance	93.879		12,261.65
Subtotal Direct Programs				$ 45,310,330.38
Passed Through Tulane University				
University of Memphis	Environmental Health	93.113 / TUL-HSC-512-13/14		$ 9,970.94
Passed Through The Ohio State University Research Foundation				
University of Tennessee	Oral Diseases and Disorders Research	93.121 / 60025882		9,792.14
Passed Through Louisiana State University				
University of Tennessee	NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143 / 5 P42 ES 013648-05	$ 176,246.96	
University of Tennessee	NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143 / ES 013648	26,570.54	202,817.50
Passed Through European Molecular Biology Laboratory				
University of Tennessee	Human Genome Research	93.172 / HG003345		72,025.46
Passed Through Duke University				
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / 12-NIH-1032		196,428.41
University of Tennessee	Cancer Cause and Prevention Research	93.393 / 203-0310 AMEND #3		35,870.51
Passed Through University of Iowa				
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / UNKNOWN		613.61
Passed Through Massachusetts General Hospital				
University of Tennessee	Research and Training in Complementary and Alternative Medicine	93.213 / AT000613		52,955.39
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS052592		7,518.11

State of Tennessee
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For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through University of Pennsylvania				
University of Tennessee	Research and Training in Complementary and Alternative Medicine	93.213 / AT007797		6,106.46
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK102384		7,426.01
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 558624		216,766.20
Passed Through New York University				
University of Tennessee	Mental Health Research Grants	93.242 / 101567		247,434.28
Passed Through University of California, San Francisco				
University of Memphis	Mental Health Research Grants	93.242 / 6705SC		4,445.98
University of Tennessee	Lung Diseases Research	93.838 / HL094338		11,045.83
Passed Through University of Illinois at Chicago				
University of Tennessee	Mental Health Research Grants	93.242 / 5P20MH078458-05		12,734.00
Passed Through Vanderbilt University				
Middle Tennessee State University	Mental Health Research Grants	93.242 / 21357-S1	$ 16,130.08	
University of Tennessee	Mental Health Research Grants	93.242 / MH063232	17,243.14	33,373.22
University of Tennessee	Lung Diseases Research	93.838 / HL109977		333,109.35
University of Tennessee	Vision Research	93.867 / EY022349		38,131.13
Passed Through Washington University				
University of Tennessee	Mental Health Research Grants	93.242 / MH091657		54,043.87
Passed Through The Jackson Laboratory				
University of Tennessee	Alcohol Research Programs	93.273 / PO 649734		42,560.58
Passed Through Florida International University				
University of Memphis	Drug Abuse and Addiction Research Programs	93.279 / 800001039-02		(29.03)
Passed Through The Pennsylvania State University				
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279 / 4694 UT DHHS 1670		26,254.06
University of Tennessee	Cancer Cause and Prevention Research	93.393 / 4725-UTIA-DHHS-5576		7,262.02
Passed Through Northwestern University				
University of Memphis	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / SP0009270-PROJ0007233		89,391.87
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL106462		1,720.86
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS047085		19,136.68

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Meharry Medical College				
Tennessee State University	Minority Health and Health Disparities Research	93.307 / 5P20MD000516-09	$ 20,736.03	
University of Tennessee	Minority Health and Health Disparities Research	93.307 / 110804PJ158 02	7,665.17	
University of Tennessee	Minority Health and Health Disparities Research	93.307 / P20MD000516	78,135.11	106,536.31
Tennessee State University	Cancer Centers Support Grants	93.397 / 5P20CA144809-04		8,398.28
Passed Through University of Pittsburgh				
University of Tennessee	Nursing Research	93.361 / NR012459		124,804.09
University of Memphis	Cancer Cause and Prevention Research	93.393 / 0019106		79,231.96
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS081041		278.33
University of Tennessee	Biomedical Research and Research Training	93.859 / 0029963 122388-3		16,910.78
University of Tennessee	Aging Research	93.866 / AG028050		9,893.79
Passed Through Miami University				
University of Memphis	Cancer Cause and Prevention Research	93.393 / 401966		4,728.94
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	Cancer Cause and Prevention Research	93.393 / CA-157838		13,334.16
University of Tennessee	Cancer Treatment Research	93.395 / CA081457	$ 79,790.70	
University of Tennessee	Cancer Treatment Research	93.395 / CA132901	(0.01)	79,790.69
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI-0090810	$ 177,829.89	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI062415	81,268.10	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI069529	69,376.60	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI088729	37,849.78	366,324.37
Passed Through University of Maryland				
University of Tennessee	Cancer Cause and Prevention Research	93.393 / CA159871		2,576.16
Passed Through Old Dominion University Research Foundation				
University of Memphis	Cancer Detection and Diagnosis Research	93.394 / 12-173-325121		(60.60)
Passed Through The Miriam Hospital				
University of Tennessee	Cancer Detection and Diagnosis Research	93.394 / 710-9801 AMEND 3		7,226.29
University of Tennessee	Cardiovascular Diseases Research	93.837 / 710-9866 AMEND 1		4,393.67
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 710-9906		23,133.47

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through CureSearch for Children's Cancer			
East Tennessee State University	Cancer Treatment Research	93.395 / 98543-1033	2,294.69
Passed Through Southwest Oncology Group			
University of Tennessee	Cancer Treatment Research	93.395 / UNKNOWN	21,021.95
Passed Through University of Rhode Island			
East Tennessee State University	Cancer Biology Research	93.396 / 052912/0003156	46,604.38
Passed Through University of Rochester			
University of Tennessee	Cancer Centers Support Grants	93.397 / 5 P50 CA 130805-05	24,878.33
Passed Through Ithaca College			
East Tennessee State University	Cardiovascular Diseases Research	93.837 / 1R01HL098589	18,103.08
Passed Through Mississippi State University			
University of Memphis	Cardiovascular Diseases Research	93.837 / 010300.321252.01	13,497.30
Passed Through The Methodist Hospital Research Institute			
University of Tennessee	Cardiovascular Diseases Research	93.837 / 7 R01 HL-056865-13	46,686.34
Passed Through The University of Texas Health Science Center at Houston			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL077863	433,090.56
Passed Through University of Michigan			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL094345	8,917.46
Passed Through University of Washington			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL077863	18,455.66
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK080840	7,134.87
Passed Through University of Alabama			
University of Tennessee	Lung Diseases Research	93.838 / 00420062-002 AMEND 3	1,358.94
Passed Through University of Alabama at Birmingham			
University of Tennessee	Blood Diseases and Resources Research	93.839 / HL095468	4,596.03
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK-082753	(4.62)
Passed Through Children's Research Institute			
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846 / 1 P50 AR 060836	4,601.31
Passed Through Beth Israel Deaconess Medical Center			
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / 5 R01 DK094040	14,692.37

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Case Western Reserve University				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK094157	$ 110,760.32	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK101074	5,352.23	116,112.55
Passed Through Children's Hospital and Research Center Foundation				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK080834-133580		7,591.17
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS045911		252.00
Passed Through George Washington University				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK098246		356,103.71
Passed Through Los Angeles Biomedical Research Institute				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK078106		19,912.48
Passed Through Tufts Medical Center				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK091958	$ (0.01)	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK098245	216,913.38	216,913.37
Passed Through University at Buffalo, The State University of New York				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / PO#R635210 AMEND 02		22,874.11
Passed Through University of Arkansas at Little Rock				
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK-056746		9,161.81
Passed Through Emory University				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS062778	$ 64,446.11	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS065701	41,584.36	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS067201	99,120.97	205,151.44
Passed Through Mayo Clinic				
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / PO 63172424	$ 37,558.36	
University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / PO 63425844	14,630.77	52,189.13

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Medical University of South Carolina				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS058728		2,718.62
Passed Through University of Louisville Research Foundation				
East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / ULRF 11-0730-01		94,067.45
Passed Through Brentwood Biomedical Research Institute, Incorporated				
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI034431		136,749.72
Passed Through Institute of Clinical Research, Incorporated				
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI068641		1,600.00
Passed Through Seattle Children's Hospital				
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI071163		5,964.72
Passed Through University of California, San Diego				
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI069536		61,698.45
Passed Through University of North Carolina				
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI057157		28,743.14
Passed Through University of South Carolina				
University of Memphis	Allergy, Immunology and Transplantation Research	93.855 / 13-2328 R21		4,960.88
Passed Through Baylor College of Medicine				
University of Tennessee	Biomedical Research and Research Training	93.859 / GM095343		22,535.84
Passed Through University of Utah				
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / HD047349		70,061.36
Passed Through Minneapolis Medical Research Foundation				
University of Tennessee	Aging Research	93.866 / AG029824		2,803.92
Passed Through Wake Forest University				
University of Tennessee	Aging Research	93.866 / AG033087	$ 196,502.14	
University of Tennessee	Aging Research	93.866 / AG-18702	1.68	196,503.82
Subtotal Pass-Through Programs				$ 4,887,004.47

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Subtotal National Institutes of Health				$ 50,197,334.85
Office of the Secretary				
Passed Through Shelby County Government				
University of Memphis	Pregnancy Assistance Fund Program	93.500 / CA1314258	$ 20,549.61	
University of Memphis	Pregnancy Assistance Fund Program	93.500 / CA1314258-2	14,191.58	$ 34,741.19
Passed Through Shelby County Office of Early Childhood and Youth				
University of Memphis	Pregnancy Assistance Fund Program	93.500 / CA1314256	$ 58,042.68	
University of Memphis	Pregnancy Assistance Fund Program	93.500 / CA1414256	67,557.51	125,600.19
Passed Through University of Washington				
University of Tennessee	ARRA-Strategic Health IT Advanced Research Projects (SHARP)	93.728 / 716217Z		1,647.67
Subtotal Office of the Secretary				$ 161,989.05
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		$ 40,312.76
Subtotal Substance Abuse and Mental Health Services Administration				$ 40,312.76
Other Programs				
Direct Programs				
University of Tennessee	Digestive Diseases and Nutrition Research	93.848		$ 1,515,224.78
Subtotal Direct Programs				$ 1,515,224.78
Passed Through Shelby County Government				
University of Memphis	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104 / CA1314098		$ 172,085.70
Passed Through Buffalo Valley, Incorporated				
University of Memphis	Consolidated Knowledge Development and Application (KD&A) Program	93.230 / T109006		65,118.58
Passed Through Oregon Health and Science University				
University of Tennessee	Project Grants for Renovation or Construction at Tertiary Perinatal Facilities	93.935 / CA-166556		61,496.63

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	St Jude Subcont HHSN266200700005C	93 / HSSN266200700008		254,759.44
Passed Through University of Alabama at Birmingham				
University of Tennessee	Univ Alabama Sub HHSN268200900047C	93 / HHSN268200900047C		185,195.22
University of Tennessee	Univ Alabama Residual Funds-Johnson	93 / HHSN268200900047C		5,628.87
Passed Through University of California, San Francisco				
University of Tennessee	Univ Calif Sub HHSN271201200008C	93 / HHSN271201200008C		308,920.83
Passed Through University of South Florida				
University of Tennessee	USF TrialNet Sub HHSN267200800019C	93 / HHSN267200800019C		1,651.85
Passed Through University of Toledo				
University of Tennessee	Univ Toledo Sub HHSN261200433000C	93 / HHSN261200433000C		(60,361.97)
Passed Through Urban Institute				
University of Memphis	Housing Assistance and Supportive Services in Memphis	93 / 08350-022-00-UOM-01		(14.16)
Passed Through Wake Forest University				
University of Tennessee	Wake Forest Sub HHSN268200900040C	93 / HHSN268200900040C		38,590.42
University of Tennessee	Wake Forest Sub HHSN268201100004C	93 / HHSN268201100004C		54,181.86
Subtotal Pass-Through Programs			$	1,087,253.27
Subtotal Other Programs			$	2,602,478.05
Subtotal Department of Health and Human Services			$	55,547,261.59
		Department of Homeland Security		
Direct Programs				
Tennessee State University	Scientific Leadership Awards	97.062	$	141,242.86
University of Tennessee	Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection	97.077		563,409.40
Subtotal Direct Programs			$	704,652.26
Passed Through University of Texas				
University of Memphis	State and Local Homeland Security National Training Program	97.005 / 26 0800 562	$	47,787.32

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Louisiana State University				
East Tennessee State University	Pre-Disaster Mitigation	97.047 / 88751		12,487.85
Passed Through Northeastern University				
University of Tennessee	Northeastern Univ 504996-78052 Gregor	97 / 504996-78052		41,749.36
University of Tennessee	Northeastern Univ 505003-78051 Gregor	97 / 505003-78051		53,653.44
Subtotal Pass-Through Programs			$	155,677.97
Subtotal Department of Homeland Security			$	860,330.23
Agency for International Development				
Direct Programs				
University of Tennessee	USAID Foreign Assistance for Programs Overseas	98.001	$	903,046.41
Subtotal Direct Programs			$	903,046.41
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	USAID Foreign Assistance for Programs Overseas	98.001 / 425966-19121	$	398,868.78
Subtotal Pass-Through Programs			$	398,868.78
Subtotal Agency for International Development			$	1,301,915.19
Other Federal Assistance				
Tennessee Valley Authority				
Direct Programs				
University of Tennessee	TVA 7493 PO 659523 Simek	62 / 7493PO659523	$	1,192.00
University of Tennessee	TVA 99998950 PO #598543 Maldonado	62 / 99998950 PO #598543		48,628.21
University of Tennessee	TVA PO #376141-2 Bray	62 / PO #376141-2		29,722.40
University of Tennessee	TVA PO #537394 Yerka	62 / PO #537394		6,277.98
University of Tennessee	TVA PO #559870 Murray 14	62 / PO #559870		112,377.68
University of Tennessee	TVA PO #584302-1 Flood Analysis 13 Taylor	62 / PO #584302-1		40,009.30
University of Tennessee	TVA PO #624673 Bray	62 / PO #624673		622.19
University of Tennessee	TVA PO #632528 7493 Hollenbach	62 / PO #632528 7493		7,624.64
University of Tennessee	TVA Propagation Vaccinium elliottii-Wadl	62 / PO #666420		437.71
University of Tennessee	TVA Reintroduction Pityopsls ruthii-Wadl	62 / PO #487312		3,516.37
University of Tennessee	TVA-586394-7493 Hollenbach	62 / 586394 7493		5,912.61
Subtotal Direct Programs			$	256,321.09

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through The Nature Conservancy				
Tennessee Technological University	Development of Obed Watershed Water Resources Planning Tools and Monitoring Procedures to Assess Future Economic Growth	62 / THWI 07		$ 113,029.00
Subtotal Pass-Through Programs				$ 113,029.00
Subtotal Tennessee Valley Authority				$ 369,350.09
Subtotal Other Federal Assistance				$ 369,350.09
Total Research and Development Cluster				$ 202,421,739.29

Student Financial Assistance Cluster

Department of Education

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Direct Programs				
Austin Peay State University	Federal Supplemental Educational Opportunity Grants	84.007	$ 321,066.73	
Chattanooga State Community College	Federal Supplemental Educational Opportunity Grants	84.007	208,487.97	
Cleveland State Community College	Federal Supplemental Educational Opportunity Grants	84.007	76,953.30	
Columbia State Community College	Federal Supplemental Educational Opportunity Grants	84.007	113,878.50	
Dyersburg State Community College	Federal Supplemental Educational Opportunity Grants	84.007	77,400.00	
East Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	321,139.00	
Jackson State Community College	Federal Supplemental Educational Opportunity Grants	84.007	200,941.20	
Middle Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	499,072.00	
Motlow State Community College	Federal Supplemental Educational Opportunity Grants	84.007	105,421.02	
Nashville State Community College	Federal Supplemental Educational Opportunity Grants	84.007	225,795.10	
Northeast State Community College	Federal Supplemental Educational Opportunity Grants	84.007	148,873.00	
Pellissippi State Community College	Federal Supplemental Educational Opportunity Grants	84.007	245,854.46	
Roane State Community College	Federal Supplemental Educational Opportunity Grants	84.007	31,696.00	
Southwest Tennessee Community College	Federal Supplemental Educational Opportunity Grants	84.007	573,392.16	
Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	1,164,623.65	
Tennessee Technological University	Federal Supplemental Educational Opportunity Grants	84.007	192,955.95	
University of Memphis	Federal Supplemental Educational Opportunity Grants	84.007	505,863.00	
University of Tennessee	Federal Supplemental Educational Opportunity Grants	84.007	864,477.67	
Volunteer State Community College	Federal Supplemental Educational Opportunity Grants	84.007	190,777.00	
Walters State Community College	Federal Supplemental Educational Opportunity Grants	84.007	122,641.90	$ 6,191,309.61

