

KNOX COUNTY, TENNESSEE

**Schedules of Expenditures of Federal Awards
and State Financial Assistance
and Reports as Required by
Government Auditing Standards and
the *Uniform Guidance***

For the Year Ended June 30, 2017



KNOX COUNTY, TENNESSEE

**Schedules of Expenditures of Federal Awards and State Financial Assistance
and Reports as Required by *Government Auditing Standards* and the *Uniform Guidance***

For the Year Ended June 30, 2017

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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*

INDEPENDENT AUDITOR'S REPORT

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 and the aggregate remaining fund information of Knox County, Tennessee (the "County") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 23, 2018. Our report on the financial statements 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 "Board"). 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.

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



A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2017-002 and 2017-003 to be significant deficiencies.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Knox County, Tennessee's Responses to Findings and the Corrective Action Plan

The County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and the Corrective Action Plan. 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 results 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
January 23, 2018

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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 THE *UNIFORM GUIDANCE*

INDEPENDENT AUDITOR'S REPORT

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 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, 2017. 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.

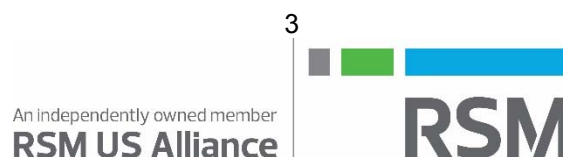
The County's basic financial statements include the operations of The Development Corporation of Knox County (the "TDC"), a discretely presented component unit, reported in the financial statements of the County, and the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented component unit, reported in the financial statements of the Knox County Board of Education (the "Board"). Our audit, described below, did not include the operations of TDC or the Partnership because these entities engaged other auditors to perform their audits. Based upon the reports of the other auditors, TDC and the Partnership did not receive any federal awards for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *Uniform Guidance* and which are described in the accompanying schedule of findings and questioned costs as items 2017-004 and 2017-005. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the 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 the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002, 2017-003, 2017-004, and 2017-005 that we consider to be significant deficiencies.

The County's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and the Corrective Action Plans. The County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

Report on Schedules of Expenditures of Federal Awards and State Financial Assistance Required by the *Uniform Guidance* and the Tennessee Comptroller of the Treasury

We have audited the financial statements of the County as of and for the year ended June 30, 2017, and have issued our report thereon dated January 23, 2018 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 awards and state financial assistance are presented for purposes of additional analysis as required by the *Uniform Guidance* 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 awards and state financial assistance 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
January 23, 2018

