



**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

Year ended June 30, 2008

# KNOX COUNTY, TENNESSEE

## Table of Contents

	<b>Page</b>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedules of Expenditures of Federal and State Awards	6
Schedule of Expenditures of Federal Awards for the Year ended June 30, 2008	9
Schedule of Expenditures of State Awards for the Year ended June 30, 2008	17
Notes to Schedules of Expenditures of Federal and State Awards for the Year ended June 30, 2008	21
Schedule of Findings and Questioned Costs	23



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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Knox County Mayor and the County Commissioners of  
Knox County, Tennessee:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Knox County, Tennessee (the County) as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 29, 2009. Our report referred to the adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective July 1, 2007. 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 aforementioned financial statements, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily identify all significant deficiencies that are also considered to be material

weaknesses. However, as discussed below, we identified certain significant deficiencies to be material weaknesses.

The County's response to the findings identified in our audit is provided below. We did not audit the County's response and, accordingly, we express no opinion on it.

**Material Weaknesses:**

**CONSTITUTIONAL OFFICERS**

***Finding 08-01: Consolidated Financial Reporting***

The Department of Finance requested that all of Knox County's constitutional offices provide reporting packages which provide detailed financial activity of those offices for inclusion in the CAFR. The Department of Finance has not historically been provided information by the constitutional offices in a format that can be used to develop the CAFR balances and disclosures. Upon inquiry of staff in the Constitutional Offices, we determined that, while data was prepared and reconciled by the Constitutional Offices for their internal reporting purposes, no such data was developed on a regular basis in the format required for development of the CAFR. Further, such information was also not provided in a manner that permits the Department of Finance to prepare clear, concise, and timely internal financial management reports such that management can obtain a complete overview of the County's overall financial position.

We recommend that all constitutional officers provide information at least quarterly, which includes information that is sufficiently detailed so that the Department of Finance can easily lift this information from the reporting packages and generate interim financial reports as needed for both internal and external reporting purposes. If system limitations prevent year-to-date information from being generated and provided, it should be the responsibility of the constitutional office to consolidate this activity in a detailed summary schedule that can be tied back to the supporting documentation.

**Management's Response**

Management concurs that information in the format used for financial reporting purposes has not been provided to the Department of Finance. It should be noted that, in years prior to the 2008 fiscal year, each office provided the underlying schedules and other information of its account balances and activity to the predecessor external auditing firms during the annual audit. Upon completion of the auditors' work in the various constitutional offices, the auditors worked with each office to prepare the schedules in the format required for the CAFR, and provided these schedules to the Department of Finance. This long-standing practice, agreed-to by management as well as by the predecessor auditors, was performed for consistency and convenience.

The Department of Finance will work with the management of each constitutional office to develop a reporting format, based on the schedules and reports that each office already generates from its records, that will result in preparation of the various schedules in the format needed for the CAFR. This information will be provided in the required format for the year ending June 30, 2009. The feasibility of preparing these schedules on an interim basis beginning with the upcoming fiscal year will be evaluated.

***Finding 08-02: Other Specific Constitutional Officers Accounting Matters***

We also noted the following accounting matters related to various constitutional offices:

- The Trustee's Office had difficulty determining the appropriate level of activity to include in their CAFR balances because of various transfers among accounts which caused amounts to be double

counted. Between the initial submission and the amounts presented in the final CAFR, total cash receipts and disbursements were adjusted by almost \$400 million.

- The County Clerk's office experienced a change in administration during fiscal year 2009, prior to the start of the 2008 financial statement audit. The accounting records for fiscal year 2008 were not well organized, and consultants needed to be hired to help the office close its books. We also observed that ten deposits out of thirty selected for testing were not made within three business days of receiving the funds as required by the state.
- Certain routine financial transactions and reports for the Criminal and Fourth Circuit Court (including actual financial statements) are recorded manually (handwritten), and no computer generated reports are utilized.

To address these weaknesses, we recommend:

- The Trustee's office develop a detailed schedule or reporting mechanism to properly identify and eliminate all duplicate transfer activity that exists in order to produce timely consolidated financial results.
- All deposits of tax payer money should be made in accordance with existing policies and procedures and state law.
- All financial data obtained by any Knox County entity should be recorded in a computerized system of record to increase the efficiency and reliability of the financial information. Any manually maintained financial information should be minimized.

#### Management's Response

##### *Trustee:*

The cash transactions handled by the Trustee's Office include numerous transactions between various cash accounts which, if not eliminated, would result in duplicate amounts reported in the Combined Schedule of Cash Receipts, Disbursements and Balances. As noted in the reply to the comment regarding "Consolidated Financial Reporting" for the Constitutional Offices, the practice in prior years had been for the Constitutional Offices to work with the predecessor auditors, providing financial schedules and activity information to the auditors who then provided the necessary schedules for the CAFR to the Department of Finance after the audit procedures had been completed. Of additional note is that the Trustee's Office experienced a significant amount of personnel turnover during the fiscal year due to the turmoil created by the various iterations of the Term Limit lawsuit decisions which affected several of the Constitutional Offices.

