

KNOX COUNTY, TENNESSEE

**Schedules of Expenditures of Federal and State Awards
and Reports as Required by the Single Audit Act
Amendments of 1996 and
Office of Management and Budget Circular A-133**

For the Fiscal Year Ended June 30, 2015



KNOX COUNTY, TENNESSEE

**Schedules of Expenditures of Federal and State Awards
and Reports as Required by the Single Audit Act
Amendments of 1996 and
Office of Management and Budget Circular A-133**

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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**

Honorable Mayor, County Commissioners and Audit Committee
of Knox County, Tennessee
Knoxville, Tennessee

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, budgetary comparison statement of the general fund, fiduciary fund types and the aggregate remaining fund information of Knox County, Tennessee (the "County") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 22, 2015. Our report includes a reference to other auditors who audited the financial statements of The Development Corporation of Knox County ("TDC"), a discretely presented component unit reported in the financial statements of the County, and the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented component unit, reported in the financial statements of the Knox County Board of Education (the "BOE"). This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 County's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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 accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies referenced as items 2015-001, 2015-002 and 2015-004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are referenced as items 2015-003 and 2015-004 in the accompanying Schedule of Findings and Questioned Costs.

Knox County, Tennessee's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 22, 2015

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

Honorable Mayor, County Commissioners and Audit Committee
of Knox County, Tennessee
Knoxville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Knox County, Tennessee's (the "County") 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 County's major federal programs for the year ended June 30, 2015. The County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

The County's basic financial statements include the operations of The Development Corporation of Knox County (the "TDC"), a discretely presented component unit, reported in the financial statements of the County, and the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented component unit, reported in the financial statements of the Knox County Board of Education (the "BOE"). According to the other auditor's reports, TDC and the Partnership did not receive any federal awards for the year ended June 30, 2015.

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 County'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 federal program occurred. An audit includes examining, on a test basis, evidence about the County'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 County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County 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 major federal programs for the year ended June 30, 2015.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance in a non-major federal award program, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-004. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the County 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 County's internal control over compliance with the types of 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 County's internal control over compliance.

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 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. A significant deficiency in internal control over compliance is a deficiency, or a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-004 that we consider to be a significant deficiency.

The County's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Schedules of Expenditures of Federal and State Awards Required by OMB Circular A-133

We have audited the financial statements of the County as of and for the year ended June 30, 2015, and have issued our report thereon dated December 22, 2015 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by OMB Circular A-133 and the Tennessee Comptroller of the Treasury and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal and state awards are fairly stated in all material respects in relation to the financial statements as a whole.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 22, 2015