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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Knox County, Tennessee (Primary Government):				
U.S. Department of Agriculture:				
Passed through Tennessee Department of Health:				
Special Supplemental Nutrition Program for Women, Infants, and Children:				
Women, Infants, and Children (WIC)	10.557	GG-15-43543-00	\$	1,575,701
Women, Infants, and Children (WIC)	10.557	GG-15-43543-00		<u>569,744</u>
Total U.S. Department of Agriculture				<u>2,145,445</u>
U.S. Department of Housing and Urban Development:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grant	14.218	B-14-UC-47-0001		41,027
Community Development Block Grant	14.218	B-16-UC-47-0001	\$ <u>791,443</u>	<u>952,418</u>
Total CDBG - Entitlement Grants Cluster			<u>791,443</u>	<u>993,445</u>
HOME Investment Partnerships Programs	14.239	M-15-UC-47-0204		78,730
HOME Investment Partnerships Programs	14.239	M-16-UC-47-0204	<u>282,285</u>	<u>213,425</u>
Total HOME Investment Partnerships Programs			<u>282,285</u>	<u>292,155</u>
Total U.S. Department of Housing and Urban Development			<u>1,073,728</u>	<u>1,285,600</u>
U.S. Department of Justice:				
Edward Byrne Memorial Justice Assistance Grant Program:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2016-DJ-BX-0707		<u>14,638</u>
Total Edward Byrne Memorial Justice Assistance Grant Program				<u>14,638</u>
Federal Bureau of Investigation:				
Law Enforcement Assistance - FBI Field Police Training	16.302	N/A		8,949
Law Enforcement Assistance - FBI Field Police Training	16.302	N/A		235
Law Enforcement Assistance - FBI Field Police Training	16.302	N/A		<u>2,978</u>
Total Federal Bureau of Investigation				<u>12,162</u>
Office of Community Oriented Policing Services:				
Public Safety Partnership and Community Policing Grants	16.710	SE-TNE-193		12,771
Public Safety Partnership and Community Policing Grants	16.710	281D-KX-61230		<u>4,161</u>
Total Office of Community Oriented Policing Services				<u>16,932</u>
Bureau of Justice Assistance:				
State Criminal Alien Assistance Program	16.606	2016-H2540-TN-AP		<u>5,666</u>
Passed Through Tennessee Office of Criminal Justice Programs:				
Crime Victim Assistance	16.575	2015-VA-GX-0018		<u>29,332</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2016-H3618-TN-DJ		<u>87,560</u>
Total Passed Through Tennessee Office of Criminal Justice Programs				<u>116,892</u>
Total U.S. Department of Justice				<u>166,290</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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):				
U.S. Department of Transportation:				
Federal Highway Administration:				
Passed through Tennessee Department of Transportation:				
Highway Planning & Construction Cluster:				
Highway Planning and Construction - Traffic Signal Coordination Project	20.205	Agreement No. 140234		\$ <u>6,740</u>
Total Highway Planning & Construction Cluster				<u>6,740</u>
Total Federal Highway Administration				<u>6,740</u>
National Highway Traffic Safety Administration:				
Passed through Tennessee Department of Transportation:				
Alcohol Open Container Requirements	20.607	Z-17-THS041		45,793
Alcohol Open Container Requirements	20.607	Z-16-GHS182		<u>13,347</u>
Total National Highway Traffic Safety Administration				<u>59,140</u>
Total U.S. Department of Transportation				<u>65,880</u>
Institute of Museum and Library Services:				
Passed through Tennessee Secretary of State:				
Grants to States:				
National Endowment for the Arts - Festival of Reading	45.310	16-5200-7132		10,000
Library Services - Materials for the Disadvantaged	45.310	LS-00-16-0043-16		<u>6,400</u>
Total Institute of Museum and Library Services				<u>16,400</u>
Environmental Protection Agency:				
Office of Air and Radiation:				
Air Pollution Control Program Support:				
Air Pollution Control Program Support - Section 105	66.001	A-00408315-3		329,977
Air Pollution Control Program Support - Section 103	66.001	PM-96497615		<u>151,663</u>
Total Air Pollution Control Program Support				
Total Office of Air and Radiation				<u>481,640</u>
Office of Water:				
Passed through Tennessee Department of Agriculture:				
Nonpoint Source Implementation Grant	66.460	EDISON 44778		<u>43,780</u>
Total Passed through Tennessee Department of Agriculture				<u>43,780</u>
Total Environmental Protection Agency				<u>525,420</u>
U.S. Department of Energy:				
Passed Through Tennessee Emergency Management Agency:				
Environmental Monitoring/Cleanup, Cultural and Resource Mgmt., Emergency				
Response Research, Outreach, Technical Analysis	81.214	EDISON 51230		<u>31,870</u>