During the current year, the Trustee's Office, in compiling the required information, noted that the prior year schedules were difficult to follow but did create schedules for the fiscal year 2008 and did in fact derive the necessary information. The "initial submission" was provided to the auditors with the explicit knowledge that the document was a work in progress. The Trustee's Office did continue the preparation of the CAFR schedules and generated the final amounts reported in the CAFR, and has already developed and implemented detailed procedures to follow in preparing these schedules for future years.

##### *County Clerk:*

The County Clerk's office experienced a change in administration during fiscal year 2009. With the change in administration, we have put procedures in place so that financial statements of the County Clerk's office are organized and that current personnel have books in order for the current fiscal year of 2009.

To address the weakness of deposits not being made within three business days, the County Clerk's office has put procedures in place to ensure that all deposits are timely and within and according to policies and procedures of state law. Deposits for transactions of money taken by the County Clerk's office are set as follows: All deposits for the prior day are received and deposited by the audit person in the downtown office within two working days. Two satellite offices have an audit person in place in the satellite office; the audit person verifies the prior day's work and the deposits are taken directly to the bank from the satellite office. The deposits made from the satellite offices are made within one working day.

*Criminal and Fourth Circuit Court Clerk:*

The financial records in the General Sessions Court – Criminal Division and the Fourth Circuit Court are on a computerized system. The Information Technology Department is at this time updating the bookkeeping system in the Criminal Court to be completely computerized.

**Significant Deficiency:**

**GENERAL GOVERNMENT**

***Finding 08-03: Actuarial Review of Information for the Healthcare Self Insurance Claims Liability***

The County established a self insured healthcare plan on January 1, 2008, but has not retained the services of a consulting actuary to review the claims experience to assist in the development of the liability for self insurance claims. The County estimated the liability for fiscal year 2008 based on a simple mathematical calculation without factoring in any historical County claims experience or other industry factors. At June 30, 2009, there will be significantly more claims history, and the current calculation being used may not be the most appropriate estimation methodology.

We recommend that the County hire an independent actuary to provide estimated incurred but not reported calculations and compile claims loss triangles based on actual claim lag and enrollment data by month since plan inception to support their analysis. This valuation should be the basis for the liability accrual recorded in the general ledger.

**Management's Response**

As noted above, the County has not retained the services of an actuary to assist in the development of the estimated liability for self-insurance claims related to the self-insured healthcare plan established during the fiscal year. It should be noted that the County is a member of a data cooperative, which has as one of its functions the analysis of claims experience and comparison of such experience among various peer institutions. The County did use information received from this cooperative in evaluating the reasonableness of the liability for claims, including the provision of incurred but not reported claims (IBNR). The County also did factor in the County's own historical claims experience in developing the estimate.

Management of the County will obtain proposals from independent actuaries and present the proposals and the related costs of obtaining such services to County Commission. If Commission approves obtaining and paying for these services, the County will hire an independent actuary as recommended.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County'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*.

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 29, 2009



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**Report on Compliance With Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and  
on the Schedules of Expenditures of Federal and State Awards**

Knox County Mayor and the County Commissioners of  
Knox County, Tennessee:

**Compliance**

We have audited the compliance of Knox County, Tennessee (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described as Finding 08-04 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding eligibility that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Additionally, as described as Finding 08-05 in the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding eligibility that are applicable to its Title I Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

## **Internal Control Over Compliance**

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 08-04 and 08-05 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 08-04 and 08-05 to be material weaknesses.

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's response, and accordingly, we express no opinion on it.

## **Schedule of Expenditures of Federal and State Awards**

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 29, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. 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 State of Tennessee, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, and others within the organization, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 25, 2009

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)*  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County, Tennessee (Primary Government):</b>			
U.S. Department of Agriculture:			
Passed through Tennessee Department of Health:			
Women, Infants, and Children (WIC)	10.557	GG-07-12967-00	\$ 220,742
Women, Infants, and Children (WIC)	10.557	GG-08-22721-00	<u>774,110</u>
Total Passed through Tennessee Department of Health			<u>994,852</u>
Passed through Natural Resources Conservation Service:			
Natural Resources Conservation Service (NRCS)	10.904	75-4741-9-909	<u>3,405</u>
Total U.S. Department of Agriculture			<u>998,257</u>
U.S. Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grant	14.218	B-05-UC-47-0001	819,752
HOME Investment Partnerships Programs	14.239	M-00-UC-47-0204	78,883
House Mountain Park	14.246	B03SPTN0744	<u>8,110</u>
Total U.S. Department of Housing and Urban Development Direct Programs			<u>906,745</u>
Passed through the City of Knoxville, Tennessee:			
Empowerment Zone Program - Knoxville Cultural Heritage	14.244	C-06-0139	<u>111,068</u>
Total U.S. Department of Housing and Urban Development			<u>1,017,813</u>
U.S. Department of Justice:			
Direct Programs:			
Drug Court	16.579	Z-05-025532-00	457,216
Edward Byrne Memorial Justice Assistance Grant	16.579	2006-DJ-BX-0729	67,812
Bulletproof Vest	16.607	N/A	6,349
Cops in Schools	16.710	2004-SH-WX-0155	29,076
Organized Crime Drug Enforcement Task Forces	N/A	SE-TN-086	8,467