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Austin Peay State University	Federal Work-Study Program	84.033	$ 282,611.08	
Chattanooga State Community College	Federal Work-Study Program	84.033	178,123.99	
Cleveland State Community College	Federal Work-Study Program	84.033	68,486.25	
Columbia State Community College	Federal Work-Study Program	84.033	130,849.72	
Dyersburg State Community College	Federal Work-Study Program	84.033	75,985.94	
East Tennessee State University	Federal Work-Study Program	84.033	611,729.00	
Jackson State Community College	Federal Work-Study Program	84.033	91,572.15	
Middle Tennessee State University	Federal Work-Study Program	84.033	655,186.00	
Motlow State Community College	Federal Work-Study Program	84.033	60,089.37	
Nashville State Community College	Federal Work-Study Program	84.033	80,774.91	
Northeast State Community College	Federal Work-Study Program	84.033	160,291.64	
Pellissippi State Community College	Federal Work-Study Program	84.033	196,194.38	
Roane State Community College	Federal Work-Study Program	84.033	164,823.25	
Southwest Tennessee Community College	Federal Work-Study Program	84.033	437,260.80	
Tennessee State University	Federal Work-Study Program	84.033	1,002,574.53	
Tennessee Technological University	Federal Work-Study Program	84.033	380,993.82	
University of Memphis	Federal Work-Study Program	84.033	718,135.94	
University of Tennessee	Federal Work-Study Program	84.033	1,644,531.58	
Volunteer State Community College	Federal Work-Study Program	84.033	54,350.00	
Walters State Community College	Federal Work-Study Program	84.033	127,582.76	7,122,147.11
Austin Peay State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	$ 1,043,892.84	
East Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	6,259,473.86	
Jackson State Community College	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	165,982.17	
Middle Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	3,039,963.43	
Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	1,858,791.27	
Tennessee Technological University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	1,261,937.64	
University of Memphis	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	4,192,670.75	
University of Tennessee	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	29,008,077.48	46,830,789.44
Austin Peay State University	Federal Pell Grant Program	84.063	$ 21,491,690.40	
Chattanooga State Community College	Federal Pell Grant Program	84.063	21,376,154.57	
Cleveland State Community College	Federal Pell Grant Program	84.063	7,601,608.26	
Columbia State Community College	Federal Pell Grant Program	84.063	10,255,703.87	
Dyersburg State Community College	Federal Pell Grant Program	84.063	6,150,756.40	
East Tennessee State University	Federal Pell Grant Program	84.063	21,763,985.13	
Jackson State Community College	Federal Pell Grant Program	84.063	14,377,426.47	
Middle Tennessee State University	Federal Pell Grant Program	84.063	39,472,426.00	
Motlow State Community College	Federal Pell Grant Program	84.063	7,718,353.63	
Nashville State Community College	Federal Pell Grant Program	84.063	23,941,758.29	
Northeast State Community College	Federal Pell Grant Program	84.063	13,881,370.93	
Pellissippi State Community College	Federal Pell Grant Program	84.063	18,363,270.78	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Roane State Community College	Federal Pell Grant Program	84.063	14,458,902.35	
Southwest Tennessee Community College	Federal Pell Grant Program	84.063	25,683,069.37	
Tennessee State University	Federal Pell Grant Program	84.063	19,949,774.12	
Tennessee Technological University	Federal Pell Grant Program	84.063	15,347,904.45	
University of Memphis	Federal Pell Grant Program	84.063	35,067,728.00	
University of Tennessee	Federal Pell Grant Program	84.063	56,983,674.41	
Volunteer State Community College	Federal Pell Grant Program	84.063	13,346,856.67	
Walters State Community College	Federal Pell Grant Program	84.063	11,419,934.82	398,652,348.92
Austin Peay State University	Federal Direct Student Loans	84.268	$ 53,589,757.00	
Chattanooga State Community College	Federal Direct Student Loans	84.268	29,506,058.00	
Columbia State Community College	Federal Direct Student Loans	84.268	8,539,618.00	
Dyersburg State Community College	Federal Direct Student Loans	84.268	3,232,471.00	
East Tennessee State University	Federal Direct Student Loans	84.268	97,874,354.00	
Middle Tennessee State University	Federal Direct Student Loans	84.268	114,409,878.45	
Motlow State Community College	Federal Direct Student Loans	84.268	1,506,868.00	
Nashville State Community College	Federal Direct Student Loans	84.268	24,363,470.00	
Pellissippi State Community College	Federal Direct Student Loans	84.268	14,267,973.00	
Tennessee State University	Federal Direct Student Loans	84.268	66,155,112.00	
Tennessee Technological University	Federal Direct Student Loans	84.268	32,996,858.00	
University of Memphis	Federal Direct Student Loans	84.268	122,977,664.00	
University of Tennessee	Federal Direct Student Loans	84.268	288,556,657.00	
Volunteer State Community College	Federal Direct Student Loans	84.268	7,584,563.00	
Walters State Community College	Federal Direct Student Loans	84.268	140,204.00	865,701,505.45
Austin Peay State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	$ 199,944.90	
Chattanooga State Community College	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	3,760.00	
East Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	26,670.00	
Middle Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	109,973.00	
Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	5,550.00	
Tennessee Technological University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	290,363.45	
University of Memphis	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	34,929.00	
University of Tennessee	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	91,040.40	762,230.75
Middle Tennessee State University	Postsecondary Education Scholarships for Veteran's Dependents	84.408		5,080.00
Subtotal Department of Education				$ 1,325,265,411.28

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Department of Health and Human Services				
Direct Programs				
East Tennessee State University	Nurse Faculty Loan Program (NFLP)	93.264	$ 353,397.31	
University of Tennessee	Nurse Faculty Loan Program (NFLP)	93.264	565,552.93	$ 918,950.24
University of Tennessee	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342		1,423,413.28
University of Tennessee	Nursing Student Loans	93.364		72,389.65
University of Tennessee	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925		601,992.00
Subtotal Department of Health and Human Services				$ 3,016,745.17
Total Student Financial Assistance Cluster				$ 1,328,282,156.45
SNAP Cluster				
Department of Agriculture				
Direct Programs				
Human Services	Supplemental Nutrition Assistance Program	10.551		$ 2,012,001,267.89
Human Services	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	$ 63,135,220.42	
Labor and Workforce Development	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	1,960,872.52	65,096,092.94
Subtotal Department of Agriculture				$ 2,077,097,360.83
Total SNAP Cluster				$ 2,077,097,360.83
Child Nutrition Cluster				
Department of Agriculture				
Direct Programs				
Education	School Breakfast Program	10.553		$ 91,093,463.61
Agriculture	National School Lunch Program (Noncash Award)	10.555	$ 30,655,294.00	
Education	National School Lunch Program	10.555	239,670,244.27	270,325,538.27
Education	Special Milk Program for Children	10.556		30,588.89
Human Services	Summer Food Service Program for Children	10.559		13,967,541.64
Subtotal Department of Agriculture				$ 375,417,132.41
Total Child Nutrition Cluster				$ 375,417,132.41

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
	Food Distribution Cluster					
	Department of Agriculture					
Direct Programs						
Health	Commodity Supplemental Food Program	10.565	$	961,758.13		
Health	Commodity Supplemental Food Program (Noncash Award)	10.565		3,122,574.00	$	4,084,332.13
Agriculture	Emergency Food Assistance Program (Administrative Costs)	10.568				1,933,564.59
Agriculture	Emergency Food Assistance Program (Food Commodities) (Noncash Award)	10.569				8,124,001.00
Subtotal Department of Agriculture					$	14,141,897.72
Total Food Distribution Cluster					$	14,141,897.72
	Forest Service Schools and Roads Cluster					
	Department of Agriculture					
Direct Programs						
Revenue	Schools and Roads - Grants to States	10.665			$	1,119,492.55
Subtotal Department of Agriculture					$	1,119,492.55
Total Forest Service Schools and Roads Cluster					$	1,119,492.55
	Economic Development Cluster					
	Department of Commerce					
Direct Programs						
Roane State Community College	Economic Adjustment Assistance	11.307			$	46,440.60
Subtotal Department of Commerce					$	46,440.60
Total Economic Development Cluster					$	46,440.60
	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			$	158,943,893.29
Subtotal Department of Housing and Urban Development					$	158,943,893.29
Total Section 8 Project-Based Cluster					$	158,943,893.29

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
CDBG - Entitlement Grants Cluster				
Department of Housing and Urban Development				
Passed Through Knox County				
University of Tennessee	Community Development Block Grants/Entitlement Grants	14.218 / 13-220		$ 9,957.65
Subtotal Department of Housing and Urban Development				$ 9,957.65
Total CDBG - Entitlement Grants Cluster				$ 9,957.65
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	$ 74,879,773.75	
Tennessee Housing Development Agency	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	1,312,622.99	$ 76,192,396.74
Subtotal Department of Housing and Urban Development				$ 76,192,396.74
Total CDBG - State-Administered CDBG Cluster				$ 76,192,396.74
Housing Voucher Cluster				
Department of Housing and Urban Development				
Direct Programs				
Tennessee Housing Development Agency	Section 8 Housing Choice Vouchers	14.871		$ 35,913,761.44
Tennessee Housing Development Agency	Mainstream Vouchers	14.879		223,345.00
Subtotal Department of Housing and Urban Development				$ 36,137,106.44
Total Housing Voucher Cluster				$ 36,137,106.44
Fish and Wildlife Cluster				
Department of the Interior				
Direct Programs				
Tennessee Wildlife Resources Agency	Sport Fish Restoration Program	15.605		$ 7,333,514.00
Tennessee Wildlife Resources Agency	Wildlife Restoration and Basic Hunter Education	15.611		11,067,727.64
Subtotal Department of the Interior				$ 18,401,241.64
Total Fish and Wildlife Cluster				$ 18,401,241.64

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
JAG Program Cluster						
Department of Justice						
Direct Programs						
Finance and Administration	Edward Byrne Memorial Justice Assistance Grant Program	16.738	$	5,359,907.93		
Middle Tennessee State University	Edward Byrne Memorial Justice Assistance Grant Program	16.738		92,465.42	$	5,452,373.35
Subtotal Direct Programs					$	5,452,373.35
Passed Through City of Memphis Police Department						
University of Tennessee	Edward Byrne Memorial Justice Assistance Grant Program	16.738 / 2011-DJ-BX-3445	$	24,905.54		
University of Tennessee	Edward Byrne Memorial Justice Assistance Grant Program	16.738 / 2012-DJ-BX-0077		26,635.80	$	51,541.34
Passed Through Knoxville Police Department						
University of Tennessee	Edward Byrne Memorial Justice Assistance Grant Program	16.738 / C-14-0089				19,093.62
Subtotal Pass-Through Programs					$	70,634.96
Subtotal Department of Justice					$	5,523,008.31
Total JAG Program Cluster					$	5,523,008.31
Employment Service Cluster						
Department of Labor						
Direct Programs						
Labor and Workforce Development	Employment Service/Wagner-Peyser Funded Activities	17.207			$	10,508,174.68
Labor and Workforce Development	Disabled Veterans' Outreach Program (DVOP)	17.801				1,546,770.58
Labor and Workforce Development	Local Veterans' Employment Representative Program	17.804				1,638,303.51
Subtotal Department of Labor					$	13,693,248.77
Total Employment Service Cluster					$	13,693,248.77
WIA Cluster						
Department of Labor						
Direct Programs						
Labor and Workforce Development	WIA Adult Program	17.258			$	14,939,505.34
Labor and Workforce Development	WIA Youth Activities	17.259				15,392,114.82
Labor and Workforce Development	WIA Dislocated Worker Formula	17.278				17,831,017.19
Subtotal Direct Programs					$	48,162,637.35

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Passed Through Southwest Human Resource Agency				
Jackson State Community College	WIA Youth Activities	17.259 / LW11P121YOUTH13 14-11-077-001-20-82		$ 12,848.78
Subtotal Pass-Through Programs				$ 12,848.78
Subtotal Department of Labor				$ 48,175,486.13
Total WIA Cluster				$ 48,175,486.13
		Highway Planning and Construction Cluster		
		Department of Transportation		
Direct Programs				
Environment and Conservation	Highway Planning and Construction	20.205	$ 105,112.10	
Transportation	Highway Planning and Construction	20.205	919,330,757.81	
Transportation	ARRA-Highway Planning and Construction	20.205	(637,034.75)	$ 918,798,835.16
Environment and Conservation	Recreational Trails Program	20.219		1,312,891.68
Subtotal Direct Programs				$ 920,111,726.84
Passed Through Memphis Urban Area Metropolitan Planning Organization				
University of Memphis	Highway Planning and Construction	20.205 / CA1418107		$ 1,122.48
Passed Through Shelby County Government				
University of Memphis	Highway Planning and Construction	20.205 / CA1315359	$ 122,179.59	
University of Memphis	Highway Planning and Construction	20.205 / CA1417151	60,983.60	183,163.19
Passed Through Wisconsin Department of Transportation				
University of Memphis	Highway Planning and Construction	20.205 / 0092-14-15	$ 70,293.83	
University of Memphis	Highway Planning and Construction	20.205 / 0092-14-16	58,434.53	128,728.36
Subtotal Pass-Through Programs				$ 313,014.03
Subtotal Department of Transportation				$ 920,424,740.87
Total Highway Planning and Construction Cluster				$ 920,424,740.87
		Federal Transit Cluster		
		Department of Transportation		
Direct Programs				
Transportation	Federal Transit_Capital Investment Grants	20.500		$ 1,278,666.72
Subtotal Department of Transportation				$ 1,278,666.72
Total Federal Transit Cluster				$ 1,278,666.72

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Transit Services Programs Cluster				
Department of Transportation				
Direct Programs				
Transportation	Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		$ 3,891,966.80
Transportation	Job Access And Reverse Commute Program	20.516		1,216,737.86
Transportation	New Freedom Program	20.521		644,011.56
Subtotal Department of Transportation				$ 5,752,716.22
Total Transit Services Programs Cluster				$ 5,752,716.22
Highway Safety Cluster				
Department of Transportation				
Direct Programs				
Transportation	State and Community Highway Safety	20.600		$ 5,524,442.13
Transportation	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		1,150,376.27
Transportation	State Traffic Safety Information System Improvement Grants	20.610		105,401.77
Transportation	Incentive Grant Program to Increase Motorcyclist Safety	20.612		142,041.76
Transportation	Child Safety and Child Booster Seats Incentive Grants	20.613		808.93
Subtotal Department of Transportation				$ 6,923,070.86
Total Highway Safety Cluster				$ 6,923,070.86
Clean Water State Revolving Fund Cluster				
Environmental Protection Agency				
Direct Programs				
Environment and Conservation	Capitalization Grants for Clean Water State Revolving Funds	66.458	$ 11,900,531.88	
Environment and Conservation	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	671,956.31	$ 12,572,488.19
Subtotal Environmental Protection Agency				$ 12,572,488.19
Total Clean Water State Revolving Fund Cluster				$ 12,572,488.19
Drinking Water State Revolving Fund Cluster				
Environmental Protection Agency				
Direct Programs				
Environment and Conservation	Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 3,990,954.29	

State of Tennessee
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For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues			
Environment and Conservation	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468		90,218.53	$	4,081,172.82
Subtotal Environmental Protection Agency					$	4,081,172.82
Total Drinking Water State Revolving Fund Cluster					$	4,081,172.82

Special Education Cluster (IDEA)

Department of Education

Direct Programs

Education	Special Education_Grants to States	84.027			$	242,607,670.45
Education	Special Education_Preschool Grants	84.173				7,255,301.12
Subtotal Department of Education					$	249,862,971.57
Total Special Education Cluster (IDEA)					$	249,862,971.57

TRIO Cluster

Department of Education

Direct Programs

Austin Peay State University	TRIO_Student Support Services	84.042	$	247,966.30		
Columbia State Community College	TRIO_Student Support Services	84.042		214,814.22		
East Tennessee State University	TRIO_Student Support Services	84.042		279,360.65		
Middle Tennessee State University	TRIO_Student Support Services	84.042		238,462.47		
Northeast State Community College	TRIO_Student Support Services	84.042		248,553.32		
Pellissippi State Community College	TRIO_Student Support Services	84.042		238,058.15		
University of Memphis	TRIO_Student Support Services	84.042		284,157.31		
University of Tennessee	TRIO_Student Support Services	84.042		538,176.83		
Volunteer State Community College	TRIO_Student Support Services	84.042		223,719.86	$	2,513,269.11
East Tennessee State University	TRIO_Talent Search	84.044	$	261,215.23		
Middle Tennessee State University	TRIO_Talent Search	84.044		209,699.80		
Tennessee State University	TRIO_Talent Search	84.044		221,757.53		
University of Tennessee	TRIO_Talent Search	84.044		218,977.32		911,649.88
Austin Peay State University	TRIO_Upward Bound	84.047	$	560,841.41		
Dyersburg State Community College	TRIO_Upward Bound	84.047		285,437.58		
East Tennessee State University	TRIO_Upward Bound	84.047		1,387,878.35		
Southwest Tennessee Community College	TRIO_Upward Bound	84.047		239,650.22		
Tennessee State University	TRIO_Upward Bound	84.047		264,164.37		
University of Tennessee	TRIO_Upward Bound	84.047		1,932,330.71		4,670,302.64
Austin Peay State University	TRIO_Educational Opportunity	84.066	$	321,343.90		
East Tennessee State University	TRIO_Educational Opportunity	84.066		215,739.40		
University of Tennessee	TRIO_Educational Opportunity	84.066		669,747.12		1,206,830.42
East Tennessee State University	TRIO_McNair Post-Baccalaureate	84.217				236,594.23
Subtotal Department of Education					$	9,538,646.28

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
Total TRIO Cluster				$ 9,538,646.28
	School Improvement Grants Cluster			
	Department of Education			
Direct Programs				
Education	School Improvement Grants	84.377		$ 6,097,959.79
Education	ARRA-School Improvement Grants, Recovery Act	84.388		22,436,382.74
Subtotal Department of Education				$ 28,534,342.53
Total School Improvement Grants Cluster				$ 28,534,342.53
	Aging Cluster			
	Department of Health and Human Services			
Direct Programs				
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044		$ 7,182,420.00
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045		11,654,780.09
Commission on Aging and Disability	Nutrition Services Incentive Program	93.053		1,515,700.00
Subtotal Department of Health and Human Services				$ 20,352,900.09
Total Aging Cluster				$ 20,352,900.09
	Health Centers Cluster			
	Department of Health and Human Services			
Direct Programs				
East Tennessee State University	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	$ 1,444,755.59	
Health	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	3,504,970.60	$ 4,949,726.19
Subtotal Department of Health and Human Services				$ 4,949,726.19
Total Health Centers Cluster				$ 4,949,726.19

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues	
TANF Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Temporary Assistance for Needy Families	93.558		$ 122,042,515.63
Human Services	ARRA-Emergency Contigency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714		(152.64)
Subtotal Department of Health and Human Services				$ 122,042,362.99
Total TANF Cluster				$ 122,042,362.99
CCDF Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Child Care and Development Block Grant	93.575		$ 85,587,870.27
Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		60,059,243.08
Subtotal Direct Programs				$ 145,647,113.35
Passed Through Signal Centers, Incorporated				
Tennessee Technological University	Child Care and Development Block Grant	93.575 / GR-13-39573	$ 138.96	
Tennessee Technological University	Child Care and Development Block Grant	93.575 / RFS#34549-51214	228,344.23	
University of Tennessee	Child Care and Development Block Grant	93.575 / CCR&R	407,311.25	$ 635,794.44
Subtotal Pass-Through Programs				$ 635,794.44
Subtotal Department of Health and Human Services				$ 146,282,907.79
Total CCDF Cluster				$ 146,282,907.79
Medicaid Cluster				
Department of Health and Human Services				
Direct Programs				
Tennessee Bureau of Investigation	State Medicaid Fraud Control Units	93.775		$ 3,108,677.15
Health	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		6,252,154.65
Finance and Administration	Medical Assistance Program	93.778	$ 5,805,331,776.51	
Finance and Administration	ARRA-Medical Assistance Program	93.778	45,647,984.37	5,850,979,760.88
Subtotal Direct Programs				$ 5,860,340,592.68

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursements / Issues
Passed Through Shelby County Office of Early Childhood and Youth			
University of Memphis	Medical Assistance Program	93.778 / GG1132226	$ (0.02)
Passed Through University Health System, Incorporated			
University of Tennessee	Medical Assistance Program	93.778 / GMEP	31,782,254.10
Passed Through University of Maryland			
University of Tennessee	Medical Assistance Program	93.778 / SR00003124 ESURF9366	2,760.87
Subtotal Pass-Through Programs			$ 31,785,014.95
Subtotal Department of Health and Human Services			$ 5,892,125,607.63
Total Medicaid Cluster			$ 5,892,125,607.63
Disability Insurance/SSI Cluster			
Social Security Administration			
Direct Programs			
Human Services	Social Security_Disability Insurance	96.001	$ 55,170,166.93
Subtotal Social Security Administration			$ 55,170,166.93
Total Disability Insurance/SSI Cluster			$ 55,170,166.93
Teacher Incentive Fund Cluster			
Department of Education			
Direct Programs			
Education	Teacher Incentive Fund	84.374	$ 4,940,487.50
Subtotal Department of Education			$ 4,940,487.50
Total Teacher Incentive Fund Cluster			$ 4,940,487.50
Grand Total Federal Assistance			$ 14,327,152,217.86

The accompanying notes are an integral part of this schedule.