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government):			
U.S. Department of Agriculture:			
Passed through Tennessee Department of Health:			
Special Supplemental Nutrition for Women, Infants and Children Program:			
Women, Infants, and Children (WIC)	10.557	GG-15-43543-00	\$ 1,609,569
Women, Infants, and Children (WIC)	10.557	GG-14-38976-00	<u>454,359</u>
Total U.S. Department of Agriculture			<u>2,063,928</u>
U.S. Department of Housing and Urban Development Direct Programs:			
CDBG - Entitlement Grants Cluster:			
Community Development Block Grant	14.218	B-14-UC-47-0001	415,827
Community Development Block Grant	14.218	B-13-UC-47-0001	606,387
Community Development Block Grant	14.218	B-10-UC-47-0001	<u>12,700</u>
Total CDBG - Entitlement Grants Cluster			<u>1,034,914</u>
HOME Investment Partnerships Programs	14.239	M-14-UC-47-0204	248,383
HOME Investment Partnerships Programs	14.239	M-13-UC-47-0204	258,556
HOME Investment Partnerships Programs	14.239	M-12-UC-47-0204	213,528
HOME Investment Partnerships Programs	14.239	M-11-UC-47-0204	<u>251,359</u>
Total HOME Investment Partnerships Programs			<u>971,826</u>
Total U.S. Department of Housing and Urban Development			<u>2,006,740</u>
U.S. Department of Justice:			
U.S. Department of Justice Direct Programs:			
Violence Against Women Office:			
Grants to Encourage Arrest Policies & Enforcement of Orders of Protection	16.590	OVW2012-AX-WE-0025	<u>5,019</u>
Edward Byrne Memorial Justice Assistance Grant Program:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2014-DJ-BX-0564	78,360
Edward Byrne Memorial Justice Assistance Grant	16.738	2013-DJ-BX-0335	79,610
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-3451	<u>22,921</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>180,891</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
U.S. Department of Justice (Continued)			
U.S. Department of Justice Direct Programs (Continued):			
Federal Bureau of Investigation:			
Law Enforcement Assistance - FBI Field Police & Training	16.302	N/A	\$ 1,975
Law Enforcement Assistance - FBI Field Police & Training	16.302	N/A	<u>1,402</u>
Total Federal Bureau of Investigation			<u>3,377</u>
Office of Community Policing Grant Programs:			
Public Safety Partnership & Community Policing Grants - ARRA - Organ. Crime	16.710	SE-TNE-193	5,791
Public Safety Partnership & Community Policing Grants - ARRA - Safe Streets	16.710	281D-KX-61230	4,192
Public Safety Partnership & Community Policing Grants - ARRA - Safe Streets	16.710	281D-KX-61230	<u>15,503</u>
Total Office of Community Policing Grant Programs			<u>25,486</u>
Bureau of Justice Assistance State Criminal Alien Assistance Program	16.606	2015-AP-BX-0333	<u>11,507</u>
Bureau of Justice Edward Byrne Memorial Competitive Grant Program	16.751	2009-D2-BX-0027	<u>59,795</u>
Total U.S. Department of Justice Direct Programs			<u>286,075</u>
Passed through the Tennessee Department of Children's Services:			
Juvenile Accountability Block Grant	16.523	EDISON 29026	<u>14,818</u>
Total Passed through the Tennessee Department of Children's Services			<u>14,818</u>
Total U.S. Department of Justice			<u>300,893</u>
U.S. Department of Transportation - Federal Highway Administration:			
Passed through Tennessee Department of Transportation:			
Highway Planning and Construction - Traffic Signal Coordination Project	20.205	Agreement No. 140233	54,625
Highway Planning and Construction - Advanced Traffic Management	20.205	Agreement No. 140234	<u>68,165</u>
Total U.S. Department of Transportation - Federal Highway Administration			<u>122,790</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration:			
Passed through Tennessee Department of Transportation:			
Alcohol Open Container Requirements	20.607	Z-15-GHS186	59,432
Alcohol Open Container Requirements	20.607	Z-14-GHS188	<u>45,439</u>
Total U.S. Department of Transportation - National Highway Traffic Safety Administration			<u>104,871</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
Institute of Museum and Library Services:			
Passed through Tennessee Secretary of State:			
Grants to States - Library Services - Materials for the Disadvantaged	45.310	EDISON 34320	\$ 6,400
Grants to States - Archives Library Technology Assistance	45.310	EDISON 33564	<u>5,966</u>
Total Institute of Museum and Library Services			<u>12,366</u>
Environmental Protection Agency Direct Programs:			
Office of Air and Radiation:			
Air Pollution Control Program Support - Section 105	66.001	A-00408315-0	277,616
Air Pollution Control Program Support - Section 105	66.001	A-00408310-3	106,967
Air Pollution Control Program Support - Section 103	66.001	PM-96497615	38,274
Air Pollution Control Program Support - Section 103	66.001	PM-96497608	<u>72,182</u>
Total Office of Air and Radiation			<u>495,039</u>
Office of Water:			
Passed through Tennessee Department of Agriculture:			
Nonpoint Source Implementation Grant	66.460	EDISON 44778	<u>802</u>
Total Environmental Protection Agency			<u>495,841</u>
U.S. Department of Education:			
Passed through Tennessee Department of Education:			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	N/A	<u>36,465</u>
Total U.S. Department of Education			<u>36,465</u>
U.S. Department of Health and Human Services:			
Passed through Tennessee Department of Health:			
Centers for Disease Control and Prevention Programs:			
Tuberculosis Prevention and Control	93.116	GG-15-42750-00	<u>325,730</u>
Immunization Cooperative Agreements Grants Program:			
Immunizations and Vaccines for Children Program	93.268	GG-15-43852-00	98,245
Immunizations and Vaccines for Children Program	93.268	GG-14-41023-00	<u>97,850</u>
Total Immunization Cooperative Agreements Grants Program			<u>196,095</u>
Public Health Emergency Preparedness Aligned Cooperative Agreements:			
Public Health Emergency Preparedness	93.069	GG-15-43245-00	504,840
National Bioterrorism Hospital Preparedness Program	93.889	GG-15-43245-00	<u>69,449</u>
Total Public Health Emergency Preparedness			<u>574,289</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
U.S. Department of Health and Human Services (Continued):			
Passed through Tennessee Department of Health (Continued):			
Centers for Disease Control and Prevention Programs (Continued):			
Centers for Disease Control and Prevention - Investigations & Technical Assistance:			
CDC Disease Control & Prevention - Tobacco Prevention	93.283	GG-16-45506-00	\$ 10,996
CDC Disease Control & Prevention - Tobacco Prevention	93.283	GG-15-40936-00	<u>29,586</u>
Total CDC Disease Control & Prevention Investigations & Technical Assistance			<u>40,582</u>
HIV Prevention Activities Program:			
HIV Prevention	93.940	GG-15-44164-00	55,371
HIV Prevention	93.940	GG-14-39790-00	<u>85,849</u>
Total HIV Prevention Activities Program			<u>141,220</u>
Preventive Health Services - Sexually Transmitted Disease Control Grants:			
Preventative Health Services - STD Control Grant - Infertility Youth Screening	93.977	GG-15-44259-00	34,929
Preventative Health Services - STD Control Grant - Infertility Youth Screening	93.977	GG-14-40443-01	32,279
Preventative Health Services - Sexually Transmitted Disease Control Grant	93.977	GG-15-44164-00	79,198
Preventative Health Services - Sexually Transmitted Disease Control Grant	93.977	GG-14-39790-00	<u>64,731</u>
Total Preventive Health Services - STD Control Grants			<u>211,137</u>
Injury Prevention and Control Research Programs:			
Injury Prevention and Control Research	93.136	GG-15-44316-00	13,860
Injury Prevention and Control Research	93.136	GG-14-41004-00	<u>25,669</u>
Total Injury Prevention and Control Research Programs			<u>39,529</u>
Assistance Programs for Chronic Disease Prevention and Control	93.945	GG-14-41079-00	<u>70,600</u>
Preventative Health and Health Services Block Grant	93.991	GG-15-41592-00	<u>61,500</u>
Total Centers for Disease Control and Prevention			<u>1,660,682</u>
Health Resources and Services Administration Programs:			
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting	93.505	GG-15-42748-00	<u>97,497</u>
HIV Care Formula Grant	93.917	GG-15-44623-00	<u>111,620</u>
Maternal and Child Health Services Grants:			
Maternal and Child Health Services Block Grant - Brest & Cervical Cancer	93.994	GG-15-41706-00	67,800
Maternal and Child Health Services Block Grant - Children's Special Services	93.994	GG-15-42158-00	99,972
Maternal and Child Health Services Block Grant - Family Planning Services	93.994	GG-13-38051-00	306,300
Maternal and Child Health Services Block Grant - Neonatal Abstinence Syndrome	93.994	GG-14-41325-00	<u>10,067</u>
Total Maternal and Child Health Services Grants			<u>484,139</u>
Total Health Resources and Services Administration Programs			<u>693,256</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
U.S. Department of Health and Human Services (Continued):			
Passed through Tennessee Department of Health (Continued):			
Office of the Secretary:			
Teenage Pregnancy Prevention Program	93.297	5TP1AH000008-04-00	\$ <u>507,890</u>
Office of Population Affairs:			
Family Planning Services	93.217	GG-13-38051-00	<u>340,600</u>
Total Passed through Tennessee Department of Health			<u>3,202,428</u>
Passed through Tennessee Department of Human Services:			
Office of Administration for Children and Families:			
Child Support Enforcement	93.563	GG-11-32034-05	201,379
Child Support Enforcement	93.563	EDISON 36305	<u>254,311</u>
Total Child Support Enforcement Passed through TN Department of Human Services			<u>455,690</u>
Total U. S. Department of Health and Human Services			<u>3,658,118</u>
U.S. Department of Homeland Security:			
Passed through Tennessee Emergency Management Agency:			
Disaster Grants - Public Assistance	97.036	FEMA 1974 DR TN	3,307
Pre-Disaster Mitigation	97.047	PDMC-PJ-04-TN-2013-003	<u>140,300</u>
Total Passed through Tennessee Emergency Management Agency			<u>143,607</u>
Passed through Tennessee Department of Military:			
Homeland Security Grant Program:			
Homeland Security Grant Program - 2013	97.067	GG-11-34400	274,549
Homeland Security Grant Program - 2014	97.067	EDISON 12689	<u>51,495</u>
Total Passed through Tennessee Department of Military:			<u>326,044</u>
Total U.S. Department of Homeland Security			<u>469,651</u>
Executive Office of the President:			
Passed through Laurel County, Kentucky:			
High Intensity Drug Trafficking Areas Program	95.001	G-14-AP0001A	31,363
High Intensity Drug Trafficking Areas Program	95.001	G-15-AP0001A	<u>28,720</u>
Total Executive Office of the President			<u>60,083</u>
Total Federal Financial Assistance-Knox County Primary Government			<u>9,331,746</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit):			
U.S. Department of Agriculture :			
Passed through Tennessee Department of Agriculture:			
Food and Nutrition Service:			
School Breakfast Program	10.553	2015	\$ 4,624,597
National School Lunch Program	10.555	2015	13,527,521
National School Lunch Program - Non-Cash Assistance - Commodities	10.555	2015	1,392,518
Child Nutrition Direct Certification Performance Awards - ARRA	10.589	2015	<u>12,500</u>
Total Food and Nutrition Service			<u>19,557,136</u>
Total U.S. Department of Agriculture			<u>19,557,136</u>
U.S. Department of Transportation - Federal Highway Administration:			
Highway Training and Education	20.215	2015	<u>125,366</u>
U.S. Department of Education:			
Passed through National Institute of Excellence Teaching:			
Office of Innovation and Improvement:			
Teacher Incentive Fund	84.374A	2014-2015	4,196,063
Teacher Incentive Fund	84.374A	2012-2013	<u>523,232</u>
Total passed through National Institute of Excellence Teaching			<u>4,719,295</u>
Passed through Tennessee Department of Labor and Workforce Development:			
Office of Career, Technical & Adult Education:			
Adult Education - Basic Grants to States	84.002	LWC47F141AESD15	441,065
Adult Education - Basic Grants to States - Incentives	84.002	LWC47F132AES014	28,839
Adult Education - Basic Grants to States - English Literacy	84.002	LWC47F141ELCV15	70,831
Adult Education - Basic Grants to States - English Literacy Critical Needs	84.002	LWC47F141ELCV13	<u>36,569</u>
Total passed through Tennessee Department of Labor and Workforce Development			<u>577,304</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (Continued):			
U.S. Department of Education (Continued):			
Passed through Tennessee Department of Education:			
Office of Elementary and Secondary Education:			
Title I Grants to Local Education Agencies	84.010A	2014-2015	\$ <u>13,217,082</u>
Special Education (IDEA) Cluster:			
Special Education - Grants to States	84.027A	2014-2015	12,931,274
Special Education - Grants to States - Discr. Parent Involvement	84.027A	2014-2015	<u>27,146</u>
Total Special Education - Grants to States			<u>12,958,420</u>
Preschool Program:			
Special Education - Preschool Grants	84.173A	2014-2015	<u>478,819</u>
Total Special Education (IDEA) Cluster			<u>13,437,239</u>
Career and Technical Education - Carl Perkins	84.048A	2014-2015	<u>860,454</u>
Education for Homeless Children and Youth Programs	84.196A	2014-2015	<u>114,000</u>
English Language Acquisition State Grants Program:			
English Language Acquisition State Grants	84.365A	2014-2015	303,725
English Language Acquisition State Grants	84.365A	2014-2015	<u>78,476</u>
Total English Language Acquisition State Grants Program			<u>382,201</u>
21st Century Community Learning Centers	84.287C	2012-2013	<u>605,000</u>
Teacher Incentive Fund	84.374	2014-2015	<u>677,355</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (Continued):			
U.S. Department of Education (Continued):			
Passed through Tennessee Department of Education (Continued):			
School Improvement Grants:			
School Improvement Grant - Planning	84.377	2014-2015	\$ 674,050
School Improvement Grant - Cohort 3 SMG	84.377	2014-2015	<u>585,888</u>
Total School Improvement Grants			<u>1,259,938</u>
Title I - Grants to Local Education Agencies	84.010	2014-2015	<u>8,569</u>
Race-to-the-Top Incentive Grants:			
Race to the Top - ARRA	84.395A	2014-2015	103,156
Race to the Top - ARRA	84.395A	2014-2015	<u>1,292,879</u>
Total - Race-to-the-Top Incentive Grants			<u>1,396,035</u>
Improving Teacher Quality Title II - Part A	84.367A	2014-2015	<u>1,660,426</u>
Safe and Drug-Free Schools & Communities - National Program	84.184Y	2014-2015	<u>569,412</u>
Total passed through Tennessee Department of Education			<u>34,187,711</u>
Passed through Tennessee Department of Human Services:			
Rehabilitation Services - Vocational Rehabilitation Services	84.126	Z-15-70513	<u>22,601</u>
Total U.S. Department of Education			<u>39,506,911</u>
Total Federal Financial Assistance--Knox County Board of Education Component Unit			<u>59,189,413</u>
Total Federal Financial Assistance			<u>\$ 68,521,159</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2015