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County, Tennessee (Primary Government) (continued):</b>			
U.S. Department of Justice (continued):			
Direct Programs (continued):			
Organized Crime Drug Enforcement Task Forces	N/A	SE-TN-175	\$ 18,090
Safe Streets - FBI Overtime Reimbursement	N/A	281D-KX-61230	<u>10,671</u>
Total U.S. Department of Justice Direct Programs			<u>597,681</u>
Passed through Tennessee Dept. of Finance and Administration:			
Focused Alternative Treatment	16.579	Z-99-088466-00	<u>100,000</u>
Passed through the Tennessee Department of Children's Services:			
Juvenile Court Accountability Incentive Grant	16.523	GG-07-20534-00	6,874
Juvenile Court Accountability Incentive Grant	16.523	GG-08-22855-00	32,709
Public Defender - Commission on Children & Youth	16.540	GG-08-22765-00	<u>20,787</u>
Total Passed through the Tennessee Department of Children's Services			<u>60,370</u>
Total U.S. Department of Justice			<u>758,051</u>
Department of Transportation Federal Highway Administration:			
Passed through Tennessee Dept. of Environment & Conservation:			
Halls Greenway	20.205	STP-EN-4700(29)	23,727
Ten Mile Creek Greenway	20.205	STP-EN-4700(27)	7,919
Ten Mile Creek Greenway Extension	20.205	STP-EN-4700(36)	156,845
TDOT CMAQ Air Quality	20.205	CM-STP-4700(41)	<u>490,000</u>
Total Passed through Tennessee Dept. of Environment & Conservation			<u>678,491</u>
Passed through Tennessee Dept. of Transportation:			
Sheriff's Alcohol Countermeasures	20.607	Z-08-024033-00	<u>92,179</u>
Total Department of Transportation Federal Highway Administration			<u>770,670</u>

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County, Tennessee (Primary Government) (continued):</b>			
National Foundation on the Arts and the Humanities:			
Passed through Tennessee Secretary of State:			
Library Services	45.310	GG-08-24864-00	\$ <u>71,375</u>
Total National Foundation on the Arts and the Humanities			<u>71,375</u>
Environmental Protection Agency Direct Programs:			
Air Pollution Control Section 105	66.001	A-00408307-1	39,949
Air Pollution Control Section 105	66.001	A-00408308-1	269,432
Air Pollution Section 103 Clean Air Monitoring	66.001	PM-96437805-2	48,761
Air Pollution Section 103 Clean Air Monitoring	66.001	PM-96497608-0	22,661
Water Quality	66.463	CP-96455806	161,858
Brownfield Cleanup	66.818	BF-96414904-0	<u>13,930</u>
Total Environmental Protection Agency			<u>556,591</u>
U. S. Department of Health and Human Services:			
Passed through Tennessee Department of Health:			
Tuberculosis Nursing	93.116	GG-08-22259-00	143,000
Family Planning Services	93.217	GU-08-22273-01	300,600
Immunization	93.268	GG-07-20508-00	58,201
Immunization	93.268	GG-08-23276-00	74,941
Bioterrorism	93.283	GG-07-12845-00	120,004
Emergency Preparedness Pandemic	93.283	GG-08-22530-01	563,785
Tobacco Prevention	93.283	GG-08-22984-00	68,100
HIV Consortia and Case Management Services	93.917	GG-07-21225-00	213,347
HIV Consortia and Case Management Services	93.917	GG-08-24599-00	83,510
Breast and Cervical Cancer	93.919	GG-08-21081-00	52,805
HIV Prevention	93.940	GG-07-12716-00	52,155
HIV Prevention	93.940	GG-08-23489-00	62,365

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County, Tennessee (Primary Government) (continued):</b>			
U. S. Department of Health and Human Services (continued):			
Passed through Tennessee Department of Health (continued):			
Community Prevention	93.959	GG-08-23489-00	\$ 108,929
Infertility Youth Screening Project	93.977	GG-07-12990-00	32,545
Infertility Youth Screening Project	93.977	GG-08-23486-00	32,617
Sexually Transmitted Disease	93.977	Z-07-038100-00	76,728
Sexually Transmitted Disease	93.977	GG-08-23489-00	59,771
Rape Prevention	93.991	GG-08-22267-00	20,000
Health Promotion	93.991	GG-08-21424-00	61,500
Children's Special Services	93.994	GG-08-21931-00	61,141
Maternal and Child Health Services	93.994	GU-08-22273-01	<u>306,300</u>
Total Passed through Tennessee Department of Health			<u>2,552,344</u>
Passed through Tennessee Department of Human Services:			
Child Support Enforcement IV-D	93.563	GG-08-22517-00	<u>368,495</u>
Total U. S. Department of Health and Human Services			<u>2,920,839</u>
U.S. Department of Homeland Security:			
Passed through Tennessee Department of Military:			
Homeland Security CIP 2007	97.004	Z-07-20676-00	125,000
Homeland Security 2006	97.004	GG-07-23623-00	269,011
TEMA Stormwater Management	97.039	GG-02-09793-01	906
Homeland Security 2005	97.067	Z-05-025176-00	<u>476,170</u>
Total U.S. Department of Homeland Security			<u>871,087</u>