Total U.S. Department of Energy				<u>31,870</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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):				
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	2017	\$	61,572
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	2016		<u>40,679</u>
Total U.S. Department of Education				<u>102,251</u>
U.S. Department of Health and Human Services:				
Passed through Tennessee Department of Mental Health and Substance Abuse Services:				
U.S. Substance Abuse and Mental Health Services Administration:				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance				
Felony Recovery Court Services-Specific Assistance to Individuals	93.243	DGA51359_2016-2017_005		<u>338</u>
Total Passed through Tennessee Department of Mental Health and Substance Abuse Services				<u>338</u>
Passed through Tennessee Department of Health:				
Centers for Disease Control and Prevention Programs:				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	GG-17-50860-00		<u>107,905</u>
Immunization Cooperative Agreements Grants Program:				
Immunizations and Vaccines for Children Program	93.268	GG-18-54543-00		53,698
Immunizations and Vaccines for Children Program	93.268	GG-16-48709-00		<u>135,617</u>
Total Immunization Cooperative Agreements Grants Program				<u>189,315</u>
Hospital Preparedness Program and Public Health Emergency Preparedness				
Aligned Cooperative Agreements:				
Public Health Emergency Preparedness	93.074	ZZ-17-1414-25		70,096
Public Health Emergency Preparedness	93.074	ZZ-17-1414-25		12,695
National Bioterrorism Hospital Preparedness Program	93.074	ZZ-17-1414-25		<u>492,733</u>
Total Public Health Emergency Preparedness				<u>575,524</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	GG-16-45506-00		<u>29,158</u>
National State Based Tobacco Control Programs	93.305	GG-17-53481-00		<u>12,413</u>
HIV Prevention Activities Program:				
HIV Prevention - Health Department Based	93.940	GG-17-52507-00		62,886
HIV Prevention - Health Department Based	93.940	GG-16-48499-00		<u>81,176</u>
Total HIV Prevention Activities Program				<u>144,062</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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total 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)				
Sexually Transmitted Disease Prevention and Control Grants:				
Preventative Health Services - STD Control Grant - Infertility Youth Screening	93.977	GG-16-48524-00	\$	31,065
Preventative Health Services - STD Control Grant - Infertility Youth Screening	93.977	GG-17-52484-00		35,395
Preventative Health Services - Sexually Transmitted Disease Control Grant	93.977	GG-17-52507-00		73,295
Preventative Health Services - Sexually Transmitted Disease Control Grant	93.977	GG-16-48499-00		<u>70,369</u>
Total Sexually Transmitted Disease Prevention and Control Grants				<u>210,124</u>
Injury Prevention and Control Research and State and Community Based Programs:				
Injury Prevention and Control Research	93.136	GG-15-44316-00		14,197
Injury Prevention and Control Research	93.136	GG-15-44316-00		<u>27,472</u>
Total Injury Prevention and Control Research Programs				<u>41,669</u>
Preventative Health and Health Services Block Grant	93.758	GG-17-49770-00		<u>61,500</u>
Assistance Programs for Chronic Disease Prevention and Control	93.945	GG-14-41079-03		<u>67,429</u>
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	GU-15-45140-00		<u>3,754</u>
Total Centers for Disease Control and Prevention Programs				<u>1,442,853</u>
Health Resources and Services Administration Programs:				
Maternal, Infant and Early Childhood Home Visiting Cluster				
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	93.505	GG-17-50347-00		<u>44,000</u>
Maternal, Infant and Early Childhood Home Visiting Cluster Total				<u>44,000</u>
HIV Care Formula Grant Program:				
HIV Care Formula Grant	93.917	GG-17-53500-00		121,040
HIV Care Formula Grant -Centers of Excellence	93.917	GG-16-48902-00		<u>353,105</u>
Total HIV Care Formula Grant Program				<u>474,145</u>
Maternal and Child Health Services Block Grants to the States:				
Maternal and Child Health Services Block Grant - Breast & Cervical Cancer	93.994	GG-15-41706-00		67,800
Maternal and Child Health Services Block Grant - Children's Special Services	93.994	GG-17-50069-00		170,446
Maternal and Child Health Services Block Grant - Family Planning Services	93.994	GG-13-38051-00		<u>330,469</u>
Total Maternal and Child Health Services Grants				<u>568,715</u>
Total Health Resources and Services Administration Programs				<u>1,086,860</u>
Office of Population Affairs:				