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government):		
State of Tennessee General Services - State Building Commission:		
Knoxville Regional Forensics Center	SBC Proj.#460/000-04-2014	\$ 3,874,499
Total State of Tennessee General Services Building Commission		<u>3,874,499</u>
Tennessee Department of Corrections:		
Community Corrections (CAPP)	EDISON 41930	<u>671,435</u>
Total Tennessee Department of Corrections		<u>671,435</u>
Tennessee Commission on Children and Youth:		
Children Services - Youth Officer	GG-10-29763-00	<u>9,000</u>
Total Tennessee Commission on Children and Youth		<u>9,000</u>
Tennessee Secretary of State:		
Tennessee State Archives Library Technology Assistance Grant	EDISON 33564	2,377
General Library Services	EDISON 34320	<u>45,500</u>
Total Tennessee Secretary of State		<u>47,877</u>
Tennessee Department of Environment and Conservation:		
Tennessee Environment and Conservation:		
Waste Tire	EDISON 25703	59,460
TDEC Waste Tire Grant - Site Specific	EDISON 35802	2,581
Clayton Park TDEC LPRF Grant Phase I	Grant Contract 33139	<u>57,220</u>
Total Tennessee Department of Environment and Conservation		<u>119,261</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-15-42750-00	91,873
Immunization	GG-15-43852-00	32,055
Immunization	GG-14-41023-00	30,764
HIV Centers of Excellence	34349-15714	329,011
Sexually Transmitted Disease	GG-15-44164-00	7,294
Sexually Transmitted Disease	GG-14-39790-00	14,928