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 2014, 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 $343,687,584.10 and $138,009,627.12, 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	$46,830,789.44
Nurse Faculty Loan Program (NFLP)	93.264	$712,989.24
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	$1,423,413.28
Nursing Student Loans	93.364	$72,389.65

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, 2014, the insured loans outstanding totaled $2,759,804,550.04.

NOTE 5. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 0.64 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2014.

STATE OF TENNESSEE
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FINDING NUMBER	FINDING	STATE AGENCY	CONTACT PERSON	CORRECTIVE ACTION PLANNED	COMPLETED/ ANTICIPATED COMPLETION DATE
2014-001	The Department of Finance and Administration has not consistently implemented internal controls in one specific area	Department of Finance and Administration	Larry Martin Commissioner	Management concurred. All of the recommended actions have been completed.	March 7, 2015
2014-002	The Department of Transportation materially understated the Schedule of Expenditures of Federal Awards	Department of Transportation	John Schroer Commissioner	Management concurred. The Finance Office will re-run the Edison report Schedule of Grant Activity prior to submission to the Department of Finance and Administration. They will re-run the report after submission if additional accruals are recorded. If necessary, they will update and re-submit the Schedule of Expenditure of Federal Awards.	December 31, 2015
2014-003	The Tennessee Consolidated Retirement System does not have sufficient controls to ensure the accuracy of census data received from employers	Department of Treasury	David H. Lillard, Jr. Treasurer	Management concurred. The Tennessee Consolidate Retirement System (TCRS) has had a long-term practice that local governments were responsible for the accurate reporting of census data of their participants to the retirement system, since the local government is responsible for pension cost of their employees. The American Institute of Certified Public Accountants (AICPA) highlighted a need to change this practice in February 2014 with the issuance of a whitepaper titled Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements. The late publishing of the AICPA white paper just four months before the close of the fiscal year and confusion over the specific requirements has caused difficulty within the industry to meet the full requirements of the paper. As a result, it was difficult, if not impossible for TCRS to comply with the parameters of the white paper for the full fiscal year. In addition, TCRS did not have the personnel within the department's budget to enhance the internal controls of the census data of the employers within TCRS by a direct audit of the data.	1) Fiscal year 2015 2) Fiscal year 2016
2014-003 (continued)				This finding specifically addresses the census data of teachers in Local Education Agencies (LEAs) participating in the cost-sharing plan. However, management believes all entities within the TCRS should be held to the same standard for accuracy of the census data. While it was not possible to comply with the requirements in fiscal year 2014, the Treasury Department is committed to enhancing their internal controls of the census data reported to TCRS by employers thru the practice of audits. 1) During fiscal year 2015, the Treasury Department will reallocate resources from other programs on a temporary basis and begin the auditing of the census data. 2) For fiscal year 2016, the Treasury Department will request additional positions and resources in the department's budget to fully implement a new audit plan to confirm the reasonableness of the census data submitted by employers	
2014-004	The Department of Children's Services charged federal programs for settlements for alleged violations of law, resulting in federal questioned costs of $149,997	Department of Children's Services	Jim Henry Commissioner	1)Department of Children's Services- Management concurred. The department has refunded the charges outlined in the finding to the Division of Health Care Finance and Administration and to the Administration for Children and Families. The department will ensure that these costs will not be charged to the Federal Government in the future.	1) Refunded 2/19/2015
2014-004 (continued)				2) Division of Health Care Finance and Administration- Management concurred. The Division will process the appropriate refunding of federal funding as outlined in the finding. The Division will work with the Department of Children's Services (DCS) to ensure that the costs identified in the finding are not included in DCS expenditures funded with federal participation in the future.	2) Refund processed 2/20/2015
2014-005	The Department of Children's Services did not include all program costs on federal quarterly reports	Department of Children's Services	Jim Henry Commissioner	Management did not concur. The department stated that it properly reported the expenditures in September 2014 as allowed for prior quarter adjustment as stated by CB-496, Instructions for Prior Quarter Adjustment rules.	N/A
2014-006	Payments were made for an ineligible individual	Department of Children's Services	Jim Henry Commissioner	Management concurred. Prior to enhancements to the SACWIS system (Tennessee Family and Child Tracking System/TFACTS) in February 2014, there was an identified defect that resulted in some incorrect eligibility decisions being made for some clients. A "workaround" to correct the system's determinations in these situations of error was implemented but did not occur timely in this unique case. With the system enhancements in February 2014, the identified defect was resolved and any other similar errors should be corrected. It is the expectation that this type of error should be remedied for future audits. The federal cost related to this finding has been refunded.	February 2014
2014-007	Subrecipients not monitored for audit requirements	Department of Economic and Community Development	Randy Boyd Commissioner	Management concurred. The department will comply going forward in reviewing all pass-through subrecipients' audits for each year for findings, require their corrective action plans (CAP), and make management decisions as to whether their corrective actions plans are adequate. They have already begun gathering the subrecipients' audit reports (as of October 2014) and are compiling a list of contact names to send out the requests for their CAPs.	October 2014

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2014-008	Payroll expenditures were incorrectly charged to the Title I Part A program	Department of Education	Candice McQueen Commissioner	Management concurred. 1) As noted in the finding, the department implemented a new technology enabled time and effort documentation process in March 2014. 2) The one error noted in the finding that occurred after the implementation date of the new process was the result of an error in converting the data into the new system, which has since been corrected. All questioned costs has been moved (December 11, 2014) to other state or federal accounts for which they were allowable expenditures. 3) The department will continue to monitor the new process to ensure it is accurately charging employee compensation to federal programs. The risk assessment will be updated as needed for any newly identified risk or any changes in controls.	1) March 2014 2) Completed December 11, 2014 3) Ongoing
2014-009	The department did not have evidence of an independent review for performance reviews performed by local educational agencies	Department of Education	Candice McQueen Commissioner	Management concurred. As of November 1, 2014, the department's Office of Consolidated Planning and Monitoring has developed new procedures and processes to require management review and sign-off of subrecipient monitoring reports.	November 1, 2014
2014-010	The Tennessee Department of Education and the Achievement School District did not provide adequate internal controls in two specific areas	Department of Education	Candice McQueen Commissioner	Management concurred. The department and the Achievement School District (ASD) recognize the importance of strong internal controls. The department and the ASD are actively working to improve controls in the two areas citied in the finding.	April 30, 2015
2014-011	The department did not effectively monitor subrecipients responsible for administering the 21st Century Community Learning Centers program, and as a result, program subrecipients were reimbursed for costs that did not comply with federal program requirements	Department of Education	Candice McQueen Commissioner	Management partially concurred. 1)Management stated that to improve its subrecipient monitoring, the department has employed an additional staff person in the 21stCCLC program office who will conduct subrecipient monitoring. 2) The 21st CCLC program office will also collaborate with other divisions in the department who conduct subrecipient monitoring to provide additional coverage for subrecipients. 3)As a result of the audit issues, the department placed significant emphasis on allowable program costs in training provided to subrecipients in September 2014. Additional training is scheduled for March 2015 and September 2015. The department will review allowable costs and the importance of maintaining supporting documentation during these training sessions. The department will also be providing training on the new federal Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards in February 2015. The training will be videotaped and will be available as a future training resource. 4)The department will also update its 21stCCLC program manual to include information on subrecipient monitoring and will include subrecipient monitoring in its strategic plan for the 21stCCLC program. 5) The departments plans to send demand letters to the subrecipients regarding the questioned cost of $10,135. The goal is to have all the questioned cost repaid by June 30, 2015. In regard to the "entertainment expenditures", management did not concur with the $30,721 questioned cost. The U.S. Department of Education will make a determination on whether the $30,721 are allowable costs charged to the program.	1) Hire date-12/1/2014 2) Target complete is June 30, 2015 3) September 2014 and ongoing 4) Target completion is June 30, 2015 5) Target completion is June 30, 2015
2014-012	21st Century Community Learning Centers expenditures were obligated outside the period of availability	Department of Education	Candice McQueen Commissioner	Management partially concurred. The Department of Education believes it is important to emphasize these were allowable costs for the 21stCCLC program. The issue raised in the finding relates to the applicable federal award to which the expenditures should have been charged. 1) In regard to the use of $23,295 in funds from the federal award in question for employee compensation incurred after September 30, 2013, the department moved the expenditures to a 21stCCLC award on November 13, 2014 for which the period of availability was open for the period when the employee worked. 2) In regard to the $216,322 in questioned cost associated with reimbursements to subrecipients, the department has also moved these expenditures on January 26, 2015 to a 21stCCLC federal award with a period of availability that was open when the expenditures were incurred. Subsequent to the occurrence of this issue, the department employed a new 21stCCLC coordinator. The new coordinator is knowledgeable of the period of availability requirements for federal awards. The 21stCCLC coordinator will ensure correct information on period of availability will be shared with subrecipients in future communication and training.	1) November 13, 2014 2) January 26, 2015
2014-013	The Achievement School District reimbursed charter management organizations for costs that did not comply with federal program requirements	Department of Education	Candice McQueen Commissioner	Management concurred. 1) According to department personnel for the Achievement School District (ASD), only a small portion of the questioned cost occurred after the ASD began more stringent oversight of reimbursement requests submitted by charter management organizations (CMOs). ASD put additional internal controls in place in January 2014. 2) In regard to questioned cost of $34,471, the ASD will require the two CMOs that were overpaid to refund the questioned cost. As of January 27, 2015, $31,760.75 has been repaid. The anticipated completion date for refunding of all questioned cost is June 30, 2015.	1) January 2014 2) Target completion is June 30, 2015
2014-014	CoverKids paid two enrollees' dental benefits at an incorrect rate, resulting in total questioned costs of $31	Department of Finance and Administration	Larry Martin Commissioner	Management concurred. The CoverKids dental benefits manager (DBM) incorrectly billed CoverKids the wrong premium rate on two members. For one member, the eligibility contractor provided the incorrect plan ID number for this member to the DBM which resulted in the DBM billing the state the incorrect monthly premium rate. 1) The eligibility contractor's system has been adjusted to detect income inconsistencies and pre-populate the renewal form with the updated income information that has been reported. For the second member, when the member switched from one plan ID number to another, the DBM billed an incorrect amount for the month of October 2013. The DBM caught this error, and refunded the billed amount, but failed to submit a new bill for the corrected amount. 2) The DBM has implemented controls internally to identify when the member switches from one plan ID number to another to ensure their financial team bills the state the correct monthly premium rate which coincides with the new plan ID number and not the prior plan ID number. 3) The DBM has also implemented internal controls to ensure that the corrected amount is billed	1) Contractor's system was adjusted November 3, 2014 2) August 26, 2014 3) November 20, 2014

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2014-014 (continued)				4) In August 2014, the HCFA Audit and Investigations Division partnered with CoverKids to begin the process of reviewing all the DBM invoices against the eligibility contractor's files. HCFA Audit and Investigations has reviewed all monthly invoices for calendar years 2012, 2013 and 2014. Currently the HCFA Audit and Investigations process looks for overpayments, and so it did not detect the underpayment for the second member. 5) Effective March 31, 2015, HCFA Audit and Investigations will implement a process to look for underpayments for 2012, 2013, 2014 and 2015. 6) HCFA Audit and Investigations will begin reviewing the monthly invoices for calendar year 2009 through 2011 for underpayment and overpayment by May 31, 2015.	4) August 2014 5) March 31, 2015 6) May 31, 2015
2014-015	TennCare paid an unsupported pharmacy claim and paid another pharmacy claim at the incorrect rate, resulting in total questioned costs of $236	Department of Finance and Administration	Larry Martin Commissioner	Management concurred. 1) Unsupported Claim- The claim for the narcotic pain reliever was evaluated for possible enrollee fraud. After checking the State of Tennessee's Controlled Substance Database for this specific enrollee, TennCare reviewed 6 months of prescriptions. It was determined that there was no evidence of doctor shopping and no evidence of fraud or abuse. TennCare takes proactive steps to avoid enrollee fraud. The State of Tennessee's Office of Inspector General (OIG) was notified on November 25, 2014. They did not refer this case as TennCare fraud and closed case on December 1, 2014. 2) Claim Paid Incorrectly - Management agrees that the claim resulted in an overpayment and are in the process of recouping the overpayment. They have taken steps to eliminate this adjudication error on the part of Magellan as of October 2014, the PBM vendor, and have taken further steps to identify any additional overpayments due to the provider being reimbursed improperly by Magellan. The particular claim was filled with ribavirin and they have not seen pricing issues with this product since July, 2014.	1) OIG notified November 25, 2014 and case closed December 1, 2014. 2) October 2014
2014-016	TennCare enrolled a provider into the Medicaid program without having all of the required disclosures	Department of Finance and Administration	Larry Martin Commissioner	Management concurred. They will 1) Instruct the PBM vendor to re-contact the pharmacy provider for a new disclosure to ensure that the exception is within regulations, and 2) Ensure that the provider disclosure form requires dates of birth on all disclosures, and 3) Further their efforts to ensure that no additional risk exists when accepting new applications/agreements/disclosures and when accepting disclosures with changes to management and control of individual pharmacies and disclosing entities. The anticipated completion date of items 1-3 above is June 30, 2015.	Anticipated completion date is June 30, 2015
2014-017	The Department of Human Services did not provide adequate internal controls in three areas	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services has delivered a confidential response to the detailed finding. Management will correct a portion of the issue.	Ongoing with final completion before June 2016
2014-018	The Department of Human Services did not transmit all records of disqualified recipients to the United States Department of Agriculture within mandated time limits	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department agrees the review and correction process could be strengthened. The Department does not agree that all records should be transmitted, but only the records that meet the criteria for submission should be transmitted. The Department transmits disqualified recipients to the USDA's eDRS monthly using a batch submission process within the mandated timeframes and in accordance with established performance standards. The Department will take corrective measures with employees who do not follow this process. This process is being monitored by the program integrity supervisory staff. The COTS is a legacy system that has been identified as part of the Department's Enterprise System Modernization Plan as a system to be improved.	The eDRS process will be converted to a web based format by June 15, 2015.
2014-019	Information submitted to the U.S. Department of Agriculture Food and Nutrition Service in the Status of Claims against Households report is not periodically reconciled to detailed accounting records	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department does not agree that the COTS455A is the appropriate report to utilize in the reconciliation process. The Department will develop a process for reconciling data included on the FNS-209 to detailed supporting records and maintain reconciliation documentation in accordance with Department document retention protocols. The Department does not anticipate any significant risks to be identified in the reconciliation process. If issues related to this item are identified, it will be noted in the annual risk assessment process.	The reconciliation process will be developed and implemented by August 31, 2015.
2014-020	The Department of Human Services did not ensure Electronic Benefit Transfer cards were either recorded or properly recorded on the EBT Card Disbursement/Destruction Log	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. This issue was identified by the Department's Internal Audit team during FY 2014 and reported to State Audit prior to fieldwork. Management does not agree that this was an issue throughout FY14. The Department provided training and reinforced expectations, and immediate improvement was realized. This is being monitored by Family Assistance supervisory staff. The Department will take necessary corrective measures with employees who do not follow the required process.	The department began implementation in May 2014 and completed the training in September 2014
2014-021	Management has not provided proper oversight through monitoring of the Child and Adult Care Food Program and the Summer Food Service Program for Children, resulting in numerous control and compliance deficiencies and federal questioned costs	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department does not agree that proper oversight was not provided. The Department has developed an overall strategy for improving program administration while maintaining focus on the program's mission:	Ongoing with final completion before June 2016