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County, Tennessee (Primary Government) (continued):</b>			
Office of National Drug Control Policy:			
Passed through Laurel County, Kentucky:			
High Intensity Drug Trafficking Areas	N/A	I8PAPP501Z	\$ <u>14,000</u>
Total Office of National Drug Control Policy			<u>14,000</u>
Total Federal Financial Assistance--Knox County Primary Government			\$ <u>7,978,683</u>

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County Schools (Component Unit):</b>			
U.S. Department of Agriculture:			
Passed through Tennessee Department of Agriculture:			
Child Nutrition Cluster:			
USDA School Breakfast Program	10.553	-	\$ 2,358,614
USDA School Lunch Program	10.555	-	<u>7,540,310</u>
Total Child Nutrition Cluster			<u>9,898,924</u>
USDA Food Distribution (Commodities)			<u>799,677</u>
Total U.S. Department of Agriculture			<u>10,698,601</u>
U.S. Department of Housing and Urban Development:			
Passed through City of Knoxville:			
Youth Academy of Finance	14.244	C-06-0172	<u>6,977</u>
Total U.S. Department of Housing and Urban Development			<u>6,977</u>
U.S. Department of Labor:			
Passed through Tennessee Department of Labor:			
Adult Education Incentive	17.267	GG-08-23456-00	<u>25,000</u>
Total U.S. Department of Labor:			<u>25,000</u>
U.S. Department of Education:			
Passed through Tennessee Department of Education:			
Adult Basic Education	84.002	Z-08-020798-00	231,330
ESEA Chapter I of Title I	84.010A	2008	12,565,122
Early Reading First	84.010A	S359B060022	295,203
Individuals with Disabilities Education Act Part B	84.027A	2008	12,466,998
Carl Perkins	84.048	N/A	1,136,903
Perkins IV - Fulton	84.048A	2008	22,870
Case Manager	84.126	GG-08-22112-00	22,965
Preschool	84.173A	2008	360,904

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County Schools (Component Unit) (continued):</b>			
U.S. Department of Education (continued):			
Passed through Tennessee Department of Education (continued):			
Governors Alliance for Drug Free School	84.186A	2008	\$ 263,272
Youth Violence and Drug Prevention	84.186B	Year 1	55,350
Homeless Education	84.196A	2008	98,623
Title V	84.298A	2007	220,853
Title V	84.298A	2006	64,682
Title V	84.298A	2008	191,877
Title II Part D	84.318X	2008	99,567
Reading First	84.357	2007	1,005,731
Title III	84.365A	2008	179,417
Title II Part A	84.367A	2008	1,886,337
Title II Part A	84.367A	2007	407,611
Title II Part A	84.367A	2006	<u>166,317</u>
Total Passed through Tennessee Department of Education			<u>31,741,932</u>
Passed through University of Tennessee:			
English Literacy and Civics	84.002	Z-08-21213-00	49,973
English Literacy and Civics	84.002	OR 7035-001.15	19,678
Mathematics and Science Partnership	84.366	OR 5273-001.01	<u>242</u>
Total Passed through University of Tennessee			<u>69,893</u>
Total U.S. Department of Education			<u>31,811,825</u>

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
For the Year Ended June 30, 2008*

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>Knox County Schools (Component Unit) (continued):</b>			
U.S. Department of Health and Human Services:			
Passed through Tennessee Department of Education:			
Federal Discretionary Funds	93.938	2008	\$ <u>1,800</u>
Total U.S. Department of Health and Human Services			<u>1,800</u>
Corporation for National and Community Service:			
Passed through Tennessee Department of Education:			
Learn & Serve	94.004	009-07-1-021	<u>1,919</u>
Total Corporation for National and Community Service			<u>1,919</u>
Total Federal Financial Assistance--Knox County Schools Component Unit			<u>42,546,122</u>
Total Federal Financial Assistance			<u>\$ 50,524,805</u>

The accompanying notes are an integral part of the schedule.