The accompanying notes are an integral part of this schedule.

**KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF STATE AWARDS**

For the Year Ended June 30, 2015

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government) (Continued):		
Tennessee Department of Health (Continued):		
Family Planning	GG-13-38051-00	\$ 40,400
Oral Health	GG-12-35512	264,896
Adolescent Pregnancy	GG-15-41693-00	45,128
Children's Special Services	GG-15-42158-00	75,417
EPSDT Tenndercare	GG-15-42748-00	307,388
Fetal Infant Mortality	GG-15-41698-00	108,230
Neonatal Abstinence Syndrome Services	GG-14-41325-00	10,067
Diabetes	GG-14-38937-00	150,000
Adult Emergency Dental Services	GG-15-4355-00	163,020
Help Us Grow Successfully	GG-15-41709-00	<u>241,900</u>
Total Tennessee Department of Health		<u>1,912,371</u>
Tennessee Department of Human Services:		
Edward Byrne Memorial Formula Grant Program-Drug Court	EDISON 42632	413,586
Edward Byrne Memorial Formula Grant Program-Juvenile Court	EDISON 42633	11,967
Juvenile Court InnerChange Grant	EDISON ID 43847	<u>168,488</u>
Total Tennessee Department of Human Services		<u>594,041</u>
Tennessee Department of Agriculture - Forestry Division:		
TAEP FY15 Tree Planting Program	Edison ID 41578	6,077
Tenn. Agriculture Enhancement Program - Farmer's Market	Edison ID 41070	372
Tenn. Agriculture Enhancement Program - Farmer's Market	6922	<u>628</u>
Total Tennessee Department of Agriculture - Forestry Division		<u>7,077</u>
Tennessee Department of Transportation:		
Litter Grant	Z15LIT047	144,600
Gap Creek Bridge/Kimberlin Heights Road Project Bridge #47024360003	475ABI-S3-002	<u>24,197</u>
Total Tennessee Department of Transportation		<u>168,797</u>
Tennessee Emergency Management Agency:		
TEMA Disaster Recovery - April 2011 Storm	TEMA 1974 DR TN	<u>551</u>
Total Tennessee Emergency Management Agency		<u>551</u>
Total State Financial Assistance - Knox County Primary Government		<u>7,404,909</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2015