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2014-021 (continued)				1) The Department plans to leverage technology to address the high volume of paperwork and manual processes of this program. The Department plans to leverage technology in the following ways to improve program administration: a. Web development for applications-submission process. b. Developing/obtaining document management software solution. c. Developing/obtaining case management software solution (programmatic, fiscal, monitoring, and claims processing) d. Enhancing analytical capabilities of current applications.	
2014-021 (continued)				2) The Department will establish a new paradigm to inform the parameters of the partnership. The Department plans to redefine the paradigm in the following ways: a. Enlist feedback from providers. b. Greater utilization of the DHS website for information dissemination. c. Revisit current provider agreements to identify opportunities for improvement. d. Regular briefings with providers via technology and other meetings on trends , monitoring audit, and technical assistance results. e. Enlist high performing sponsors to assist in the development of a continuous quality improvement process. f. Implement annual requirement for partners to complete online in-service.	
2014-021 (continued)				3) The Department is committed to establishing a workforce development and support plan. This plan will involve the following: a. Talent Management: this involves recruiting, developing, and retaining the most talented employees available. The talent management process will include feedback from staff and involves actively seeking candidates with demonstrated abilities to excel in the required position tasks. b. Professional Development & Performance Management: considering the volume and manual nature of the food programs, staffing competencies that include attention to detail, integrity, and thoroughness are necessary with regard to program and program monitoring staff. Additionally, performance management tools will be utilized to create outcome driven goals that coincide with the accuracy and quality necessary to improve the food program area. c. Knowledge retention: this involves capturing knowledge in the organization so that it can be used later. It is a key component to ensuring the necessary information and skills continue irrespective of the individual. The Department is in the initial phases of creating knowledge retention plans that will detail all key processes and help with effective and efficient knowledge transfer.	
2014-021 (continued)				The following immediate actions steps will be taken: 1. Controls within TFP will be monitored regularly, list of current edit checks will be maintained and updated as needed. 2. Implement interim document scanning solution to assist primarily with the application process. This will be implemented to the extent possible within current technology capacities. 3. Implement low tech IT wins. 4. Request technical assistance from FNS.	
2014-021 (continued)				5. Implement higher level of approval for cash advances. 6. Consult with FNS to enlist specific suggestions from federal OIG. 7. Pursue approval from FNS to implement criminal background check of sponsors and sites as part of the application and approval process. 8. Consult with FNS on strengthening the Department's advance payment process for SFSP. 9. Pursue approval from FNS to limit number of sites per sponsor. 10. Implement annual requirement for participants to complete online training.	
2014-021 (continued)				11. Host a joint strategy session with FNS and identified partners. 12. Raise awareness among subrecipients and others to report fraud, waste, and abuse in the program. 13. The Department will partner with the Department of Human Resources to enlist identified program staff to participate in identification and the development of competencies required relative to the future skill set needed and program design. 14. Implement the *4 Disciplines of Execution* as outlined by Covey. 15. Train identified program staff in the *4 Disciplines of Execution.*	
2014-021 (continued)				16. Implement a cadence of accountability to ensure fulfillment of the plan. 17. Implement annual requirement for staff to complete online training. 18. Enlist State Audit to provide more explicit and operational recommendations.	
2014-021 (continued)				The Department has also identified recommendations for consideration by FNS that includes: 1. Consider a demonstration project to leverage SNAP funds to assist with SFSP. 2. Consider creating a National Disqualification List (NDL) for SFSP, similar to the NDL for CACFP. 3. Allow more flexibility for termination of subrecipients as long as state can demonstrate compliance with Title VI. 4. Provide more guidance on how to prevent disruption of services when terminating sponsors.	
2014-022	The Department of Human Services did not adequately perform subrecipient monitoring, as required by federal and state regulations, to ensure one subrecipient participating in the Child and Adult Care Food Program expended program funds and employed staff to conduct monitoring duties, resulting in questioned costs of $173,441	Department of Human Services	Raquel Hatter Commissioner	As noted in the Departments response, state audit notified the Department that the investigation was preceding through the legal process and further communication with the entity should be halted regarding the reviewed time period. The Department will follow up with the entity as appropriate at the conclusion of the legal proceedings. The Department stands ready to assist the district attorney and state audit as necessary throughout the process.	Date to be determined at the conclusion of the legal proceedings.

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2014-023	The Department of Human Services did not ensure subrecipient agencies correctly calculated claims for reimbursement for meals and administrative expenses, resulting in $67,258 of questioned costs	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. As a corrective action for the incorrectly calculated claim for reimbursement for meals and administrative costs, the Department's external program review staff will review agency claims to ensure they are accurately calculated and properly documented. The questioned costs are currently being recouped or are in the monitoring completion process. Please see finding 2014-021 for the full response to Food Program Findings.	This is included in the review process currently. It should be noted the review process is a detection measure and not a prevention measure.
2014-024	The Department of Human Services did not ensure that sponsoring organizations performed adequate monitoring of their feeding sites, resulting in the department's increased risk of awarding federal funds to ineligible sponsoring organizations	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. In regards to sponsoring organizations failure to perform adequate monitoring, the following corrective action will be taken: 1) The Department program staff will improve information dissemination to sponsoring organizations to ensure they receive updated Sponsor review guide forms. 2) Department external review staff will ensure sponsors have and use current forms. 3) Sponsors will be monitored to ensure they are performing required site monitoring and utilize updated information. Please see finding 2014-021 for the full response to Food Program Findings.	1 & 2) Ongoing with final completion before June 2016 3) Included in the review process currently. It should be noted the review process is a detection measure and not a prevention measure.
2014-025	As noted in prior audits, the Department of Human Services did not ensure that subrecipients maintained complete applications and addendums as required by federal regulations	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. In regards to sponsoring organizations failure to maintain complete applications and addendums, the following corrective action will be taken: 1) The Department's external program review staff will monitor sponsoring organizations to ensure that complete participant applications and addendums are maintained. 2) The external program review staff will also review files to ensure that participant eligibility has been accurately determined and documented. Please see finding 2014-021 for the full response to Food Program Findings.	1 & 2) Ongoing with final completion before June 2016. Included in the review process currently. It should be noted the review process is a detection measure and not a prevention measure.
2014-026	The Department of Human Services has inadequate internal controls over subrecipient eligibility determination, which increased the risk of awarding money to ineligible subrecipients	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. In regards to the missing eligibility determination documentation, the following corrective action will be taken: 1) The Department will develop an automated process for obtaining, scanning, and maintaining eligibility documentation. 2) The Department will ensure program and external program review staff are effectively trained by requiring annual online training and held accountable for their work. Please see finding 2014-021 for the full response to Food Program Findings.	1 & 2) Ongoing with final completion before June 2016
2014-027	The Department of Human Services could not locate provider agreements with Summer Food Service Program for Children and Child and Adult Care Food Program subrecipients, resulting in $11,154 of questioned costs for fiscal year 2014	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. In regards to the missing provider service agreements, the following corrective action will be taken: 1) The Department will implement an interim scanning solution to obtain and maintain provider agreements. 2) As a long term solution, the Department will develop and/or purchase a document management software solution. The questioned costs are currently being recouped or are in the monitoring completion process. Please see finding 2014-021 for the full response to Food Program Findings.	1) Ongoing with final completion before June 2016 2) The estimated completion date will be March 2016.
2014-028	Management did not provide Child and Adult Care Food Program and Summer Food Service Program for Children subrecipients with required subaward information, did not perform risk assessments, and did not obtain corrective action plans	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. The following corrective action will be taken: 1) The Department program staff will improve dissemination to subrecipients to ensure they receive required subaward information. 2) The Department revised current processes to include the collection of corrective action plans from subrecipients. 3) The Department will work to ensure program and external program review staff are effectively trained and are held accountable for their work. Please see finding 2014-021 for the full response to Food Program Findings.	1 & 3) Ongoing with final completion before June 2016 2) Revised process was effective April 2014

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2014-029	The Department of Human Services did not ensure that Summer Food Service Program for Children subrecipients maintained adequate supporting documentation for meal claims filed for reimbursement, resulting in $406,199 of questioned costs	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. The following corrective action will be taken regarding meal claims not properly supported: 1) The Department will work with Food and Nutrition Service staff to review and strengthen the application process. 2) During monitoring reviews, external program review staff will ensure subrecipients maintain adequate documentation for meals claimed. The questioned costs are currently being recouped or are in the monitoring completion process. Please see finding 2014-021 for the full response to Food Program Findings.	1) Ongoing with final completion before June 2016. 2) This is included in the review process currently. It should be noted the review process is a detection measure and not a prevention measure.
2014-030	The Department of Human Services did not ensure Summer Food Service Program for Children subrecipients served and claimed meals according to meal patterns established by federal regulations	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. The following corrective action will be taken regarding claimed meals being in accordance with meal patterns established: 1) Department personnel will consult Food and Nutrition Service program staff to enhance analytical capabilities within its current applications. 2) During monitoring reviews, external program review staff will continue to ensure subrecipient meals claimed and served are in accordance with required meal patterns. Please see finding 2014-021 for the full response to Food Program Findings.	1) Ongoing with final completion before June 2016 2) Included in the review process currently. It should be noted the review process is a detection measure and not a prevention measure.
2014-031	Management did not perform a pre-approval visit, track and collect excess funds, and did not have controls to ensure sponsors did not over claim meals at individual feeding sites, resulting in $136,873 of overpayments to Summer Food Service Program for Children subrecipients	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. The following corrective action will be taken: 1) The Department will enhance analytical capabilities of current applications to strengthen controls over sponsor oversight. 2) The Department will ensure program staff are effectively trained and held accountable for their work. The questioned costs are currently being recouped or are in the monitoring completion process. Please see finding 2014-021 for the full response to Food Program Findings.	1 & 2) Ongoing with final completion before June 2016.
2014-032	The Department of Human Services did not ensure a Summer Food Service Program for Children sponsor obtained income eligibility forms	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department of Human Services does not agree that proper oversight was not provided. As a corrective action for the missing income eligibility forms, external program review staff will monitor sponsor organizations to ensure participant income eligibility forms are obtained and maintained. Please see finding 2014-021 for the full response to Food Program Findings.	This is included in the review process currently. It should be noted the review process is a detection measure and not a prevention measure.
2014-033	As noted in the prior audit, Vocational Rehabilitation counselors did not follow policy when purchasing computer equipment for program clients, resulting in federal questioned costs of $10,011	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department agrees that a corrective action plan was implemented based on the prior finding. Training was conducted for all staff. The following corrective action will be taken: 1) The missing receipt for the computer purchase was obtained from the client and provided to State Audit. Department will take necessary corrective measures with employees who do not follow the computer equipment purchase policy. 2) The Computer Usage Agreements are not required by federal regulations. The Department will modify the policy accordingly. The Department does not agree with the questioned costs as all computer equipment purchases were legitimate. Compliance with the policy is being monitored by VR supervisory staff. The Department does not consider this to be a systematic issue and does not believe it represents a significant risk.	1) State Audit received the receipt from DHS on December 12, 2014. 2) The DHS policy will be updated and approved by April 30, 2015.
2014-034	Vocational Rehabilitation counselors did not always determine individuals' eligibility for the program within 60 days, obtain extension agreements, or meet the extension deadlines as required	Department of Human Services	Raquel Hatter Commissioner	Management concurs in part. The Department has measures in place that indicate to staff when the deadline to determine eligibility is approaching. The Department will take necessary corrective measures with employees who do not follow the prescribed timeline for determining clients' eligibility for service. This process is being monitored by VR supervisory staff. The Department does not consider this a systematic issue and therefore does not believe it represents a significant risk.	The performance improvement plans will be in place by April 30, 2015.

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2014-035	As noted in the prior audit, management at the Department of Human Services overpaid Temporary Assistance for Needy Families benefits to a recipient, resulting in questioned cost	Department of Human Services	Raquel Hatter Commissioner	Management does not concur. The Department of Human Services agrees that 1 out of the 60 files tested (2%) indicated a recipient received TANF benefits for five months, averaging $264 per month, beyond the 60-month program term limit without qualifying for an exemption. The Department also agrees that the error occurred due to a breakdown in communication among internal staff. However, the Department disagrees that this error is a systematic problem rising to the level of a Finding. The Department disagrees with the logic used to extrapolate the error amount noted in determining the likely questioned costs. Department personnel feel the error noted was an anomaly and not indicative of a true process flaw and also that files tested were selected using a non-statistical, random sample which by nature does not lend itself to extrapolating the results. Based on the above reasons, the Department feels extrapolation of the error amount noted does not provide a representative determination.	N/A
2014-036	To prevent further erosion of the public's trust in the UI program, management needs to aggressively implement full corrective actions to the numerous control and compliance deficiencies	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. As stated in the prior audit, many of the issues noted within this finding and audit are due to technological limitations. A contract to replace the entire UI Benefits System was signed in May 2014. Implementation of the new system is in progress and on-schedule to go-live in May 2016.	May 2016
2014-036 (continued)				The Department has conducted a root cause analysis and made numerous modifications to systems and processes in an effort to improve the unemployment insurance program. These include: 1. The Interactive Voice Response (IVR) was modified in March 2013 by moving self-help options to the beginning of the call, which allows more claimants to help themselves. 2. A new Telephone Information Processing System (TIPS) line was deployed in February 2014 that allows claimants to reset their personal identification number (PIN) and to correct incorrect response to the weekly certification questions. 3. A new ticketing application, ZenDesk, was implemented in March 2014. This application works to reduce phone calls and allows staff to track issues without duplication of work, and measure the staff's effectiveness and efficiency in answering those issues. Also, this application provides for a self-help knowledge base.	1. Completed March 2013 2. Completed February 2014 3. Completed March 2014
2014-036 (continued)				4. A claims status tracker was implemented and utilized by claimants. 5. The new imaging center improved the efficiency and timeliness of claim processing by maintaining all documentation in one place.	4. Completed July 2014 5. Completed December 2013
2014-036 (continued)				The Department has taken the following corrective action pertaining to backlogs: 1. The benefit charge backlog was cleared June 5, 2014. 2. The backlog of claims over 21 days awaiting decision was cleared by October 1, 2014. 3. The backlog of benefit payment control cases will be cleared by March 30, 2015. 4. Over $31 million in overpayments have been setup during the clearing of the benefit payment control backlog. 5. The Department continues to participate in the Treasury Offset Program. Since July 2012, $28 million has been intercepted from individual tax returns.	1. Completed June 5, 2014 2. October 1, 2014 3. March 30, 2015 4. March 30, 2015 5. Ongoing
2014-037	Overpayment levels remain high and place the Unemployment Insurance program at risk	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. The Department does not agree with the estimated overpayment amount. The original reason for recording this estimate was due to a backlog within the Benefit Payment Control (BPC) Unit. The backlog of 40,869 cases pending review has been reduced to 573 cases as of February 7, 2015. Approximately $28 million have been set up as overpayments. The Benefit Control Unit is up-to-date on all cross match reports. Without a backlog, estimating potential overpayments is not an accurate portrayal of the program. The following corrective action will be taken: 1. Many of the issues in the finding are due to technological limitations imposed by an outdated computer system. Implementation of a new system is in progress. 2. Also, the Department has formed a new UI Recovery Unit devoted entirely to collection efforts. The Department continues to participate in the Treasury Offset Program and has purchased the computer software SAS to assist in identifying fraud.	1. May 2016 2. January 2, 2015
2014-038	Random audits of work search verifications were not conducted	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management does not concur. The State statute allows the UI claimant to have two options, which include contact with three (3) employers or solicit services at the career center. The Department has evidence showing UI claimants were receiving services through the career centers. During the audit period, 176,575 UI claimants received services through the career centers. Of those 176,575 claimants, 158,581 received workforce information services; 168,477 received staff assisted services; 69,828 received career guidance; 54,959 participated in job search activities; and 32,126 were referred for employment. The Department believes this satisfies the State statute.	N/A
2014-039	The Unemployment Insurance program made improper benefit payments	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. The Department utilized a manual and paper centric case management system for part of the year. In December 2013, an imaging center was established to digitize and maintain scanned claims material in a repository readily accessible by adjudicators. Adjudicators began using this repository for the decisions material in March 2014.	Completed December 2013

2014-039 (continued)				The Department does not agree with all the issues noted by the auditors regarding requests for separation information: **Documentation for Eligibility Determinations:** 1. Proof of dependent information was required for any claim filed on or after August 1, 2013. Once claim was noted for missing dependent information; however, the dependent documentation was actually obtained when the claimant filed a new claim on November 12, 2013. **Standard for Benefit Payment Promptness:** 1. The Department had a claims backlog for the entire audit period thus timeliness requirements were not met. The backlog was cleared by October 1, 2014.	
2014-039 (continued)				**Request for Separation Information:** Of the nine (9) claims noted with separation issues: 1. One claim was filed in a local office on December 6, 2012 which was outside the audit period, and no documentation was provided. Claims are no longer accepted in a local office. 2. One claim was approved based on a misdated separation notice, but the employer did not appeal. 3. Three claims were decided without a documented second notice attempt. 4. The employer response for one claim was based on a different assignment, but the employer did not appeal. 5. Three claims were not missing any information, but the auditor determined the adjudicator needed more information. The department does not agree.	
2014-039 (continued)				**Agency Decisions:** 1. Decision letters and request for separation information are not always required. Below are instances when such are not needed: a. The claims were either submitted directly by the employer. b. A mass layoff list had been supplied by the employer. c. The lack of work was approved over the phone by the claims agent while taking the claim. d. Initial claims where the separation reason had already been correctly addressed on the previous claim. The Department does not agree with the eligibility sample chose for review. As in the previous audit, the sample was chosen based on payments made during the audit period. Eligibility determinations during the audit period only should have been reviewed. By continuing to review eligibility outside the audit period, the Department continues to be penalized for processes and procedures that may have already been corrected.	
2014-040	The department has no process to verify partial claims certifications	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management does not concur. The Department utilized an online automated partial claims filing system (APS). The system was designed to supply employers with an easy way to file claims for their job-attached workers. The US Department of Labor does not have an issue with States utilizing employer filed claims systems. As noted in the audit, the APS was modified in July 2013 to provide employers with a certification form for employees, limit of 10 consecutive weeks of filing, and require employers provide a return to work date. Requiring job-attached workers to do their own weekly certifications is unnecessary since USDOL considers the employer filed certifications as acceptable. The Department previously stated a sample review of partial claims would be established by October 2014. This review requires quarterly wage data, thus the sample review will begin when the 4th quarter wage records are available, which will be March or April 2015.	N/A
2014-041	As noted in prior audits, the department still has weaknesses in the automated claims approval process	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. Many of the issues noted in the finding are due to technological limitations. A contract to replace the UI Benefits System was signed, and implementation is in progress and on schedule to go-live in May 2016. During most of the audit period, the claims operation unit was operating on a manual process of matching documents. The review and documentation process includes:	May 2016
2014-041 (continued)				1) 45 Lack of Work (LOW) claims are reviewed when filed and the claimant is contacted, if any discrepancy is noted. The claim is reviewed again after the employer's seven day response period has ended. 2) 40/00s are worked and either approved when worked or sent to a suspense file for finishing. These claims are approved, if the information is verified, and adjudicated, if an issue arises. 3) Issue claims that the system indicates something needs to be reviewed are worked by a Claims Agent. 4) Issue claims that do not have any system indication needing review are sent straight to Adjudication.	
2014-042	Because management disregarded employers' responses disputing statements of laid-off workers, the department made improper eligibility determinations and overpaid UI benefits	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. During most of the audit period, the claims operation unit was operating using a manual system of matching documents with other claims material. In addition, employer responses were being received in several different ways. This process was subject to human error which was compounded by the volume of claims being processed. In regards to the specific findings noted, management provided the following response:	
2014-042 (continued)				There were four of 21 claims dated August 2013 noted by the auditors as being approved without proper evaluations of the employers' responses: 1) The Department Agrees on three of the four claims; while one of the three employers filed an appeal and the decision was reversed. 2) The fourth claim was verified via phone with the employer by a claims agent.	