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)*  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS**  
*For the Year Ended June 30, 2008*

Program Title	Identifying Number	State Expenditures
<b>Knox County, Tennessee (Primary Government):</b>		
Tennessee Department of Corrections:		
Community Corrections (CAPP)	Z-05-020611-00	\$ 7,408
Community Corrections (CAPP)	Z-08-021319-01	<u>614,598</u>
Total Tennessee Department of Corrections		<u>622,006</u>
Tennessee Commission on Children and Youth:		
Children Services - Youth Officer	Z-08-022776-00	<u>9,000</u>
Total Tennessee Commission on Children and Youth		<u>9,000</u>
Tennessee Comptroller of the Treasury:		
Reappraisal	30711	<u>163,447</u>
Total Tennessee Comptroller of the Treasury		<u>163,447</u>
Tennessee Environment and Conservation		
Waste Tire Storage	Z-03-011371-05	<u>580,431</u>
Total Tennessee Environment and Conservation		<u>580,431</u>
Tennessee Department of Economic & Community Development		
Tennessee Industrial Infrastructure Program	GG-05-12000-00	<u>25,250</u>
Total Tennessee Department of Economic & Community Development		<u>25,250</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-08-22259-00	183,000
Immunization	GG-07-20508-00	71,135
Immunization	GG-08-23276-00	61,315
HIV Prevention	Z-07-038100-00	5,795
HIV Prevention	GG-08-23489-00	6,929
Sexually Transmitted Disease	Z-07-038100-00	4,966
Sexually Transmitted Disease	GG-08-23489-00	15,889

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)*  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS (Continued)**  
*For the Year Ended June 30, 2008*

Program Title	Identifying Number	State Expenditures
<b>Knox County, Tennessee (Primary Government) (continued):</b>		
Tennessee Department of Health (continued):		
Tobacco Use Prevention - 2008	GG-08-23518-00	\$ 15,050
Family Planning	GU-08-22273-01	40,400
Oral Health	GG-08-21930-00	215,700
Adolescent Pregnancy	GG-08-20738-00	50,000
Health Community Development	GG-08-21424-00	126,129
Vitamin Supplement	354	108,377
EPSDT Tenndercare	GG-08-21827-00	280,922
Children's Special Services	GG-08-21931-00	50,247
Flu Pandemic Preparedness	GG-07-20775-00	1,457
Help Us Grow Successfully	GG-08-21935-01	<u>124,132</u>
Total Tennessee Department of Health		<u>1,361,443</u>
Tennessee Administrative Office of the Courts:		
Court Audio-Visual Enhancement	N/A	7,390
Court Security Enhancement	N/A	<u>14,873</u>
Total Tennessee Administrative Office of the Courts		<u>22,263</u>
Tennessee Department of State:		
Community Enhancement Grants:		
Knox County Community Grants-Parks and Recreation	N/A	3,098
Knox County Community Grants-Senior Centers	N/A	275
Sheriff's Sr. Citizen Awareness Network (SCAN)	N/A	<u>4,058</u>
Total Tennessee Department of State		<u>7,431</u>
Tennessee Department of the Military:		
TEMA Stormwater Management	GG-02-09793-01	<u>147</u>
Total Tennessee Department of the Military		<u>147</u>

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)*  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS (Continued)**  
*For the Year Ended June 30, 2008*

Program Title	Identifying Number	State Expenditures
<b>Knox County, Tennessee (Primary Government) (continued):</b>		
Tennessee Department of Transportation:		
Litter Grant	Z-08-20182-00	\$ <u>114,926</u>
Total Tennessee Department of Transportation		<u>114,926</u>
Total State Financial Assistance--Knox County Primary Government		\$ <u>2,906,344</u>

*Knox County, Tennessee (Primary Government) and  
Knox County Schools (Discretely Presented Component Unit)*  
**SCHEDULE OF EXPENDITURES OF STATE AWARDS (Continued)**  
*For the Year Ended June 30, 2008*

Program Title	Identifying Number	State Expenditures
<b>Knox County Schools (Component Unit):</b>		
Tennessee Department of Education:		
Safe Schools	2007-2008	\$ 67,360
Safe Schools	2006-2007	130,142
Early Childhood - Pilot	2008	131,241
Early Childhood - Lottery	2008	524,963
Early Childhood - State	2008	902,878
Family Resource Center	2008	33,300
Coordinated School Health	MO4	<u>190,000</u>
Total Tennessee Department of Education		<u>1,979,884</u>
Tennessee Department of Labor and Workforce Development		
Adult Basic Education	Z-08-020798-00	77,110
Adult Education - State	Z-08-201226-00	50,971
EL Civics	Z-08-21213-00	12,493
EL Civics - Xtra	Z-08-23126-00	<u>4,919</u>
Total Tennessee Department of Labor and Workforce Development		<u>145,493</u>
Total Federal Financial Assistance--Knox County Schools Component Unit		<u>2,125,377</u>
Total State Financial Assistance		<u>\$ 5,031,721</u>

The accompanying notes are an integral part of the schedule

**KNOX COUNTY, TENNESSEE**

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2008

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Knox County, Tennessee, and its discretely presented component unit (the County), and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule 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 with this report. Such 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.

**(2) Loans Outstanding**

The County had the following loan funding balances outstanding at June 30, 2008. 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 2008 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grants - Entitlement Grant	14.218	\$ 32,488	\$ 1,450,605
HOME Investment Partnership Programs	14.239	83,251	1,157,628

**(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 Grants - Entitlement Grant	14.218	\$ 626,006
HOME Investment Partnership Programs	14.239	78,883
Prevention and Treatment of Substance Abuse - Block Grant	93.959	70,000
Total Subrecipient Awards		\$ <u>774,889</u>

## **KNOX COUNTY, TENNESSEE**

### Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2008

**(4) Non-cash Assistance**

The County is the recipient of certain federal awards that do not result in cash receipts or disbursements, including distribution of U.S. Department of Agriculture (USDA) Food Commodities (CFDA No. 10.550), which are valued based on a USDA price list obtained from the Tennessee Department of Health.