Program Title	Identifying Number	State Expenditures
Knox County Board of Education (Component Unit):		
Tennessee Department of Labor and Workforce Development:		
Adult Education	LWC47F141AESD15	\$ 88,234
Adult Education Incentive	LWC47F132AES014	5,769
EL Civics	LWC47F14ELCV15	14,169
EL Civics - Critical Needs	LWC47F141ELCV13	<u>7,316</u>
Total Tennessee Department of Labor and Workforce Development		<u>115,488</u>
Tennessee Department of Education:		
Coordinated School Health	2014-2015	185,000
Pre-Kindergarten	2014-2015	1,865,003
Safe Schools Act	2014-2015	<u>194,528</u>
Total Tennessee Department of Education		<u>2,244,531</u>
Total State Financial Assistance - Knox County Board of Education (Component Unit)		<u>2,360,019</u>
Total State Financial Assistance		<u>\$ 9,764,928</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal and state awards include the federal and state grant activity of Knox County, Tennessee, and its discretely presented component unit, Knox County Board of Education, (the County), and are presented on the modified accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States and Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the Comprehensive Annual Financial Report.

Federal awards include all grants, contracts, and similar agreements entered into directly between the County and agencies and departments of the federal government, and all subawards to the County by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

In compliance with Tennessee state law, the accompanying schedule of expenditures of state awards is also included in this report. This schedule presents all state funded financial awards, as defined by the State Comptroller's Office, and is prepared and presented in a manner consistent with the schedule of expenditures of federal awards.

NOTE 2 - LOANS OUTSTANDING

The County had the following loan funding balances outstanding at June 30, 2015. All of the loan additions are represented by program expenditures, but only a portion comes from the federal grant with the remainder from program income:

<u>Cluster / Program Title</u>	<u>CFDA Number</u>	<u>FY 2015 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grant	14.218	\$ 3,965	\$ 870,808
HOME Investment Partnerships Programs	14.239	0	1,048,670

NOTE 3 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the County provided federal awards to subrecipients as follows:

	<u>CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 841,770
HOME Investment Partnerships Programs	14.239	939,124
Total Subrecipient Awards		\$ <u>1,780,894</u>

NOTE 4 - NON-CASH ASSISTANCE

The County is the recipient of certain federal awards that do not result in cash receipts or disbursements, including distributions of U.S. Department of Agriculture (USDA) Food Commodities, which are valued based on a USDA price list obtained from the Tennessee Department of Agriculture.

NOTE 5 - INDIRECT COSTS

A number of the County's federal and state funded programs allow indirect costs to be charged and include them as a line item in the grant budget. However, if the grant budget does not specifically provide for indirect costs to be charged, none of the indirect costs are reported as costs to the grantor nor are the costs included or presented in the schedules of expenditures of federal and state awards.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 yes X no

Major federal programs for Knox County, Tennessee for the fiscal year ended June 30, 2015 are:

<u>Program Name</u>	<u>CFDA#</u>
Race to the Top – ARRA	84.395A
Special Education - IDEA & Preschool	84.027A, 84.173A
Teacher Incentive Fund	84.374A, 84.374
Title I – Grants to LEA's & Program for Neglected Children	84.010A, 84.010, 84.013
Public Health Emergency Preparedness	93.069
National Bioterrorism Hospital Preparedness	93.889
Maternal and Child Health Services Block Grant	93.994

Dollar threshold used to distinguish between Type A & Type B programs: \$2,055,635

Auditee qualified as low-risk auditee? yes X no

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2015

Section II - Financial Statement Findings

Current Year Audit Findings:

2015-001 Accrual of Accounts Payable at Year End

Criteria or Specific Requirement - Generally accepted accounting principles (GAAP) requires that expenditures be reported when incurred and the related liability recorded. The County and BOE Finance Departments have a process of accruing accounts payable for the year-end closing of accounting records by reviewing all individual vendor invoices received after year end for a period of up to 60 days (July 1 through August 31) and by reviewing certain large individual invoices received after the cut-off date for possible additional accruals at year-end.

Condition - During the audit it was noted that six individual accounts payable invoices amounting to \$1,007,968 for the year ended June 30, 2015 were not accrued as a liability or recognized as a FY 2015 expenditure in the School Construction Fund. After examining these invoices in the cut off work related to our audit, it was determined that they should have been recorded in the FY 2015 financial statements.

Cause and Effect - The failure to properly accrue accounts payable at year-end increases the potential to understate the current year expenditures (and over-state the following year expenditures) which could lead to a misstatement of the current and following year financial statements.

Recommendations - We recommend the following:

- a. The County and BOE Finance Departments should assign a management level employee to review their current process, whereby individual accounts payable invoices received for processing after the cut-off date (August 31) that may be material, or significant, are analyzed in order to accumulate an accurate detail listing for possible additional accruals at year-end.
- b. The County and BOE Finance Departments should communicate to other departments the importance of processing vendor invoices received after year-end for possible accrual in the annual financial statements in a timely manner. In addition, other departments should communicate known material, or significant, vendor amounts that were incurred during the fiscal year but not yet invoiced by the year-end cut-off date to the County and BOE Finance Departments.