2014-042 (continued)				There were 27 of 58 claims dated October 2013 noted by the auditors as being approved without proper evaluation of the employers' responses. 1) The Department agrees on 21 of the 27 claims noted but notes the following: a. Four of the 21 were corrected by adjudication, when additional information was provided. b. Eight of the 21 were appealed by the employers (six decisions were reversed and two were upheld). 2) The other six claims were reviewed and the employers' information was considered before approving.	
2014-042 (continued)				The Department categorically disagrees that employers' responses were being disregarded by claims center management. Processes and procedures have been reviewed and improved. In December 2013, an in-house imaging center was established to digitize and maintain scanned claims material in a repository readily accessible to adjudicators. By March 2014, adjudicators began using the repository of claims material.	Completed December 2013
2014-043	The Employment Security Division's key control for detecting fraudulent claims was ineffective, and staff did not identify ineligible payments to state employees, deceased individuals, state inmates, and unverified individuals	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. The Department does not concur that all cited claims are overpayments. Cross matches are simply indicators of possible overpayments. Updates on the cross-matches noted in the audit are as follows: 1) The State employee cross-match had 24 noted cases. After being reviewed by the Department, three (3) of the noted cases were determined not to be overpayments. For the remaining 21 noted cases, the Department established $21,333 in overpayments. 2) An overpayment has been investigated and established on the one Vital Statistics cross-match case. 3) The incarcerated cross-match results were based on a completely different file than the one currently received from the Department of Corrections. A weekly cross-match was evaluated and put into production as of June 10, 2014. The Department did review the list of incarcerated claimants provided by the auditors. Eight (8) of the 44 noted cases were not incarcerated during the times listed. For the remaining 36 noted cases, the Department established $63,892 in overpayments.	
2014-043 (continued)				There were 31 individuals noted in the audit as receiving UI benefits without the required Social Security Administration identity verification. 1) Twenty-one (21) of these were on "drop-sheets" but due to the claims backlog, the drop sheet was not worked immediately. When they were worked, the claims were stopped. Overpayments are being processed for the claims. 2) The other ten (10) claims were originally denied, due to failure to provide proof of ID; but subsequently, an add or re-open claim was filed. Notices are being sent to these for proof of ID. If not provided, overpayments will be processed.	
2014-043 (continued)				The Department has reassigned the review of cross-match results and centralized several of these within the Nashville office. They are assigned to specific auditors, instead of distributed to all auditors, and are being completed timely. The Department is also replacing existing systems utilized for cross-match indications with the anticipated go live of May 2015.	May 2015
2014-044	Delays in processing claims and establishing overpayments led to backlogs	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. The Department is replacing the UI Benefits System which has an anticipated go live of May 2016. The following corrective action has been taken to reduce/manage the call volume: 1. The Interactive Voice Response (IVR) was modified in March 2013 by moving the self-help options to the beginning of the call, which allows more claimants to help themselves. 2. A new Telephone Information Processing System (TIPS) line was deployed in February 2014 to allow claimants to reset their personal identification number (PIN) and to correct incorrect response to the weekly certification questions. 3. A claims status tracker was implemented and utilized by claimants. 4. A new helpdesk ticketing application, ZenDesk, was implemented in March 2014. This application works to reduce the number of phone calls and allows staff to track issues without duplication of work. It also measures staff's effectiveness and efficiency in answering issues. The application also provides a self-help knowledge base.	May 2016 1. March 2013 2. February 2014 3. July 2014 4. March 2014
2014-044 (continued)				The following corrective action has been taken to address the backlog of pending claims for UI benefits: 1. In December 2013, the manual and paper centric operation process was replaced with an in-house imaging center to digitize and maintain scanned claims material in a repository readily accessible to adjudicators. 2. By March 2014, adjudicators began using the repository of claims material. 3. By October 2014, the backlog was cleared. 4. In October 2014, the Department exceeded the US Department of Labor's first pay timeliness requirement of 87% and has continued to meet this standard each month since.	1. December 2013 2. March 2014 3. October 2014 4. October 2014
2014-044 (continued)				The following corrective action has been taken to address the backlog of potential overpayments: 1. Vacant auditor positions were filled and overtime was authorized to address these cases. 2. In February 2014, a plan to eliminate the backlog was devised. The backlog of benefit control cases was reduced from 40,869 in February 2014 to 363 cases as of February 14, 2015. The backlog will be cleared by March 30, 2015. 3. As a result of clearing the backlog, over $31 million in overpayments have been setup. 4. The BPC Unit is current on all cross-match reports. 5. The Department is completing the ETA 227 report in accordance with the US DOL guidance.	March 2015

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2014-044 (continued)				The Department acknowledges it is unable to answer the volume of call attempts. The following measure have been taken to address this: 1. In October 2014, program modifications resulted in TIPS being the only certification method. 2. The Department began utilizing ZenDesk tickets as opposed to having more claims agents on the phone. This method allows agents to handle multiple requests for assistance at the same time. 3. The Department will begin testing the ZenDesk "voice over" feature that will allow the caller to leave a voice message that converts to a ZenDesk ticket.	1. October 2014 2. Completed March 2014 3. May 31, 2015
2014-045	Incorrect amounts entered in financial report	Department of Labor and Workforce Development	Burns Phillips Commissioner	**Department of Labor and Workforce Development** Management concurs. Where applicable, the Department will work with the Department of Finance and Administration to ensure proper financial reporting. **Department of Finance and Administration** Fiscal staff concurs. The Department of Finance and Administration (F&A) fiscal staff has implemented controls to ensure errors are detected and reconciliations occur prior to the submittal of the ETA 191 reports. F&A fiscal staff will work to determine the cause(s) of the differences between LWD's ESCOT system and Edison. Once the cause(s) is identified, errors will be corrected, and F&A fiscal staff will make necessary adjustments to the ETA 191 reports. F&A will work with LWD to improve the current review process as necessary	April 2015
2014-046	Employment Security Division staff did not identify, establish, and process overpayments consistent with state and federal law and departmental procedures	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. The Department evaluated the Benefit Payment Control (BPC) functions and centralized all overpayment functions within the BPC Unit by August 1, 2014. Additional training was provided to the audit staff on investigating and establishing overpayment.	Completed August 1, 2014
2014-046 (continued)				The following updates on the eight (8) overpayments identified by the auditors are as follows: 1. The six (6) overpayments noted as not fraudulent but containing fraud indicators were subsequently reviewed by a BPC auditor. Five (5) of these overpayments should have been designated as fraudulent. 2. The overpayment established for $120 less than benefits paid was corrected. The dependent allowance was not included. 3. One of the overpayments was not promptly entered into the mainframe and a claimant received subsequent UI benefits without being offset for the overpayment. The audit stated the BPC unit failed to enter this until three months later. The UI Control Unit which was not part of BPC, was several months delinquent in entering overpayments. In May 2014, the UI Control Unit was absorbed by the BPC Unit.	
2014-047	Internal controls not adequate in one area	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs and is working with the applicable federal government agency on implementing applicable internal controls.	Corrective Action has been submitted to the Federal agency. Implementation date will be determined upon receiving their response.
2014-048	The Benefit Accuracy Measurement unit's independence was impaired	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management does not concur. Benefit Accuracy Measurement (BAM) investigators are required to have at least three years of full-time experience in taking or investigating unemployment insurance claims or adjudicating unemployment insurance claims. With this requirement, the investigator position is filled from the pool of experienced claims agents and adjudicators. When a new BAM investigator is hired, it is not uncommon for a claim that they had previously worked in their old position to be included in the BAM sample. To avoid any conflict, the BAM supervisor assigns these cases to other investigators.	N/A
2014-048 (continued)				The auditors questioned the use of BAM investigators in reviewing claims. Three recently promoted BAM investigators were temporarily used to review some internet filed claims. The facts are as follows: 1. Due to heavy seasonal increase in lack of work claims, between 11,000 and 13,000 internet filed claims were awaiting review. 2. Claims operations staff was already working overtime but were unable to keep up with the increased demand. 3. A suggestion was made that there were some staff recently promoted to other units that might be able to assist the claims unit. 4. The UI Integrity Director was asked if any would be interested and available to assist. 5. BAM investigators were removed from the BAM sample and did not come in contact with any claim they worked. 6. This only involved 3 BAM investigators.	

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2014-048 (continued)				7. These individuals did not issue countable non-monetary agency decisions into ESCOT. These claims were lack of work claims that they reviewed for employer responses or availability issues. 8. These individuals did approve the claim only if the employer agreed with the lack of work or did not respond. All of the worked claims were not approved. These claims were changed to pending if the employer response indicated it was not due to lack of work or the claimant gave a disqualifying answer. These claims were processed by adjudicators. 9. These individuals reviewed 300 to 400 claims from January 23, 2014 to January 30, 2014. A lack of work claim approved by these investigators that later appeared in the BAM sample would have been reassigned to another auditor by the BAM supervisor. The Department does not consider the temporary use of three newly promoted investigators to be any different than hiring new investigators. The Commissioner does not agree that there is any necessity for organizational changes.	
2014-049	The department paid Local Workforce Investment Areas for improper drawdown requests and unallowable costs, resulting in federal questioned costs of $86,139	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs in part. Management does not concur with the auditor's assessment that LWIA 3 food expenditures are an unallowable activity. LWIA 3 food expenditures were related to the SNAAP (Science, Nature, Arts, Adventure, and Proficiency) weeklong Youth event that required participation in the activities, including field trips and the youth Senior Banquet. The Department's management feels the provision for food was justified, since it included sharing of technical data. We do not concur with the auditor's assertion regarding the allowability of the event costs of $2,420 included in the expanded test work for LWIA 11. The Workforce Services Division has provided supporting documentation regarding these cost showing the dissemination of technical information. Management also feel that a welding cap and welding jacket are necessary for a participant receiving welding training. For other questioned costs, the division will be in contact with the applicable LWIA and US DOL.	
2014-049 (continued)				Management does concur with improvements are needed with the drawdown request process and monitoring process. The following corrective actions are being taken: 1. The Workforce Services Grants and Budget Unit has implemented a process to match individual drawdown requests to the LWIA's expenditures for the WIA programs. This review occurs on a consistent (usually weekly) basis to help identify possible unallowable charges incurred for LWIA activities prior to any drawdown from the State. The process includes a review of general ledgers, as well as other supporting documentation that help justify the immediate cash needs of the WIA program. 2. Each LWIA has submitted written procedures documenting their immediate cash needs. 3. LWIA 8 is now maintaining the aging reports and documentation showing how the amounts from the aging report are allocated to the respective contracts. 4. Workforce Services Division has communicated with the other divisions regarding the applicable sub-recipient's cash needs. LWIA 10 has entered journal entries showing WIA funds were reimbursed from the other non-WIA program.	1. January 7, 2015 2. January 7, 2015 3. January 7, 2015 4. January 7, 2015
2014-049 (continued)				To improve the monitoring efforts regarding drawdowns, the Program Accountability Review Office (PAR) has added steps to their Detail Review Guide to evaluate the process used to calculate the individual requested drawdown amounts. PAR examines the general ledger and if unusual vendors are noticed, a sample of expenditures paid to those vendors will be selected for detailed testing. PAR also selects a sample of WIA participant files to determine whether expenditures on behalf of the selected participants are allowable.	March 2, 2015
2014-050	Participant data for the Workforce Investment Act Annual Performance Report did not comply with reporting requirements	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management does not concur. To ensure accuracy of reporting, US DOL established guidelines for WIA services that extend participation. Thus, the finding's assertion is incorrect that, after one service ends, sub-recipients are required to update records that the participant is no longer receiving services funded by the WIA program. These guidelines state that needs-related payments across several program areas may continue beyond training service end dates, as well as all partner program services. Furthermore, when a program participant is engaged by Workforce Services (WFS) staff, WIA provides for three levels of service: core, intensive, and training. And according to US DOL (20 CFR Part 652 et al., p. 49318 Preamble), it is up to the state and local workforce boards to develop a mix of activities that will best serve the participants to achieve employment goals, and that local program operators are best positioned to determine the appropriate mix and duration of services. For example, there is no minimum duration for intensive or training services.	N/A

2014-050 (continued)				US DOL's initial determination for the 2013 Single Audit Report indicates the participant's exit date issue has been corrected, since WFS is continuing to use Participant Tenure Reports to analyze and adjust service end dates. The statement also applies to the current finding, since the final Participant Tenure Report was executed in October 2014. WFS also has launched its new Virtual One-Stop data tracking system that specifically implements a mandatory exit, when there are no services that extend participation in the system. The data validation error rates cited in the finding are for the 2012 program year, and do not reflect the outcomes for the period under audit (July 1, 2013 to June 30, 2014). By using data element validation error results for the current audit period, the data element validation results have significantly improved. For program year 2013 the department exceeded a 5% error rate threshold for 13 of 215 data elements (6%), which is a 20% improvement over PY 2012. Also, the finding states that 29 data elements did not improve from program year 2011 to program year 2013, however, we show that only five (5) did not improve. USDOL has confirmed the data element validation error results for program year 2013. The Division is and has been delivering in-person training and virtual training to all other staff statewide, especially with regard to compliance in all program areas.	
2014-051	Department staff did not review subrecipients' matching expenditures to ensure the expenditures were allowable under the grant	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs. In July 2013, the Division recognized that additional safeguards needed to be in place regarding verification of matching expenditures, and training was provided to sub-recipients as to what constitutes an allowable expenditure for matching purposes. In July 2014, the Division began requiring sub-recipients to submit supporting documentation for matching expenditures. Since that time, supporting documentation for matching expenditures has been reviewed by the division and verified as allowable under the grant.	July 2014
2014-052	Federal Financial Reports were not accurate	Department of Labor and Workforce Development	Burns Phillips Commissioner	**Department of Labor and Workforce Development** Management concurs. Where applicable, Department personnel will work with the Department of Finance and Administration to ensure proper financial reporting. **Department of Finance and Administration** Management concurs. The Department of Finance and Administration (F&A) fiscal staff has corrected and resubmitted the four Federal Financial Reports (FFRs) identified in the finding and has implemented controls to ensure errors are detected and reconciliation and review procedures occur prior to the submission of the FFRs. F&A will work with LWD to improve the current review process as necessary to ensure proper federal financial reporting.	June 2015
2014-053	The department did not comply with monitoring requirements	Department of Labor and Workforce Development	Burns Phillips Commissioner	Management concurs. A sub-recipient monitoring plan was not completed in accordance with Central Procurement Office (CPO) Policy 2013-007. Once the division became aware of this policy, a monitoring plan was submitted on October 1, 2014 and approved on October 17, 2014. Management concurs. A copy of each sub-recipient's A-133 audit report was not obtained directly by the Adult Education Division. However, many of the A-133 audits have been completed by the Comptroller's Division of Local Government Audit. The Director of Internal Audit received a summary of the results of the A-133 audits performed by the Comptroller's Division of Local Government Audit. These summary reports are reviewed for findings applicable to Adult Education and, if any are found, they are reported to the Division. These summary reports have been and remain on file in the Office of Internal Audit. In response to this finding, the Division has started receiving, reviewing, and maintaining the summary reports, in addition to that kept by the Office of Internal Audit. The Division hired an employee on December 1, 2014, with duties regarding performance monitoring. This individual will direct all fiscal and programmatic monitoring activities, including those addressed in this audit.	1) October 1, 2014 2) December 31, 2014 3) December 1, 2014
2014-054	The Department of Transportation did not implement the internal controls designed to prevent or detect noncompliance with federal allowable activity and allowable cost requirements	Department of Transportation	John Schroer Commissioner	Management concurred. 1) Equipment log instructions were sent to all directors on November 6, 2014 with directions to remind all staff of the importance of completing the log correctly. 2) A meeting was held on November 7, 2014 with all Finance Office personnel involved in payment processing to remind employees of the need to check all invoices for mathematical accuracy and to ensure documentation correctly supports amount paid by TDOT.	1) November 6, 2014 2) November 7, 2014