**(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

Year ended June 30, 2008

**(1) Summary of Auditors' Results**

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Significant deficiencies in internal control was disclosed by the audit of the basic financial statements: **Yes – see note (2)**

Material weaknesses: **Yes – see note (2)**

- (c) Noncompliance which is material to the basic financial statements: **None**
- (d) Significant deficiencies in internal control over major programs: **Yes- see note (3)**

Material weaknesses: **Yes – see note (3)**

- (e) The type of report issued on compliance for major programs: **Qualified opinion**
- (f) Any audit findings which are required to reported under Section 510(a) of OMB Circular A-133: **Yes – see note (3)**
- (g) Major programs:

<u>CFDA number</u>	<u>Name of federal program or cluster</u>
Child Nutrition Cluster:	
10.553	National School Breakfast Program
10.555	National School Lunch Program
Other Programs:	
84.010A	Title I Grants to Local Education Agencies

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$1,515,744**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

**KNOX COUNTY, TENNESSEE**

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(2) **Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:**

**Material Weaknesses:**

**CONSTITUTIONAL OFFICERS**

***Finding 08-01: Consolidated Financial Reporting***

The Department of Finance requested that all of Knox County's constitutional offices provide reporting packages which provide detailed financial activity of those offices for inclusion in the CAFR. The Department of Finance has not historically been provided information by the constitutional offices in a format that can be used to develop the CAFR balances and disclosures. Upon inquiry of staff in the Constitutional Offices, we determined that, while data was prepared and reconciled by the Constitutional Offices for their internal reporting purposes, no such data was developed on a regular basis in the format required for development of the CAFR. Further, such information was also not provided in a manner that permits the Department of Finance to prepare clear, concise, and timely internal financial management reports such that management can obtain a complete overview of the County's overall financial position.

We recommend that all constitutional officers provide information at least quarterly, which includes information that is sufficiently detailed so that the Department of Finance can easily lift this information from the reporting packages and generate interim financial reports as needed for both internal and external reporting purposes. If system limitations prevent year-to-date information from being generated and provided, it should be the responsibility of the constitutional office to consolidate this activity in a detailed summary schedule that can be tied back to the supporting documentation.

**Management's Response**

Management concurs that information in the format used for financial reporting purposes has not been provided to the Department of Finance. It should be noted that, in years prior to the 2008 fiscal year, each office provided the underlying schedules and other information of its account balances and activity to the predecessor external auditing firms during the annual audit. Upon completion of the auditors' work in the various constitutional offices, the auditors worked with each office to prepare the schedules in the format required for the CAFR, and provided these schedules to the Department of Finance. This long-standing practice, agreed-to by management as well as by the predecessor auditors, was performed for consistency and convenience.

The Department of Finance will work with the management of each constitutional office to develop a reporting format, based on the schedules and reports that each office already generates from its records, that will result in preparation of the various schedules in the format needed for the CAFR. This information will be provided in the required format for the year ending June 30, 2009. The feasibility of preparing these schedules on an interim basis beginning with the upcoming fiscal year will be evaluated.

## KNOX COUNTY, TENNESSEE

### Schedule of Findings and Questioned Costs

Year ended June 30, 2008

#### *Finding 08-02: Other Specific Constitutional Officers Accounting Matters*

We also noted the following accounting matters related to various constitutional offices:

- The Trustee's Office had difficulty determining the appropriate level of activity to include in their CAFR balances because of various transfers among accounts which caused amounts to be double counted. Between the initial submission and the amounts presented in the final CAFR, total cash receipts and disbursements were adjusted by almost \$400 million.
- The County Clerk's office experienced a change in administration during fiscal year 2009, prior to the start of the 2008 financial statement audit. The accounting records for fiscal year 2008 were not well organized, and consultants needed to be hired to help the office close its books. We also observed that ten deposits out of thirty selected for testing were not made within three business days of receiving the funds as required by the state.
- Certain routine financial transactions and reports for the Criminal and Fourth Circuit Court (including actual financial statements) are recorded manually (handwritten), and no computer generated reports are utilized.

To address these weaknesses, we recommend:

- The Trustee's office develop a detailed schedule or reporting mechanism to properly identify and eliminate all duplicate transfer activity that exists in order to produce timely consolidated financial results.
- All deposits of tax payer money should be made in accordance with existing policies and procedures and state law.
- All financial data obtained by any Knox County entity should be recorded in a computerized system of record to increase the efficiency and reliability of the financial information. Any manually maintained financial information should be minimized.