Management's Planned Corrective Actions - We concur with the findings. The identified expenditures and accounts payable totaling \$1,007,968 that pertained to FY 2015 were recorded in the accounting records and included appropriately in the FY 2015 Comprehensive Annual Financial Report.

As noted above, the County has established and implemented procedures and controls that are designed to identify and record expenditures in the correct period. However, for certain of the items that were found to be in error, we have identified that there was a lack of compliance with established procedures. We are in the process of implementing additional communication of the requirements and additional training as needed in order to ensure compliance in future years. In addition, we noted that two of the items found to be in error resulted from invoices submitted by vendors significantly after the year end, and therefore these invoices were not reviewed for possible recording in FY 2015 due to the lateness of their receipt. We will work with the applicable departmental personnel to follow up with vendors when expected billings are not being received timely, and to communicate with us if material late billings are received after the normal cutoff date.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2015

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2015-002 Criminal Court Clerk - Reviewing and Approving Daily Cash Receipts Reports

Criteria or Specific Requirement - Good internal control procedures and accounting practices should include a procedure whereby the daily cash receipts and deposit reconciliation reports for each cashier be routinely monitored, including a documented review of the process.

Condition - During the audit it was noted that individual cashiers prepare a daily cash receipts and deposit reconciliation report for each court. However, these daily reports are not being reviewed and approved by a management level employee such as a bookkeeper or supervisor on a daily basis. Rather, it was noted that the Clerk's Chief Financial Officer (CFO) was reviewing a monthly cash receipts report for the various courts.

Cause and Effect - By not performing a daily review and approval of the cash receipts and deposit reports there is a weakness in internal control over the cash receipting process which can lead to errors, omissions and possible misstatements. In addition, management level review and approval of this process can help prevent and detect possible fraud.

Recommendations - We recommend the following:

- a. The cashier's daily cash receipt and deposit reconciliation reports should be reviewed and approved by a management level employee daily. The reviewer should sign and date each report as evidence of their review.
- b. The Clerk's CFO should periodically examine some of these reviewed and approved daily reconciliation reports and compare to other accounting records.

Management's Planned Corrective Actions - We agree with the finding and have implemented the recommendations.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2015

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2015-003 Knox County Schools Food and Nutrition Department - Misappropriation

Criteria or Specific Requirement - School employees are required to follow written travel and ethics policies.

Condition - In May 2015, the Tennessee Comptroller of the Treasury's Office issued a special investigation report related to the former Knox County Schools Nutrition Director's misappropriation of approximately \$4,500, resulting from inappropriate travel and expense reimbursements during the period of February 2013 through July 2014. The former Director received reimbursement from the Schools for expenses for which other organizations had also paid or reimbursed him.

Cause and Effect - The former Director collected reimbursements from both the Schools and other organizations for the same expenses.

Recommendations - We recommend that all School employees follow the written travel and ethics policies. We also recommend that the Schools annually disburse their ethics and travel policies to all employees for their review.

Management's Planned Corrective Actions - The former Director resigned in November 2014 and this matter was referred to the Knox County District Attorney's Office. Discussions related to a repayment agreement with the former Director are ongoing.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2015

Section III - Federal Award Findings:

Current Year Audit Findings:

2015-004 USDA Commodities and Central Cafeteria Fund Accounting

Program: USDA School Lunch Program Non-Cash Assistance (non-major federal award program)

Criteria or Specific Requirement - The County and BOE are required to annually report the dollar amount of federal award expenditures in the Schedule of Expenditures of Federal Awards (SEFA) to the State Comptroller's Office, the U.S. Office of Management and Budget (OMB) and other stakeholders in accordance with Single Audit Act and OMB Circular A-133. The County and BOE should have adequate internal controls and financial reporting processes to ensure the correct reporting of federal award expenditures.

Condition - During our audit we noted the following items that required the BOE personnel to make the following audit adjusting entries to the Central Cafeteria Fund for FY 2015: (a) a federal award of \$12,500 was incorrectly recorded as a cost reimbursement rather than as federal revenue and was not reported in the original SEFA, (b) the accounts payable detail subsidiary listing at year-end did not agree with the general ledger due to a prior month's accounting error where an accounts payable invoice had been paid before it was entered into the accounts payable voucher system, (c) the USDA inventory of food commodities on hand at year-end was overstated by \$58,606 due to a math error, (d) the payment of USDA processing expenses was recorded twice, resulting in an error of \$126,908 affecting both revenue and expenditures, (e) incorrect recording of USDA in-kind commodities revenues and expenditures which resulted in both being overstated by \$435,675 and (f) a new point of sale system was purchased for \$250,284 which was not recorded as a capital asset. The effects of items (c) through (e) were the overstatement of the USDA School Lunch Program Non-Cash Assistance (Commodities) federal awards expenditures by \$562,583 and related revenues by \$621,189.

Cause and Effect - By not maintaining the Central Cafeteria Fund accounting records in accordance with generally accepted accounting principles and reporting the proper amount of federal awards, including the USDA commodities, the County and BOE are at risk of issuing misstated financial statements and reporting the incorrect amount of federal award expenditures in the SEFA. The above condition indicates a lack of proper management level review and oversight.