STATE OF TENNESSEE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDING 6/30/2014

2014-055	The Department of Transportation did not always comply with Davis-Bacon and Related Acts	Department of Transportation	John Schroer Commissioner	Management concurred. The Regional Director of Operations will ensure that the requirements of 29 CFR 3.4 and TDOT Policy 301-02 are discussed with Operations personnel and that steps are taken to achieve compliance with the required process. The payrolls submitted via paper copy will be time and date stamped upon arrival to the field office, and the contractors' regular payment date will be requested during the pre-construction conference. The Headquarters Construction Division will have the other Regional Operations Directors discuss these procedures with their staff as well to ensure statewide notification. Also, please note that the electronic submission of payrolls became a requirement for contracts let after January 1, 2014. The time and date received for payrolls on these contracts are established by the date of the email. The Department will need to evaluate the existing policy and make any amendments accordingly based on this change. Contracts let prior to January 2014 will continue to submit paper copies of the payroll until they are complete. Corrective action was completed March 1, 2015.	March 1, 2015
2014-056	The Department of Transportation overcharged the Federal Highway Administration when it used an incorrect matching percentage.	Department of Transportation	John Schroer Commissioner	Management concurred. The Finance Office posted journal entries on September 23, 2014 and November 4, 2014 to correct the overbillings and reimburse Federal Highway Administration. In addition, Program Operations staff was reminded of the importance of cross-checking all entries into the Program, Project, and Resource Management (PPRM) system and Edison, to make sure that the entries match the Federal authorization funding breakdown. The department's final voucher process provides both detective and corrective controls which help ensure that federal expenditures are not materially misstated.	September 23, 2014 and November 4, 2014
2014-057	The Department of Transportation did not develop specific policies and procedures or maintain adequate support to document compliance with Buy America(n) requirements	Department of Transportation	John Schroer Commissioner	Management concurred in part. The Department stated that it does have policies and procedures in place. These procedures are referenced in TDOT Standard Specification 106.04, 106.07, and 107.06 and Special Provision 106A Buy American Requirements. The project in question was managed by a local government. The consultant, hired by the City, did not follow these procedures. The City is required to follow all State and federal rules, laws, procedures and regulations, per their contract with the Department, which reference TDOT Local Government Guidelines Manual. 1) The City and the consulting firm have been made aware of the error as of October 2014. 2) The Buy American requirements will be further emphasized during the annual construction inspection training classes where both local governments and consulting firms locally managing State and federal aid projects are required to attend. Two classes were held in Summer of 2013, two the Summer of 2014 and two will be held in June/July 2015. Buy American will be further emphasized in future trainings.	1) October 2014 2) Summer of 2013, Summer of 2014 and June/July of 2015
2014-058	The department's Utility and Finance Offices continued to pay utility relocation expenditures that were not adequately supported at the time of payment, and the offices did not properly oversee utility relocation contracts	Department of Transportation	John Schroer Commissioner	Management concurred in part. 1) Tennessee Department of Transportation (TDOT) employees have been informed of the requirement that all invoices be checked for mathematical accuracy. 2) For costs related to the material breach of contract, the department did not concur with $373,179.30 of the questioned costs. The department stated that the purpose/intent of the contract was met. For the questioned costs related to an unapproved increase to contracted price, the costs in question relate to the relocation work bid out by the Utility. The department states that the bid price per item did not increase. The actual amount paid did not exceed the contract amount. For one of the questioned costs related to inadequate support, the Utility uses another utility's poles. The contracted Utility provided a copy of the agreement as well as documentation of payment.	1) November 7, 2014
2014-058 (continued)				3) The department will amend contracts in the future when necessary for situations where actual costs exceed the contract limit, where a change in scope of the contract has occurred or when the contract will expire prior to the utility relocation. 4) The Utility Relocation Office will clarify for staff what is considered a change in scope. 5) The Utility Office and the Finance Office will amend the utility relocation checklist to further clarify required supporting documentation prior to payment being made and to ensure staff is aware of when prior approval needs to be obtained. 6) The Utility and Finance Offices will provide training to staff. 7) The department will update contract language on future utility relocation contracts to clarify the intent of the department and the utility. 8) The department's External Audit section will review the awarding of continuing contracts to ensure competitive selection and will review the actual use of the contract to ensure it is being used for public and private work. 9) External Audit will also sample overhead and indirect construction costs billed by the utility.	3) Ongoing 4) March 15, 2015 5) March 15, 2015 6) Beginning March 31, 2015 7) February 5, 2015 8) July 1, 2015 9) July 1, 2015
2014-059	For the second consecutive year, the department did not ensure that terminated employees' access to Edison, the network, and critical applications was disabled timely	Department of Transportation	John Schroer Commissioner	Management concurred in part. The Department of Transportation will work to improve internal controls for the processes outside of TDOT's jurisdiction. For TDOT's internal processes, they will develop an appropriate policy.	Expected completion date June 1, 2015
2014-060	The department did not establish adequate internal controls over contract revenue to ensure compliance with allowable cost requirements	Department of Transportation	John Schroer Commissioner	Management did not concur. The department holds that existing controls provide reasonable assurance that human service contract revenues are restricted for public transportation purposes only	N/A
2014-061	The status of a prior audit finding on the summary schedule of prior audit findings was misstated	Department of Transportation	John Schroer Commissioner	Management did not concur. The department does not concur that it has misstated the status of 2013-035. Disagreement regarding the status of 2013-035 as "corrected" or "partially corrected" mirrors the disagreement between the department and state auditors regarding the 2014 state audit finding 2014-060. The department's management believed its corrective action had sufficiently reduced the instances of noncompliance such that an audit finding was not warranted. In addition, the Federal Transit Administration, the agency responsible for the program, stated that finding 2013-035 has been resolved.	N/A

2014-062	The Tennessee Housing Development Agency did not comply with the U.S. Department of Housing and Urban Development's depository requirements.	Tennessee Housing Development Agency	Ralph Perrey Executive Director	Management concurred. Tennessee Housing Development Agency (THDA) will work with the State Department of Treasury to establish the requisite bank account(s) with an appropriate bank for exclusive use with the Section 8 Housing Choice Voucher (HCV) program, which complies with HUD's General Depository Agreement. The target date for the establishment of this account is June 30, 2015.	June 30, 2015
2014-063	The university's financial aid office did not take the necessary action to report Pell Payment Data to the Department of Education within the required time frame during the spring semester	Tennessee State University	Glenda Glover, President	Management concurred. The Office of Financial Aid identified the issue in early spring, 2014, during the reconciliation process for Pell. They determined that the parameters set for the extract process only pulled students with both fall and spring enrollment, causing spring-only students to be omitted. The parameter inserted in this process was eliminated so that all records would be extracted. This correction has been in place since March of 2014. TSU is confident that the corrective action that has been implemented will ensure all future Pell disbursements are reported in a timely manner to the Department of Education and that federal compliance requirements will continue to be met when positions are vacated.	March 2014
2014-064	Six departments did not comply with Federal Funding Accountability and Transparency Act reporting requirements	Department of Economic and Community Development	Randy Boyd Commissioner	Management concurred. The Department of Economic and Community Development (ECD) agreed that it did not have an additional review process in place to ensure that the subrecipients' DUNs numbers were valid before they were provided to Fiscal Services personnel provided under contract with the Department of Finance and Administration (F&A). In accordance with the contract requirements, ECD's management and staff remain in continuous communication with the F&A personnel that operate ECD's Fiscal Services section. The department feels that there was a disconnect between ECD's program staff and Finance and Administration personnel related to pre-verification of DUNS numbers. As of January 2015, the department has incorporated some additional steps for program staff to review the grantees' payment requests before Finance and Administration's Fiscal Services completes the reimbursement. The department states that it has always had processes in place for Fiscal Services to report errors and issues.	January 2015 and ongoing
2014-064 (continued)		Department of Education	Candice McQueen Commissioner	Management concurred. Staff persons who have been assigned to perform Federal Funding Accountability and Transparency Act (FFATA) reporting have been informed of FFATA reporting requirements. For each program area, a second person has been designated to review data submitted to ensure it is timely and accurate.	March 30, 2015
2014-064 (continued)		Department of Finance and Administration	Larry Martin Commissioner	**1) Management concurred**. The Department of Finance and Administration (F&A) will continue to work with the Department of Economic and Community Development to ensure that subawards are reported accurately and timely in the FFATA Subaward Reporting System (FSRS system). F&A staff will maintain documentation of errors encountered during the reporting process and timely communicate these errors to the Department of Economic and Community Development staff. 2) **Management concurred**. The Department of Finance and Administration (F&A) fiscal staff is currently in compliance with FFATA reporting requirements and has implemented a monthly reconciliation process to ensure all required sub-recipient data has been reported in FSRS. F&A fiscal staff will assist Department of Labor and Workforce Development (LWD) program staff and management in developing a reconciliation of program data to FSRS.	1) and 2) Estimated completion date is June 30, 2015
2014-064 (continued)		Department of Human Services	Raquel Hatter Commissioner	Management concurred in part. The Department agrees that in some instances, reporting was not timely. The Department does not concur that all instances identified by State Audit were not reported timely. In some instances the payments to sub-recipients did not exceed the $25,000 threshold to be reported. Moving forward, the Department will take necessary corrective measures with employees who do not follow the process. The department does not concur that it did not report accurately. In the instances identified in the report as not being reported accurately, the department reported the payment made to the sub-recipient as agreed to with State Audit. The department notes that gaining a comprehensive understanding of the FFATA requirement has been an ongoing challenge with the multiple iterations of the act since its inception. The department agrees that there are opportunities to improve the reporting process. The Department will review the reporting requirements and the process already in place to help ensure accuracy and timeliness. Corrective action includes meeting with Finance and Administration and State Audit to review and receive guidance on FFATA reporting requirements to ensure accuracy and timeliness of reporting.	May 31, 2015
2014-064 (continued)		Department of Labor	Burns Phillips Commissioner	Management concurred. The department states that, where applicable, they will work with the Department of Finance and Administration to ensure proper financial reporting.	June 2015
2014-064 (continued)		Department of Transportation	John Schroer Commissioner	Management concurred. The Finance Office of the Department of Transportation assumed responsibility on September 8, 2014 for compiling the list of subawards each month and of notifying program areas of subawards to be reported in FSRS. The Finance Office will follow up with program areas to ensure subawards are reported as required by FFATA	September 8, 2014
2014-064 (continued)		Tennessee Housing Development Agency	Ralph Perrey, Executive Director	Management concurred. Tennessee Housing Development Agency will begin to report FFATA based on subaward obligations as required. Corrective action was taken by THDA on March 10, 2015.	March 10, 2015

2014-065	Grant funds were used for unallowable real property acquisition, resulting in federal questioned costs of $78,564	Department of Human Services	Raquel Hatter Commissioner	Management concurred in part. 1) The Department concurs with the Summer Food Service Program finding totaling $149 and has initiated the recoupment process for the questioned costs and anticipates correction to be completed by April 30, 2015. The Department **does not** agree with the $21,313 in questioned costs. The Department needs clarification from State Audit on the dollar amount ($21,313) that is considered unallowable in Table 1 of the finding. Once the Child and Adult Care Food Program (CACFP) unallowed amount is determined, the Department will work with the subrecipient and the U.S. Department of Agriculture (USDA) to verify that advanced approval for capital expenditures was not obtained. The Department will then work with the USDA on the corrective action to be performed (i.e., notifying them of their interest in the subrecipient's central office building and/or ensuring the USDA is reimbursed for all unallowable costs). 2) The Department is planning a CACFP fiscal review for this agency in FY 2015 and will ensure the subrecipient is aware of allowable uses for grant funds.	1) April 30, 2015 regarding the $149 2) FY2015
2014-065 (continued)		Department of Labor	Burns Phillips Commissioner	Management concurred in part. The department understands that Southwest Tennessee Human Resource Agency (SWHRA) did not obtain federal approval for allocating portions of the mortgage payment to the applicable programs. Since occupancy charges are allowable under federal regulations, we will assist SWHRA to obtain federal approval for an appropriate occupancy rate and applicable allocation method from their federal cognizant agency. Depending upon the difference in amounts between the actual allocated amount and the federally approved allocated amount; questioned costs will be handled in accordance with federal guidance.	Will contact the federal government by June 30, 2015
2014-065 (continued)		Department of Transportation	John Schroer Commissioner	Management concurred. SWHRA will repay the Tennessee Department of Transportation (TDOT) for unallowable debt payments that were improperly characterized as rent and TDOT will return the funds to the Federal Transit Administration. The DMTR will provide all subrecipients with guidance on when debt payments associated with the acquisition of real property are allowable. DMTR will also review the tenure status of all subrecipients to ensure that real property ownership information has been properly reported. The estimated date of completion of corrective action is December 31, 2015.	December 31, 2015

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS: CORRECTED	PARTIALLY	NONE	FINDING DOES NOT WARRANT FURTHER ACTION
Department of Children's Services	12-DCS-01	93.659	Adoption Assistance	1001TN1407, 1101TN1407, 1201TN1407	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	x			
Department of Children's Services	12-DCS-02	93.658 and 93.659	Foster Care – Title IV-E Adoption Assistance	1001TN1402, 1101TN1402, 1101TN1404, 1101TN1404, 1001TN1401, 1101TN1401, 1201TN1401, 1001TN1403, 1101TN1403, 1101TN1405, 1101TN1405, 1001TN1407, 1101TN1407, 1201TN1407	Security over computer systems needs improvement			1	
Department of Children's Services	2013-001	93.658 and 93.659	Foster Care – Title IV-E Adoption Assistance	1201TN1404, 1001TN1401, 1101TN1401, 1201TN1401, 1301TN1401, 1101TN1405, 1001TN1407, 1101TN1407, 1201TN1407, 1301TN1407	For the second consecutive year, there were internal control deficiencies in security over computer systems			1	
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		

STATE OF TENNESSEE

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 Education	12-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 State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act Education Jobs Fund	S010A090042, S010A100042, S010A110042, S389A090042, H027A070052, H027A090052, H027A100052, H027A110052, H173A090095, H173A100095, H173A110095, H391A090052A, H392A090095A, S394A090043, S397A090043, S367A090040, S367A100040, S367A110040, S395A100032, S410A100043	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		2		
Department of Education	12-DOE-04	10.560, 84.010, 84.389, 84.027, 84.196, 84.358, 84.365, 84.367, 84.377, 84.388, and 84.386	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	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	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		4		

STATE OF TENNESSEE

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 Education	2013-002	84.010, 84.389, 84.027, 84.173, 84.367, 84.377, 84.388, 84.395, and 84.410	Title I, Part A Cluster Special Education Cluster (IDEA) Improving Teacher Quality State Grants School Improvement Grants Cluster ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act Education Jobs Fund	S010A090042, S010A100042, S010A110042, S010A120042, S389A090042, H027A070052, H027A080052, H027A090052, H027A100052, H027A110052, H027A120052, H173A100095, H173A110095, H173A120095, S367A100040, S367A110040, S367A120040, S377A090043, S377A100043, S388A090043, S395A100032, S410A100043	As noted in the prior two audits, the department continues to not always maintain proper information systems security controls, increasing the risk of fraudulent activity		2		
Department of Education	2013-003	84.388	School Improvement Grants Cluster	S388A090043A	The Achievement School District inappropriately charged the School Improvement Grants program for expenditures incurred before the award was effective and failed to adequately review invoices paid to Charter Management Organizations, resulting in federal questioned costs of $193,241		3		

STATE OF TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 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	2013-004	10.560, 84.010, 84.027, 84.196, 84.367, 84.388, and 84.395	State Administrative Expenses for Child Nutrition Title I, Part A Cluster Special Education Cluster (IDEA) Education for Homeless Children and Youth Improving Teacher Quality State Grants School Improvement Grants Cluster ARRA-State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants, Recovery Act	2012IN253345, S010A100042, S010A110042, H027A100052, H027A110052, S196A12044, S367A110040, S367A120040, S388A090043, S395A100032	The Tennessee Department of Education did not ensure that payroll expenditures charged to federal awards were supported by adequate documentation and did not ensure all payroll expenditures were charged to federal awards in accordance with federal requirements, resulting in federal questioned costs of $26,452.78		4		

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 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 Labor and Workforce Development Department of Transportation Department of Environment and Conservation Department of Education Department of Finance and Administration	2013-044	17.258, 17.259, 17.278, 20.205, 20.509, 66.458, 66.468, 84.377, and 93.778	Workforce Investment Act Cluster Highway Planning and Construction Cluster Formula Grants for Other Than Urbanized Areas Capitalization Grants for Clean Water State Revolving Fund Capitalization Grants for Drinking Water State Revolving Fund School Improvement Grants Cluster Medicaid Cluster	AA-20221-10-55-A-47, AA-21423-11-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, and DI-22464-11-75-A-47, HPP/STP-EN-198(9), SRTS-9309(15), STP-M-34(78), SRTS-9301(25), STP-EN-9305(25), STP-EN-1800(37), STP-M-8300(77), STP-M-9213(4), STP-M-NH-76(70), STP-M-99(35), STP-EN-9209(12), STP-M-35(47), STP-M-205(21), STP-EN-NH-58(24), STP-EN-9109(138), STP-EN-4900(55), STP-M-9409(169), CM-7900(49), STP-M-9109(140), STP-EN-6600(22), STP-M-9110(12), STP-EN-9100(38), STP-EN-2700(52), STP-EN-7800(59),STP-M-9409(158), STP-462(7), HPP-9317(9),	Five state departments did not fulfill Federal Funding Accountability and Transparency Act reporting requirements, which resulted in a lack of transparent and accurate information to the public		27		