#### Management's Response

##### *Trustee:*

The cash transactions handled by the Trustee's Office include numerous transactions between various cash accounts which, if not eliminated, would result in duplicate amounts reported in the Combined Schedule of Cash Receipts, Disbursements and Balances. As noted in the reply to the comment regarding "Consolidated Financial Reporting" for the Constitutional Offices, the practice in prior years had been for the Constitutional Offices to work with the predecessor auditors, providing financial schedules and activity information to the auditors who then provided the necessary schedules for the CAFR to the Department of Finance after the audit procedures had been completed. Of additional note is that the Trustee's Office experienced a significant amount of personnel turnover during the fiscal year due to the turmoil created by the various iterations of the Term Limit lawsuit decisions which affected several of the Constitutional Offices.

During the current year, the Trustee's Office, in compiling the required information, noted that the prior year schedules were difficult to follow but did create schedules for the fiscal year 2008 and did in fact

## KNOX COUNTY, TENNESSEE

### Schedule of Findings and Questioned Costs

Year ended June 30, 2008

derive the necessary information. The “initial submission” was provided to the auditors with the explicit knowledge that the document was a work in progress. The Trustee’s Office did continue the preparation of the CAFR schedules and generated the final amounts reported in the CAFR, and has already developed and implemented detailed procedures to follow in preparing these schedules for future years.

#### *County Clerk:*

The County Clerk’s office experienced a change in administration during fiscal year 2009. With the change in administration, we have put procedures in place so that financial statements of the County Clerk’s office are organized and that current personnel have books in order for the current fiscal year of 2009.

To address the weakness of deposits not being made within three business days, the County Clerk’s office has put procedures in place to ensure that all deposits are timely and within and according to policies and procedures of state law. Deposits for transactions of money taken by the County Clerk’s office are set as follows: All deposits for the prior day are received and deposited by the audit person in the downtown office within two working days. Two satellite offices have an audit person in place in the satellite office; the audit person verifies the prior day’s work and the deposits are taken directly to the bank from the satellite office. The deposits made from the satellite offices are made within one working day.

#### *Criminal and Fourth Circuit Court Clerk:*

The financial records in the General Sessions Court – Criminal Division and the Fourth Circuit Court are on a computerized system. The Information Technology Department is at this time updating the bookkeeping system in the Criminal Court to be completely computerized.

#### **Significant Deficiency:**

### GENERAL GOVERNMENT

#### ***Finding 08-03: Actuarial Review of Information for the Healthcare Self Insurance Claims Liability***

The County established a self insured healthcare plan on January 1, 2008, but has not retained the services of a consulting actuary to review the claims experience to assist in the development of the liability for self insurance claims. The County estimated the liability for fiscal year 2008 based on a simple mathematical calculation without factoring in any historical County claims experience or other industry factors. At June 30, 2009, there will be significantly more claims history, and the current calculation being used may not be the most appropriate estimation methodology.

We recommend that the County hire an independent actuary to provide estimated incurred but not reported calculations and compile claims loss triangles based on actual claim lag and enrollment data by month since plan inception to support their analysis. This valuation should be the basis for the liability accrual recorded in the general ledger.

#### **Management’s Response**

As noted above, the County has not retained the services of an actuary to assist in the development of the estimated liability for self-insurance claims related to the self-insured healthcare plan established during the fiscal year. It should be noted that the County is a member of a data cooperative, which has as one of

**KNOX COUNTY, TENNESSEE**

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

its functions the analysis of claims experience and comparison of such experience among various peer institutions. The County did use information received from this cooperative in evaluating the reasonableness of the liability for claims, including the provision of incurred but not reported claims (IBNR). The County also did factor in the County's own historical claims experience in developing the estimate.

Management of the County will obtain proposals from independent actuaries and present the proposals and the related costs of obtaining such services to County Commission. If Commission approves obtaining and paying for these services, the County will hire an independent actuary as recommended.

**(3) Findings and Questioned Costs Relating to Federal Awards:**

**KNOX COUNTY SCHOOLS**

***Finding 08-04: Eligibility – Ineligible Students***

**Finding Type: Material Noncompliance and Material Weakness**

**CFDA#: Various – Child Nutrition Cluster**

**Federal Agency: U.S. Department of Agriculture, Passed through the Tennessee Department of Agriculture**

**Federal Award Year: July 1, 2007 to June 30, 2008**

***Requirement***

In accordance with Knox County Schools (the Schools) eligibility requirements which are identical to the federally determined guidelines, if the level of calculated family income falls below 130% of the federal poverty income level a student is entitled to free meals and if the family income falls between 130% and 185% of federal poverty level income a student is entitled to reduced price meals.

***Condition***

We selected and reviewed a sample of 30 student applications to determine whether the amount of income reported by the household fell within the acceptable level to permit participation in the program. Two students receiving aid (one received free meals and the other received reduced price meals) should have been disqualified based upon the documented family income level. In addition, we selected and reviewed an additional sample of 30 student applications and verified that audit procedures were correctly performed by the Schools and reported as required by the federal government. We found that based on the requested documentation obtained by the Schools from the families that the reverification results reached by Knox County Schools for two of the students incorrectly indicated that no change should be made. Due to lack of appropriate oversight, expenditures were incurred without following the requirements of the published federal eligibility guidelines. As a result, Knox County Schools inappropriately granted students access to free or reduced meals.