Recommendations - We recommend the following:

- a. The BOE Finance Department should work more closely with the School Nutrition Office to improve the accounting for federal awards, year-end inventory and USDA commodities.
- b. The BOE Finance Department should more carefully review its annual expenditures for capital asset purchases.
- c. The BOE Finance Department should submit the monthly financial statements of the Central Cafeteria Fund, including the bank reconciliations and subsidiary details of all major balance sheet accounts, to the County Finance Department for review.

Management's Planned Corrective Actions - We concur with the above findings. We have already changed our internal procedures and processes for the recording of USDA commodities revenues, expenditures and the related processing fees. In addition, we will do the following in FY 2016: (a) improve our recording of federal grant revenues, (b) more carefully review our year-end inventory calculations, (c) perform a detailed search of our annual expenditures for capital asset purchases, and (d) submit monthly internal financial statements of the Central Cafeteria Fund, including the bank reconciliations and the subsidiary details of all major balance sheet accounts, to the County Finance Department for review.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2015

2014-001 Board of Education (BOE) Credit Cards

Criteria or Specific Requirement - The County has an e-card program with established written internal control policies and procedures which are established to ensure that all e-cards are appropriately approved and their activity consistently reviewed.

Condition - During the audit it was noted that several credit cards existed within the Knox County Schools Administrative offices which were not approved and issued in accordance with the requirements and guidelines of the County's e-card program. Furthermore, activity for these cards was not reviewed in the same manner or under the same policies and procedures as the County's e-card program. In addition, investigations are currently in progress related to allegations that personal or unauthorized charges were made with one or more of the credit cards. The County's internal auditor, State of Tennessee Comptroller's Office and Knox County law enforcement officials are currently conducting investigations/examinations related to these BOE credit cards to determine the extent and dollar amount of any possible unauthorized or improper use.

Cause and Effect - The issuance and use of credit cards outside of the County's e-card program increases the potential for misuse.

Recommendations - We recommend the following:

- a. All County or BOE issued credit cards not issued as part of the County's established e-card program should be cancelled immediately.
- b. Only the County's e-cards should be utilized by employees who need a credit card for appropriate County business purposes.

Management's Planned Corrective Actions - Management concurs with the facts of this finding. While activity for these cards was reviewed and reconciled prior to payment of the associated charges, the process itself was separate from the County's e-card program. As such, we have already cancelled the separately issued BOE credit cards and are currently implementing recommendations (a) and (b). We will monitor the progress of the above referenced investigations and take whatever additional actions necessary at their conclusion.

Current Year Status - All cards that were not part of the County's established e-card program have been cancelled, and only the County's e-cards are utilized by employees who require use of a credit card for appropriate County business purposes.

The Comptroller's Office and Knox County Internal Auditor have both issued reports, subsequent to June 30, 2015, related to their findings of inappropriate use of credit cards by the former BOE Accounts Payable Supervisor, with total reported misappropriations of at least \$12,000. The former Supervisor was terminated in October 2014 and the matter was referred to the Knox County District Attorney's Office. Discussions are ongoing with the former Accounts Payable Supervisor related to a repayment agreement.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2015

2014-002 Criminal Court Clerk - Undistributed Liability Account and Unrecorded Bank Account

Criteria or Specific Requirement - Good internal control procedures and generally accepted accounting practices require that the details comprising each general ledger balance be identified and routinely monitored. In addition, all bank accounts should be recorded in the G/L and reconciled monthly. Failure to perform these procedures increases the risk that errors may occur but not be detected by the Criminal Court Clerk on a timely basis.

Condition - During the audit it was noted that the Criminal Court Clerk's general ledger includes an undistributed liability account totaling \$2,613,742 as of June 30, 2014, for which no detailed subsidiary ledger or listing was available to support the balance. According to the clerk's office, this amount represents the cumulative effect of partial payments made over several years which, according to their policy, is not disbursed to the appropriate payee (State, County or other agency) until the full fine or fee is paid by the individual. The office does keep individual files of the related cases involved which contains the history of each fee and any partial payments made to date, which can be referred to when individuals come in with additional payments, but there is no cumulative listing or detailed subsidiary ledger summarizing those amounts to agree to the general ledger.

In addition, the former clerk was a co-signer with a local bonding company on a bank account totaling \$100,411 that was not recorded in the general ledger.

Cause and Effect - By not performing a monthly reconciliation and distribution of funds received, the State and County may not receive revenues in a timely manner in accordance with various state statutes. Also, not maintaining a detailed subsidiary ledger to support the balance creates a lack of internal control over the account which can lead to errors, omissions and possible misappropriation. In addition, not recording bank accounts and their related activity in the general ledger increases the potential for misuse.

Recommendations - We recommend the following:

- a. The undistributed liability account should have a subsidiary ledger which should be reconciled monthly to the general ledger and amounts distributed to the State and County in a timely manner.
- b. The clerk should consult with the County Law Department, County Technical Advisory Services (CTAS) and the State Comptroller's office concerning the disposition of the \$2,613,742 undistributed liability account.
- c. The separate bank account with a local bonding company should be recorded in the Clerk's general ledger. The Clerk should consult with the County Law Department to determine if the separate bank account is necessary.

Management's Planned Corrective Actions - The two items described above were in existence when the new Criminal Court Clerk took office on September 1, 2014. We are presently consulting with the Knox County Law Department and CTAS to determine our best course of action.