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS: CORRECTED	PARTIALLY	NONE	FINDING DOES NOT WARRANT FURTHER ACTION
				STP-M-9400(53), STP-M-9204(9), STP-M-9302(17), STP-M-9302(17), STP-M-41(20), STP-M-9213(5), STP-EN-700(28), STP-M-9215(2), STP-M-9309(19), STP-M-9113(18), STP-M-205(20), CM-9312(106), CM-NHE-10(38), CM-9312(113), CM-7900(41), TN-18-X031, FS98427211-0, FS98427212-0, CS47000111-0, CS47000112-0, S377A110043, 05-1105TN5ADM, 05-1205TN5ADM, 05-1305TN5ADM, 05-1205TN5MAP, 05-1305TN5MAP, 05-1205TN5021, 05-1305TN5021, 05-1205TNIMPL, 05-1305TNIMPL, 05-1205TNINCT, 05-05-1005TNARRA					
Department of Finance and Administration	12-DFA-02	93.778	Medicaid Cluster	05-1205TN5MAP, 05-1105TN5MAP	TennCare did not appropriately terminate two ineligible enrollees, which resulted in total questioned costs of $1,448	x			
Department of Finance and Administration	12-DFA-03	93.767	Children’s Health Insurance Program	05-1105TN5021, 05-1205TN5021	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		6		
Department of Finance and Administration	12-DFA-04	93.778	Medicaid Cluster	05-1205TN5MAP, 05-1105TN5MAP	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	x			
Department of Finance and Administration	2013-005	93.778	Medicaid Cluster	05-1305TN5MAP, 05-1205TN5MAP	As noted in a prior audit finding, the Division of Health Care Finance and Administration did not update its cost allocation plan and did not properly allocate some indirect costs, resulting in higher costs to the Medical Assistance Program and fewer costs to other federal programs	x			

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						CORRECTED	PARTIALLY	NONE	
Department of Finance and Administration	2013-006	93.778	Medicaid Cluster	05-1305TN5MAP, 05-1205TN5MAP	The Division of Health Care Finance and Administration did not have sufficient internal controls in place to ensure compliance with all subrecipient monitoring requirements, resulting in one instance of subrecipient monitoring noncompliance	x			
Department of Finance and Administration	2013-007	93.767	Children's Health Insurance Program	05-1305TN5021, 05-1205TN5021	CoverKids paid one enrollee's dental benefits at the incorrect rate, resulting in total questioned costs of $9		6		
Department of Finance and Administration	2013-008	93.778	Medicaid Cluster	05-1305TN5MAP, 05-1205TN5MAP	The Division of Health Care Finance and Administration did not obtain Data Universal Numbering System numbers from subrecipients prior to issuing subawards	x			
Department of Finance and Administration	2013-009	93.778	Medicaid Cluster	05-1305TN5MAP, 05-1205TN5MAP	As reported in the prior audit, the Division of Health Care Finance and Administration did not properly terminate ineligible enrollees, which resulted in total questioned costs of $2,023	x			
Department of Finance and Administration	2013-010	93.778	Medicaid Cluster	05-1305TN5MAP, 05-1205TN5MAP	The Division of Health Care Finance and Administration paid a dental claim for services that were not supported, resulting in total questioned costs of $91	x			
Department of Health	2013-011	93.778	Medicaid Cluster	05-1305TN5MAP, 05-1205TN5MAP	The Department of Health did not perform timely surveys of nursing facilities receiving TennCare payments		23		
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		7		

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						CORRECTED	PARTIALLY	NONE	
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	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		24		
Department of Human Services	12-DHS-02	93.558, 93.563, 93.575, 93.596, and 96.001	Temporary Assistance for Needy Families Cluster Child Support Enforcement Child Care and Development Fund Cluster Disability Insurance/SSI Cluster	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	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		7		
Department of Human Services	12-DHS-04	93.568	Low-Income Home Energy Assistance	G09B1TNLIEA, G10B1TNLIEA, G11B1TNLIEA, G12B1TNLIEA	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		24		
Department of Human Services	12-DHS-05	93.558	Temporary Assistance for Needy Families Cluster	G1002TNTANF, G1102TNTANF, G1202TNTANF	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	x			

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						CORRECTED	PARTIALLY	NONE	
Department of Human Services	12-DHS-08	10.558	Child and Adult Care Food Program	2010IN109945, 2011IN109945, 2012IN109945	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		8		
Department of Human Services	2013-012	10.551, 10.561, 10.558, 10.559, 84.126, 93.558, 93.563, 93.568, 93.575, 93.596, and 96.001	Supplemental Nutrition Assistance Program (SNAP) Cluster Child and Adult Care Food Program Child Nutrition Cluster Rehabilitation Services - Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families (TANF) Cluster Child Support Enforcement Low-Income Home Energy Assistance Child Care and Development Fund (CCDF) Cluster Disability Insurance/SSI Cluster	2008IN109945, 2009IN109945, 2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 5TN400408, H126A110063, H126A120063,G1002 TNTANF, G1102TNTANF, G1202TNTANF, G1302TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1205TN4004, G1305TN4004, G10B1TNLIEA, G11B1TNLIEA, G12B1TNLIEA, G13B1TNLIEA, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF, G1301TNCCDF, 04-12-04TNDI00, 04-13-04TNDI00	As noted in the prior two audits, 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		7		
Department of Human Services	2013-013	10.558 and 10.559	Child and Adult Care Food Program Child Nutrition Cluster	2008IN109945, 2009IN109945, 2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945	Department Management did not establish adequate controls over the Child and Adult Care Food Program and Summer Food Service Program, increasing the risk of overpayment of federal funds to subrecipients		8		

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						CORRECTED	PARTIALLY	NONE	
Department of Human Services	2013-014	10.551, 10.561, 10.558, 10.559, 84.126, 93.558, 93.563, 93.568, 93.575, and 96.001	Supplemental Nutrition Assistance Program (SNAP) Cluster Child and Adult Care Food Program Child Nutrition Cluster Rehabilitation Services - Vocational Rehabilitation Grants to States Temporary Assistance for Needy Families (TANF) Cluster Child Support Enforcement Low-Income Home Energy Assistance Child Care and Development Fund Cluster Disability Insurance/SSI Cluster	2008IN109945, 2009IN109945, 2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 5TN400408, H126A110063, H126A120063,G1002 TNTANF, G1102TNTANF, G1202TNTANF, G1302TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1205TN4004, G1305TN4004, G10B1TNLIEA, G11B1TNLIEA, G12B1TNLIEA, G13B1TNLIEA, G1001TNCCDF, G1101TNCCDF, G1201TNCCDF, G1301TNCCDF, 04-12-04TNDI00, 04-13-04TNDI00	The Department of Human Services did not ensure that conflict-of-interest forms were completed and/or maintained for all employees, increasing the risk that employees with conflicts of interest might not perform their responsibilities in the best interest of the state	x			
Department of Human Services	2013-015	10.559	Child Nutrition Cluster	2008IN109945, 2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945	The Department of Human Services did not ensure reimbursement claims included sufficient detail to justify the reimbursement of meals served to subrecipients		8		
Department of Human Services	2013-016	96.001	Disability Insurance/SSI Cluster	04-12-04TND100; 04-13-04TND100	The Department of Human Services' Disability Determination Services section did not have a process to ensure compliance with Consultative Examination providers' qualification reviews, increasing the risk that an unqualified provider would perform consultative examinations	x			

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						CORRECTED	PARTIALLY	NONE	
Department of Human Services	2013-017	93.558	Temporary Assistance for Needy Families (TANF) Cluster	G1202TNTANF, G1302TNTANF	For the third year, the department failed to document certifications attesting to Temporary Assistance for Needy Families recipients' disclosure of state or federal criminal convictions when case workers renewed recipients' eligibility, increasing the risk that funds will be disbursed to ineligible recipients; in addition, the department failed to prevent overpayment of Families First benefits to a recipient, resulting in total questioned costs of $226		10		
Department of Human Services	2013-018	10.558	Child and Adult Care Food Program	2012IN109945, 2013IN109045	As noted in the prior audit, a subrecipient of the Department of Human Services did not maintain applications for individuals participating in the Child and Adult Care Food Program, resulting in federal questioned costs of $23,621		8		
Department of Human Services	2013-019	10.558 and 10.559	Child and Adult Care Food Program Child Nutrition Cluster	2008IN109945, 2009IN109945, 2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945	The Department of Human Services did not ensure that one sponsoring organization participating in the Child and Adult Care Food Program and the Summer Food Service Program met federal and state requirements, resulting in questioned costs of $4,208,136		9		
Department of Human Services	2013-020	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	H126A110063, H126A120063	Vocational Rehabilitation counselors did not follow policy when purchasing computer equipment for program clients, resulting in federal questioned costs of $11,454		12		
Department of Human Services	2013-021	93.568	Low-Income Home Energy Assistance	G12BITNLIEA, G13BITNLIEA	As noted in the prior audit, the Department of Human Services did not ensure the subrecipients followed federal regulations for the Low-Income Home Energy Assistance Program, resulting in increased risk of fraud, waste, abuse, and noncompliance		24		
Department of Human Services	2013-022	84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	H126A110063, H126A120063	The Department of Human Services' Tennessee Rehabilitation Information Management System contained security vulnerabilities, resulting in an increased risk of fraudulent activity	x			
Department of Human Services	2013-023	93.558	Temporary Assistance for Needy Families (TANF) Cluster	G1002TNTANF, G1102TNTANF, G1202TNTANF, G1302TNTANF	The department failed to ensure work activity contractors maintained proper documentation of client participation in work activity, resulting in questioned costs of $6,368	x			

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						CORRECTED	PARTIALLY	NONE	
Department of Human Services	2013-024	10.558, 10.559, and 93.558	Child and Adult Care Food Program Child Nutrition Cluster Temporary Assistance for Needy Families (TANF) Cluster	2008IN109945, 2009IN109945, 2010IN109945, 2011IN109945, 2012IN109945, 2013IN109945, 5TN400408, G1002TNTANF, G1102TNTANF, G1202TNTANF, G1302TNTANF, G0804TN4004, G0904TN4004, G1004TN4004, G1104TN4004, G1205TN4004, G1305TN4004	The department did not maintain records that supported financial reports, increasing the risk that the federal grantors will not have complete and accurate information to make financial decisions relating to federal programs			11	
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-47, EM-20515-10-60-A-47, EM-21352-11-60-A-47, EM-21468-11-60-A-47	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	x			
Department of Labor and Workforce Development	12-LWD-01	17.225	Unemployment Insurance	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	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		21		
Department of Labor and Workforce Development	12-LWD-02	17.225	Unemployment Insurance	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	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		13		

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						CORRECTED	PARTIALLY	NONE	
Department of Labor and Workforce Development	12-LWD-03	17.225	Unemployment Insurance	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	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		15		
Department of Labor and Workforce Development	12-LWD-04	17.225	Unemployment Insurance	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	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		16		
Department of Labor and Workforce Development	12-LWD-05	17.225	Unemployment Insurance	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	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	x			
Department of Labor and Workforce Development	12-LWD-06	17.225	Unemployment Insurance	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	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		17		
Department of Labor and Workforce Development	12-LWD-07	17.225	Unemployment Insurance	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	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	x			
Department of Labor and Workforce Development	12-LWD-08	17.225	Unemployment Insurance	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	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		18		
Department of Labor and Workforce Development	12-LWD-09	17.259	Workforce Investment Act Cluster	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	Override of controls by one subrecipient's board resulted in the overexpenditure of $172,859.04 in Workforce Investment Act funds		20		

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						CORRECTED	PARTIALLY	NONE	
Department of Labor and Workforce Development	12-LWD-10	17.258, 17.259, and 17.278	Workforce Investment Act Cluster	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	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		28		
Department of Labor and Workforce Development	12-LWD-11	17.258, 17.259, and 17.278	Workforce Investment Act Cluster	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	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		19		
Department of Labor and Workforce Development	12-LWD-12	17.258, 17.259, and 17.278	Workforce Investment Act Cluster	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	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	x			
Department of Labor and Workforce Development	2013-025	17.225	Unemployment Insurance	UI-16775-08-55-A-47, UI-18048-09-55-A-47, UI-19610-10-55-A-47, UI-22341-12-55-A-47, and UI-23919-13-55-A-47	As noted in the 2012 Single Audit Report, prior management of the Department of Labor and Workforce Development threatened the integrity of the Unemployment Insurance program by failing to provide sufficient internal controls and oversight, which has resulted in the payment of tens of millions of dollars to ineligible claimants over the past six years and an uncollected balance of over $181 million as of June 30, 2013		21		
Department of Labor and Workforce Development	2013-026	17.225	Unemployment Insurance	UI-16775-08-55-A-47, UI-18048-09-55-A-47, UI-19610-10-55-A-47, UI-22341-12-55-A-47, UI-23919-13-55-A-47	The prior management of the Department of Labor and Workforce Development failed to ensure the operating effectiveness of its internal controls over the claimant eligibility determination process which continued to threaten the integrity of the Unemployment Insurance program and, as of June 30, 2013, had resulted in a more than $181 million cumulative balance of UI overpayments due to fraud or error for the past six years		22		
Department of Labor and Workforce Development	2013-027	17.225	Unemployment Insurance	UI-16775-08-55-A-47, UI-18048-09-55-A-47, UI-19610-10-55-A-47, UI-22341-12-55-A-47, and UI-23919-13-55-A-47	As noted in the prior Single Audit Report, the staff of the Department of Labor and Workforce Development, while operating under prior management, failed to comply with the department's Unemployment Insurance program procedures in determining claimants' eligibility and prior management failed to ensure the operating effectiveness of controls over claimants' eligibility determinations, which resulted in payments to ineligible individuals		14		

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						CORRECTED	PARTIALLY	NONE	
Department of Labor and Workforce Development	2013-028	17.225	Unemployment Insurance	UI-22341-12-55-A-47, UI-23919-13-55-A-47, UI-19610-10-55-A-47, UI-18048-09-55-A-47	The Department of Labor and Workforce Development's Employment Security Division experienced delays investigating potential overpayments and, for the second consecutive year, experienced delays in answering incoming calls, processing claims, and processing employer benefit charges		15		
Department of Labor and Workforce Development	2013-029	17.225	Unemployment Insurance	UI-22341-12-55-A-47, UI-23919-13-55-A-47, UI-19610-10-55-A-47, UI-18048-09-55-A-47	As noted in the prior audit, the Employment Security Division's key controls for detecting fraudulent claims were not operating effectively or were not in place, resulting in ineligible payments of $150,795 to state employees, deceased individuals, state inmates in county jails, and claimants whose identities were not verified		16		
Department of Labor and Workforce Development	2013-030	17.225	Unemployment Insurance	UI-22341-12-55-A-47, UI-23919-13-55-A-47, UI-19610-10-55-A-47, UI-18048-09-55-A-47	As noted in the 2012 Single Audit Report, the Department of Labor and Workforce Development's staff, operating under prior management, improperly classified overpayments of unemployment claims with fraud indicators as overpayments due to errors rather than fraud, increasing the risk that claimants submitting fraudulent claims could remain in the system for possible future benefits		17		
Department of Labor and Workforce Development	2013-031	17.225	Unemployment Insurance	UI-22341-12-55-A-47, UI-23919-13-55-A-47, UI-19610-10-55-A-47, UI-18048-09-55-A-47	As noted in the 2012 Single Audit Report, under both prior and current management, 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	x			
Department of Labor and Workforce Development	2013-032	17.225	Unemployment Insurance	UI-22341-12-55-A-47, UI-23919-13-55-A-47, UI-19610-10-55-A-47, and UI-18048-09-55-A-47	As stated in the 2012 Single Audit Report, the Department of Labor and Workforce Development's Employment Security Division did not obtain certifications from certain claimants, which increased the risk of ineligible individuals receiving unemployment benefits		18		

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						CORRECTED	PARTIALLY	NONE	
Department of Labor and Workforce Development	2013-033	17.258, 17.259, and 17.278	Workforce Investment Act Cluster	AA-20221-10-55-A-47, AA-21423-11-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, DI-22464-11-75-A-47	For the second consecutive year, one subrecipient of the Department of Labor and Workforce Development failed to report revenue generated from Workforce Investment Act funds and used the revenue to offset expenses not specifically related to the federal program, resulting in $77,400.57 of federal questioned costs		19		
Department of Labor and Workforce Development	2013-034	17.258, 17.259, and 17.278	Workforce Investment Act Cluster	AA-20221-10-55-A-47, AA-21423-11-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, DI-22464-11-75-A-47	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 requirements		28		
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	x			
Department of Transportation	12-DOT-05	20.205	Highway Planning and Construction Cluster	Various	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	x			
Department of Transportation	12-DOT-01	20.509	Formula Grants for Other Than Urbanized Areas	TN-18-X025, TN-18-X030	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	x			
Department of Transportation	12-DOT-02	20.509	Formula Grants for Other Than Urbanized Areas	TN-18-X029, TN-18-X030	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	x			
Department of Transportation	12-DOT-03	20.509	Formula Grants for Other Than Urbanized Areas	Various	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	x			