## **KNOX COUNTY, TENNESSEE**

### Schedule of Findings and Questioned Costs

Year ended June 30, 2008

#### ***Questioned Cost***

Per Knox County Schools verification summary report, KPMG noted that 4,390 students subject to verification were approved for free meals and 3,422 students were approved for reduced meals based on income/household size information submitted. Of the 60 students tested, four were identified (two of which received free meals, two which received reduced price meals) whom were not eligible for benefits under these programs. Total questioned costs for these 4 students totaled \$2,223.

#### ***Possible Asserted Cause and Effect***

Due to lack of appropriate oversight, expenditures were incurred without following the requirements of the published federal eligibility guidelines. As a result, Knox County Schools inappropriately granted students access to free or reduced meals.

#### ***Recommendation***

We recommend that Knox County Schools enhance its supervisory review procedures to ensure that only students who qualify for free or reduced meals receive them.

#### ***Views of Responsible Management***

Knox County School Nutrition Program receives approximately 18,000 family applications annually. In following regulations set forth by USDA and in an effort to process applications in a timely manner; a number of office staff along with four or more Temp Services employees are trained and utilized in the processing of applications during the first thirty days of school.

Applications are scanned and information is verified by staff. Income information is listed on the application as to the frequency the income is received (weekly, every two weeks, twice a month and monthly). The income is converted to a monthly total and eligibility determined by the computer program and information, verified by staff. The errors in concern, were for last school year and therefore no letter of correction was made to the parents concerning a change in student's benefits. The accuracy of the determination of benefits is subject to human error. In an attempt to alleviate errors and correct oversights, a staff member will be assigned the responsibility to re-check all applications for accuracy of eligibility. Any and all household affected by the double checking of eligibility will be notified in writing of any changes to their children's benefits.

**KNOX COUNTY, TENNESSEE**

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

***Finding 08-05: Eligibility – Ineligible Students***

**Finding Type: Noncompliance and Material Weakness**

**CFDA#: 84.010A – Title I**

**Federal Agency: U.S. Department of Education, Passed through the Tennessee Department of Education**

**Federal Award Year: July 1, 2007 to September 30, 2008**

***Requirement***

When determining eligibility for Title I the federal government allows an entity to select a poverty measure from among a variety of defined data sources. In accordance with Knox County Schools' policy the defined data source utilized was the number of children eligible for free and reduced priced lunches.

***Condition***

We noted when performing testwork that the Title I program utilizes the number of children eligible for free and reduced priced lunches to determine a school's poverty level. This poverty level is then used to calculate and determine whether a school qualifies for funding and the amount of funding for which the school qualifies. Given that Title I is heavily reliant upon the statistics utilized from food services to determine school funding levels the award amounts could have been impacted if the exceptions had not existed. Any weaknesses in eligibility determination will impact the determination of the school's poverty level.

We selected and reviewed a sample of 30 student applications to determine whether the amount of income reported by the household fell within the acceptable level to permit participation in the program. Two students receiving aid (one received free meals and the other received reduced price meals) should have been disqualified based upon the documented family income level. In addition, we selected and reviewed an additional sample of 30 student applications and verified that audit procedures were correctly performed by the Schools and reported as required by the federal government. We found that based on the requested documentation obtained by the Schools from the families that audit results reached by Knox County Schools incorrectly indicated that no change should be made for two of the students, however based on the information provided one student who received free meals should have received reduced priced meals and one student who received reduced price meals should not have qualified.

As discussed above, we recommend that Knox County Schools enhance its supervisory review procedures to ensure that only students who qualify for free or reduced meals receive them and Title I to review the various approved federal poverty measures from the defined data sources and ensure that the source being utilized still remains the most appropriate one. Given that Title I is heavily reliant upon the statistics utilized from food services to determine school funding levels the award amounts could have been impacted if the exceptions had not existed.

**KNOX COUNTY, TENNESSEE**

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

***Questioned Cost***

None

***Possible Asserted Cause and Effect***

Controls over the determination of eligibility for free or reduced price meals are not operating effectively; accordingly, the base for the selection of the appropriate poverty measure is adversely affected.

***Recommendation***

We recommend that Knox County Schools add an additional level of supervisory review to ensure that only students who qualify for free or reduced meals receive them and Title I to review the various approved federal poverty measures from the defined data sources and ensure that the source being utilized still remains the most appropriate one.

***Views of Responsible Management***

There are four (4) qualifying options: 1) free and reduced (F/R); 2) census; 3) TANF; or 4) medicaid that may be used to determine school level poverty. The Title I office has consistently selected F/R without problems. Title I is required to use an "external" office/department as a source to identify the schools. Annually, a report is obtained from Food Services certifying the accuracy. Food Services has a proven track record of providing accurate and speedy reports over a number of years. When questions arise, Food Services reviews the data and makes needed adjustments. The operative word is "external". Our office is not allowed to participate in the preparation. But, there is an effective system established with Food Services to provide accurate information.