Current Year Status - During FY 2015, the Criminal Court Clerk's Office began negotiating an agreement with the State of Tennessee Department of Revenue (State) to disburse the remaining funds accumulated in the undistributed account to the State, Knox County and the Clerk's Office. These negotiations resulted in a final settlement in November 2015 at which time the balance in the account had been reduced, through payments and adjustments, to approximately \$1.5 million. The accounting procedures for new collected amounts have been corrected to eliminate the accumulation of funds in the future. The separate bank account with a local bonding company was created under a court order and it was determined that this account is not the property of Knox County.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2015

2014-003 Accounting Classification and Capitalization of Certain Knox County BOE (Schools) Physical Plant Upgrades and Construction in Progress

Criteria or Specific Requirement - The County has established accounting policies that require new or substantial construction projects to be accounted for as separate projects, which are subject to the County's budgetary process. Alternatively, physical plant upgrade (PPU) accounts are intended to be used to account for the costs of major maintenance or alterations to existing capital assets.

In addition, the County has a written capitalization policy that requires expenditures related to buildings and related improvements that are in excess of the capitalization threshold and extend the life of an asset to be capitalized as a capital asset and depreciated.

Condition - According to an audit report by the Knox County Internal Auditor which was released during our audit, it was noted that certain expenditures made by the Schools during FY 2012 to FY 2014 should have been classified as construction project costs for new schools or substantial renovation projects, but instead were recorded as physical plant upgrades (PPU). In addition, during our audit, we became aware that \$3,370,254 of various improvements or other capital items, a large part of which was carried over in construction in progress from previous years, were transferred from construction in progress and capitalized as part of the County's fixed asset records at the end of FY 2014 rather than being moved timely to the appropriate capital asset category and depreciated as the projects were completed.

Cause and Effect - By not recording all construction costs in the correct project within the capital projects fund, the total actual project costs cannot be measured against the approved budgetary amounts. Also, by not timely capitalizing certain costs as capital assets, the County could potentially misstate the total net book value of capital assets and depreciation expense in future years.

Recommendations - We recommend the following:

- a. Expenditures for PPU should not include costs related to new school construction projects or substantial renovations which are to be separately budgeted by project within the School's Capital Projects Fund.
- b. The School and County finance departments should perform a review of PPU and school construction capital expenditures on a semi-annual basis to determine which expenditures meet the County's capitalization policy for addition to the capital asset records.

Management's Planned Corrective Actions - We concur with the finding, and have begun to implement procedures whereby project costs will be separately budgeted for all applicable capital projects. Expenditures for projects will be reviewed timely and verified that all project costs are recorded as part of the applicable project, and monitored in relation to the project budget. In addition, expenditures for PPU's will be limited to the purposes for which the PPU accounts have been established (major maintenance to existing projects rather than new projects) and expenditures charged to the PPU accounts will also be reviewed timely. Finally, we will review capital expenditures timely to ensure that completed projects are identified and recorded in the appropriate capital asset classifications and depreciated in accordance with our established depreciation policies.

Current Year Status - Budgeting procedures utilized by Knox County Schools now provide for separate project budgets to be proposed and adopted for significant new projects and major renovations, and actual expenditures are reviewed and monitored in relation to the project budgets. In addition, detailed reviews by County and School personnel were performed in fiscal year 2015 for the purpose of identifying and capitalizing completed projects. These completed projects were reclassified from the construction in progress category to the appropriate capital asset categories and depreciated in accordance with the County's established depreciation policies.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2015

2014-004 Approval of Lease

Criteria or Specific Requirement - The County has a written debt management policy that requires the County Mayor and Finance Director to review and approve all debt issued. In addition, the County is required by the State to submit a filing, as required by TCA § 9-21-151, with the Tennessee Comptroller Director of State and Local Finance within 45 days of issuance of any new debt.

Condition - During the audit it was noted that a \$5,962,500 lease for approximately 6,000 computers was approved by the County Commission, BOE, County Mayor, School Superintendent and Law Department in July 2013. However, this lease was not approved by the County Finance Director and the required State form regarding the issuance of debt was not filed with the Tennessee Comptroller Director of State and Local Finance. This lease was not properly recorded in the accounting records until we discovered it and reviewed the documentation during our audit.

Cause and Effect - The issuance of debt without the County Finance Director's approval inhibits the County's ability to perform a financial analysis and to determine if funds can be adequately budgeted for future debt payments. In addition, the issuance of debt without proper notification to the Tennessee Director of State and Local Finance can limit the County's ability to issue additional debt.

Recommendations - We recommend the following:

- a. All future debt issued by the County should have the advance approval of the Finance Director in accordance with the County's debt management policy.
- b. The required forms as described above related to this lease should be filed immediately and the filings for any future debt agreements should be done timely with the Tennessee Director of State and Local Finance.

Management's Planned Corrective Actions - Management concurs with the facts of this finding. We will immediately file the above form related to this lease with the Tennessee Director of State and Local Finance and will file these timely for any other debt in the future. We will work with the County Mayor's office and County Law Department to develop specific procedures for the County Finance Director to pre-approve debt before it is sent to the County Commission for final approval.

Current Year Status - All debt issued during FY 2015 was properly approved by the Finance Director in accordance with the County's debt management policy. In addition, the required State form regarding the aforementioned lease was filed, and the required forms were filed for all new FY 2015 debt issuances.