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR YEARS 2013 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 Transportation	12-DOT-04	20.509	Formula Grants for Other Than Urbanized Areas	TN-18-X025, TN-18-X029, TN-18-X030, TN-86-X001	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	x			
Department of Transportation	2013-035	20.509	Formula Grants for Other Than Urbanized Areas	TN-18-X031	As noted in the prior three 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 $46,167 and state questioned costs of $23,083	x			
Department of Transportation	2013-036	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		25		
Department of Transportation	2013-037	20.205	Highway Planning and Construction	NH-I-269(23), STP/HPP-66(44), and BR-STP-70(9)	The department's Utility and Finance Offices paid utility relocation expenditures which were not adequately supported at the time of payment		26		
COLLEGES, UNIVERSITIES, AND TECHNOLOGY CENTERS									
Tennessee State University	2013-038	84.038	Student Financial Assistance Cluster	N/A	The bursar's office did not properly report student status changes to the contracted Perkins loan servicer, resulting in delayed conversions to repayment status for certain students	x			
Tennessee State University	2013-039	84.007, 84.033, 84.063, 84.268, and 84.379	Student Financial Assistance Cluster	N/A	Tennessee State University staff did not always return financial aid refunds caused by unofficial withdrawals promptly	x			
Tennessee Technological University	2013-040	84.007, 84.033, 84.063, 84.268, and 84.379	Student Financial Assistance Cluster	Various	Tennessee Technological University did not have accessible written policies and procedures regarding financial aid verification, resulting in an increased risk that the university could disburse funds to students who were not properly verified	x			
University of Memphis	2013-041	84.038	Student Financial Assistance Cluster	N/A	The University of Memphis did not report student status change dates correctly, resulting in excessive grace periods for repayment of Perkins Loans	x			
University of Tennessee	12-UT-02	84.268	Student Financial Assistance Cluster	P268K122250	The Registrar's Office in Knoxville did not properly report enrollment data, increasing the risk of not initiating the student loan repayment process	x			
University of Tennessee	2013-042	84.268	Student Financial Assistance Programs	P268K12225	As reported in the previous audit, the Registrar's Office in Knoxville did not properly report enrollment data, increasing the risk of not initiating the student loan repayment process	x			

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR YEARS 2013 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	
University of Tennessee	2013-043	84.063 and 84.268	Student Financial Assistance Programs	P063P122251, P268K132251	Financial Aid staff awarded aid to students who were not making satisfactory academic progress, resulting in federal questioned costs of $18,527	x			

STATE OF TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 AND PRIOR
FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
1	The department's Management Advisory Council priorities have caused a redirection of resources. The current planned initiation of the Remedy work is now August 1, 2014, with an expected completion date of August 31, 2014. The department will continue to utilize the manual work around to handle this issue until the automated solution is completed. The Internal Audit Division of the Department of Children Services is currently performing an audit of the work around to make sure that it is functioning properly.
2	1) The Tennessee Department of Education (TDOE) has established a task force to coordinate its corrective action and to improve information system controls. The task force began November 12, 2013. 2) The TDOE has developed a standardized form and a centralized process for granting access to Information Systems (IS) applications. Phase I, implementation of the process for department employees, has been completed as of July 15, 2014. Phase II, which will reach out to users outside the department, i.e., school districts, will begin in Fall 2014. 3)The TDOE has initiated contact with the Office of Information Resources (OIR) to begin implementing a disaster recovery process. The first phase of this is a business impact analysis (BIA), which is scheduled to begin late Summer 2014.
3	The Tennessee Department of Education has collected all of the questioned cost from the charter management organizations except for $1,472.88 and credited these returned funds to the federal program. The $64,863.30 in paybacks were credited to the federal program by June 30, 2014. The remaining payback amount of $1,472.88 should be credited to the federal program by August 31, 2014. 2) The Achievement School District (ASD) has hired a controller, as of April 2014, and a financial analyst to assist in improving controls and accountability over School Improvement Grant (SIG) funds.
4	1) The substitute system for allocating regional director and secretary compensation is no longer being used. 2)Semi-annual certifications and personnel activity reports (PARs) have been redesigned, as of January 22, 2013, to meet the compliance requirements of OMB Circular A-87. 3)Time and effort compliance issues reported in the audit have been added to the department's risk assessment. 4) As noted in the 2012-13 audit finding, the Tennessee Department of Education (TDOE) posted correcting journal entries in Edison when this matter was brought to the attention of the department. 5) The TDOE has implemented a policy and a set of controls, as of March 1, 2014, to better track journal entries to ensure they are prepared and are posted and processed in Edison.
5	Footnote not used.

STATE OF TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 AND PRIOR
FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
	The eligibility contractor’s system has been adjusted to detect income inconsistencies and pre-populate the renewal form with the updated income information that has been reported. The Dental Benefits Manager (DBM) has implemented controls internally to identify when the member switches from one plan ID number to another to ensure their financial team bills the state the correct monthly premium rate which coincides with the new plan ID number and not the prior plan ID number. The DBM has also implemented internal controls to ensure that the corrected amount is billed.
6	In August 2014, the Health Care Finance and Administration (HCFA) Audit and Investigations Division partnered with CoverKids to begin the process of reviewing all the DBM invoices against the eligibility contractor’s files. If a discrepancy is identified, only the portion of the invoice that is correct is paid. HCFA Audit and Investigations/CoverKids submits the discrepancy to the DBM and works on reaching a resolution. Only when a resolution to the discrepancy is reached is the amount related to the discrepancy paid. HCFA Audit and Investigations has reviewed all monthly invoices for calendar years 2012, 2013 and 2014. Currently the HCFA Audit and Investigations process looks for overpayments, and so it did not detect the underpayment for the second member. Effective March 31, 2015, HCFA Audit and Investigations will implement a process to look for underpayments for 2012, 2013, 2014 and 2015. HCFA Audit and Investigations will begin reviewing the monthly invoices for calendar year 2009 through 2011 for underpayment and overpayment by May 31, 2015.
7	In May 2014, an automated system was put in place to deactivate user accounts. In September 2014, the Department implemented an employee separation program (ESP) to enhance that system. This has improved communication between staff, HR and information systems in the event of separation so that notice can be timely. The department stated that it should be noted that due to the nature of the states system of record the last date of employment and the last date the employee worked will not always match. There are some instances in which this issue may be caused by human error or by not following policy. In cases in which policy was not followed, the Department has and will continue to take necessary corrective measures with employees.
8	The Department is in ongoing efforts of reassessing the programs identified, including monitoring operations and technological solutions for those programs. They are utilizing the resources at State and Federal levels, including the Comptroller's Office. This is part of the immediate goals for fiscal years 2015 and 2016. This plan will include consultation with other states and sister agencies and is subject to change depending on availability of resources.
9	The Department initiated steps in terminating and disqualifying the provider on February 4, 2015. From the department's monitoring efforts, the current amount being questioned is $19,947. It is noted that the records State Audit reviewed were not the entire population of records available. From a small sample of records, State Audit extrapolated the questioned costs to cover the entire amount received in payments over the entire FY2013 by the Sponsor.
10	The Department concurred in part. The department disagrees that the one error noted rises to the level of a finding. The department does agree with State Audit that there was one recipient whose benefits went over by one month, which resulted from an isolated incident, however, it should be noted that 98% of State Audit's sample pool met the requirements.

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
11	The Department did not concur with this finding. Management does not agree that the Department did not have supporting documentation or that there is an increased risk that federal grants will not have complete and accurate information relating to federal programs. While the Department may not have had the supporting documentation readily available, it did have the documentation that existed at the time of the report. It is noted that no federal entity has identified difficulty making financial decisions relating to federal programs administered by the Department.
12	The Department concurred in part. In most instances the Department followed policy guidelines. During FY2014, refresher training was conducted. Moving forward, the Department will take necessary corrective measures with employees who do not follow the computer equipment purchase policy..
13	The Department of Labor and Workforce Services created the Office of Program Accountability and Integrity (OPIA) and signed a charter on September 23, 2013. Several initiatives designed to enhance the operating effectiveness in Benefit Payment Control (BPC) have begun: BPC's case backlog has been reduced by reducing duplication; BPC will have a functional alignment of fraud and non-fraud overpayments expected to be completed by October 31, 2014; and a predictive statistical package, SAS, is planned to be used to help identify fraud with an expected implementation beginning July 2014. Participation in the Treasury Offset Program (TOP) began in July, 2012, and collections have exceeded $25 million.
14	An in-house imaging center was established to replace the failed case management system. The document storage system is searchable by Social Security Number (SSN) and the claims material is readily available for review, which assists timely claims decisions. The backlog of claims awaiting decisions has reduced by 45% since January 2014.
15	1) Steps taken to reduce/manage call volume: moving the self-help options of the IVR to the beginning of the call in March 2013; deploying a new TIPS line that allows claimants to reset their PIN and correct incorrect responses to certification questions in February of 2014; adding a report form to the department's website in October 2013 to allow claimants to report their issues directly to the Claims Operation Center, implementing a new ticket system, ZenDesk, in March 2014 which allows claimants to live chat with department representatives over the computer. The call volume has reduced from over 800,000 calls in January to just over 200,000 calls in May 2014.
	2) Steps taken to manage the claims backlog: ten adjudicator positions were refilled and positions will continue to be filled as they become vacant; the new imaging center improved the efficiency and timeliness of claims processing by maintaining all documentation in one place and over-time has been utilized to reduce the backlog. The backlog has been reduced by 45% since January 2014.
	3) Steps taken to reduce/eliminate the benefit charge request backlog: the benefit charge unit has been moved to the Benefit Operations unit; over-time has been approved and other Benefit Operations unit employees also assisted with the backlog. The department states that as of June 5, 2014, the backlog has been cleared.

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
	4) Steps taken to reduce/eliminate the benefit payment control backlog: auditors have reviewed all cases assigned to them and have eliminated duplicate and completed cases from their case log and new procedures for assigning cases have been put in operation.
16	The department is on track to replace the current FoxPro database with SAS, a predictive statistical package, beginning in July 2014. The cross-match updates include: 1) the state-employment cross-match logic discovered during the audit was corrected during the audit and the noted cases were reviewed with 16 of the 19 cases determined to be overpaid and have had an overpayment established; 2) the Vital Statistics cross-match cases were investigated and an overpayment established for the three cases; 3) a weekly cross-match for the incarcerated claimants was evaluated and began production as of June 10, 2014; 4) an automated stop payment code was proposed to prevent issues from the identity cross-match and has been put on hold pending the new UI system implementation. The logic errors in the IT cross-match programs was corrected during the audit period.
17	The department requested a review of the Benefit Payment Control (BPC) unit by the U.S. Department of Labor's Employment and Training Administration. The review was held April 21, 2014 through April 25, 2014, but the final report has not been received. In addition, a Lean Event for the BPC unit focusing on overpayment processing was conducted February 25, 2014 through February 28, 2014. As a result of the Lean Event, all overpayments will be evaluated by the BPC unit. This overpayment re-alignment is expected to be completed by the end of August 2014. Benefit Payment Control staff received additional training, two vacant auditor positions were filled and the BPC supervisor position was refilled.
18	Changes to the Automated Partial System (APS) included reducing the consecutive weeks allowed for filing from 15 to 10. A return to work field became mandatory and a mandatory check box was added for employers to verify all employees being submitted meet the eligibility criteria. These changes were implemented in July 2013. A quarterly review of automated partial system claims will be implemented by October 31, 2014. Also, this risk was identified in the December 2013 risk assessment. The APS has been utilized by the state for several years and is an acceptable process to the United States Department of Labor (USDOL).
19	The Tennessee Department of Labor and Workforce Development (TDLWD) is following the USDOL approved corrective action plan for the program income finding for fiscal year ended June 30, 2012. The questioned costs of $36,101.32 for finding 12-LWD-11 has been refunded to the USDOL. Since the Local Workforce Investment Area changed their process for allocating salary and benefits, TDLWD does not agree with the auditor's conclusion that this is program income for fiscal year ended June 30, 2013. TDLWD is waiting on a determination by USDOL. However, TDLWD will be providing case management training, as part of implementing a new case management information system.
20	The Department of Labor and Workforce Services is following the USDOL corrective action plan regarding these findings in regards to the finding's administrative portions. USDOL has deemed the administrative portions of findings 11-LWD-01, 12-LWD-09, and 12-LWD-12 to be corrected. The questioned costs have been settled with the USDOL for findings 11-LWD-01 and 12-LWD-12. The questioned costs for finding number 12-LWD-09 are being resolved with future offsets, which is in accordance with the USDOL approved corrective action plan.
21	These findings are overall findings. Refer to footnotes noted for the specific findings for steps being taken to address these issues.

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
22	The agency disagrees with the $181 million cumulative balance of overpayments, because $94.5 million was added for financial statement reporting purposes based on a backlog of pending review cases. Within the BPC unit, a LEAN Event was conducted and plans made to reduce/eliminate the backlog. All overpayments will be functionally aligned with BPC by October 31, 2014.
23	Since the June 30, 2013 state audit, the department has implemented a detailed corrective action plan necessary to achieve survey compliance of no greater than 15 months between standard facility surveys. The implemented action plan included: 1) a new salary structure for surveyors, enabling the division to be more salary competitive with the private sector in hiring qualified staff, facilitating staff retention thereby reducing attrition; 2) reducing survey staff vacancy rate from 28% (July 2013) to 12.8% (July 2014); 3) re-establishing a regional office in the middle Tennessee grand division, in its nascent stage (April 2014), with sufficient staff once certified to begin assisting with the division survey workload; 4)reduction in the number of standard surveys not completed for 15 months or greater from 24% (September 2013) to less than 10% (July 2014). The department's December 2013 CAP submitted to the Centers for Medicare and Medicaid Services stated that if they are able to accomplish the above four CAP elements, then they would achieve standard survey compliance by December 2014. The department is on track to achieve full compliance and in accordance with the December 2013 CAP.
24	Department of Human Services-The Department concurred in part with this finding. The Department issued instructions to subrecipients on how to calculate energy burden and that supervisory review of client applications should be documented. These instructions were released on March 18, 2013, June 1, 2013 and July 17, 2013. It should be noted that the Low-Income Housing Energy Assistance Program (LIHEAP) transferred to Tennessee Housing Development Agency (THDA) on October 1, 2013. It should also be noted that the federal agency did not follow up on this finding with this agency. DHS followed up with THDA. Tennessee Housing Development Agency- 1) In regard to the client energy burden not being calculated consistently or accurately, the agency states that the topic was discussed in statewide training in September 2014. The calculation of energy burden is included in the Operational Plan (Section 11, page 7) which must be signed by each subrecipient agency. THDA has also required the use of T.H.O software to process all applications. The use of T.H.O assures that energy burden is being calculated consistently amongst all agencies for all applicants. 2) Regarding inconsistent subrecipient supervisory reviews, a LIHEAP Memorandum (14-02) was sent to all LIHEAP subrecipient agencies on June 13, 2014 stating the requirements. This topic was also covered during the statewide training conducted in September 2014.
24 (continued)	Tennessee Housing Development Agency - 3) In regard to the instance of inadequate separate of duties by one subrecipient in the fiscal office, THDA's fiscal monitoring tool (page 3) addresses the determination of whether adequate separation of duties exist. THDA conducts fiscal monitoring at each subrecipient agency in accordance with Department of General Services Policy 2013-007. Internal controls was also discussed in the statewide training conducted in September 2014. 4) In addition, the verification of subrecipient suspension and debarment controls was discussed during the September 2014 statewide training which was completed by THDA. The LIHEAP Operational Plan states that a suspension/debarment clause be included in all subcontracts/agreements by sub-grantee. THDA has built significant internal controls to ensure that LIHEAP funds are spent in accordance with all applicable federal and state regulations, all applicable Office of Management and Budget (OMB) circulars, and all THDA program and fiscal policies.
25	The department's Information Technology (IT) Section updated and formalized it's Termination process to reflect the current environment, which included sending Termination requests to OIR instead of being handled locally. The updates were completed June 2013. The IT section refined the department's termination process, from sending a weekly email to a specified email group, to posting all Terminations on a Sharepoint site so that data was far more timely to act upon by application administrators. The department has added additional data fields that allow them to track all terminations for the purpose of future audits. The IT section added additional resources to handle Termination requests (March 2014).

STATE OF TENNESSEE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 AND PRIOR
FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
26	The department developed a utility checklist detailing required supporting documentation for use by the regional utilities office staff. This checklist was implemented late in fiscal year 2014. During the audit of fiscal year 2014, it was determined that the utility checklist needed to be further defined and that the department needed to clarify instructions for regional staff. The department anticipates this additional documentation to be disseminated by the end of March 2015.
27	The Department of Labor, the Department of Environment and Conservation and the Department of Finance and Administration consider this finding as "corrected" on the schedule. However, the Department of Transportation and the Department of Education consider the finding "partially corrected." **Department of Transportation** - To correct problems noted in the finding, the department's Finance Office assumed responsibility on September 8, 2014 for compiling the list of subawards each month and of notifying program areas of subawards to be reported in FSRS. The Finance Office will follow up with program areas to ensure subawards are reported as required by the Federal Funding Accountability and Transparency Act (FFATA). **Department of Education** - The department updated School Improvement Grant (SIG) information on September 13, 2013 in the Federal Funding Accountability and Transparency Act (FFATA) reporting system when the auditors notified department staff of this problem. Also, the department has improved the communication link between SIG program staff and the employee who does SIG FFATA reporting, including the development of procedures for sharing information on new SIG awards. The procedures were established March 18, 2014.
28	Based on the USDOL approved corrective action plan resulting from the finding for fiscal year ending June 30, 2012, this issue has been resolved. Also, the USDOL Final Determination for this finding in the 2013 Single Audit Report indicates this finding as corrected. Quarterly, the Department of Labor and Workforce Services (TDLWD) monitors client service activity in the case management system through tenure reports. TDLWD sends these tenure reports to the 13 Local Workforce Investment Areas for further review. Since the Comptroller's Office has drafted a repeat finding for the 2014 Single Audit Report, we are indicating these findings as partially corrected.

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2013 AND PRIOR
AS OF JUNE 30, 2014

Basis of Presentation	Any unresolved items listed on the State of Tennessee's 2013 Summary Schedule of Prior Audit Findings and the audit findings from the 2013 Single Audit Report was used to compile the 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.
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.