Family Planning Services	93.217	GG-13-38051-00		<u>297,422</u>
Total Passed through Tennessee Department of Health				<u>2,827,135</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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):				
U.S. Department of Health and Human Services (Continued):				
Passed through Tennessee Department of Human Services:				
Office of Administration for Children and Families:				
Child Support Enforcement	93.563	CONTRACT 44946-01	\$	223,855
Child Support Enforcement	93.563	EDISON 36305-04		<u>261,884</u>
Total Passed through TN Department of Human Services				<u>485,739</u>
Total U. S. Department of Health and Human Services				<u>3,313,212</u>
U.S. Department of Homeland Security:				
Passed through Tennessee Emergency Management Agency:				
Port Security Grant Program - Disaster Grants - Public Assistance	97.056	2016-SL-B411-P410-4101		<u>91,373</u>
Total Passed through Tennessee Emergency Management Agency				<u>91,373</u>
Passed through Tennessee Department of Military:				
Homeland Security Grant Program	97.067	2016		<u>323,394</u>
Total Passed through Tennessee Department of Military				<u>323,394</u>
Total U.S. Department of Homeland Security				<u>414,767</u>
Executive Office of the President:				
Passed through Laurel County, Kentucky:				
High Intensity Drug Trafficking Areas Program	95.001	G-17-AP0001A		10,939
High Intensity Drug Trafficking Areas Program	95.001	G-17-AP0001A		13,953
High Intensity Drug Trafficking Areas Program	95.001	G-17-AP0001A		1,160
High Intensity Drug Trafficking Areas Program	95.001	G-16-AP0001A		<u>19,832</u>
Total Executive Office of the President				<u>45,884</u>
Total Federal Awards-Knox County Primary Government			\$	<u>1,073,728</u> \$ <u>8,113,019</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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Knox County Board of Education (Component Unit):				
U.S. Department of Agriculture:				
Passed through Tennessee Department of Agriculture:				
Food and Nutrition Service:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	2017	\$	4,883,157
National School Lunch Program	10.555	2017		14,896,507
National School Lunch Program - Non-Cash Assistance - Commodities	10.555	2017		<u>2,031,901</u>
Total Child Nutrition Cluster				<u>21,811,565</u>
Fresh Fruit and Vegetable Program	10.582	2016		<u>373,003</u>
Total Food and Nutrition Service				<u>22,184,568</u>
Total U.S. Department of Agriculture				<u>22,184,568</u>
U.S. Department of Transportation - Federal Highway Administration:				
Highway Training and Education	20.215	2016		<u>297,656</u>
U.S. Department of Education:				
Passed through Tennessee Department of Education:				
Office of Elementary and Secondary Education:				
Title I Grants to Local Education Agencies:				
Title I Grants to Local Education Agencies	84.010A	2017		16,664,531
iZone Grant	84.010A	2017		897,822
Focus Schools - Chilhowee	84.010A	2016		82,740
Focus Schools - Mooreland Heights	84.010A	2016		<u>66,542</u>
Total Title I Grants to Local Education Agencies				<u>17,711,635</u>
Education for Homeless Children and Youth Programs	84.196A	2017		<u>114,028</u>
Twenty-First Century Community Learning Centers	84.287	2017		<u>610,000</u>
English Language Acquisition State Grants Program:				
English Language Acquisition State Grants Title III	84.365A	2017		295,558
English Language Acquisition State Grants Title III - Immigrant	84.365A	2015		<u>9,320</u>
Total English Language Acquisition State Grants Program				<u>304,878</u>
Supporting Effective Instruction State Grant (formerly Improving Teacher				
Quality State Grants - Title II - Part A)	84.367A	2017		<u>1,950,672</u>
School Improvement Grants:				
School Improvement Grant - Cohort 3 SMG	84.377A	2016		200,841
School Improvement Grant - Cohort 4 VINE	84.377A	2017		<u>479,662</u>
Total School Improvement Grants				<u>680,503</u>
Total Office of Elementary and Secondary Education				<u>21,371,716</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, 2017

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Knox County Board of Education (Component Unit) (Continued)				
U.S. Department of Education (Continued):				
Passed through Tennessee Department of Education (Continued):				
Office of Special Education and Rehabilitative Services:				
Special Education (IDEA) Cluster:				
Special Education - Grants to States	84.027A	2017		\$ 12,998,233
Special Education - Grants to States - Discr. Parent Involvement	84.027A	2017		<u>37,020</u>
Total Special Education - Grants to States				<u>13,035,253</u>
Preschool Program:				
Special Education - Preschool Grants	84.173A	2017		<u>321,557</u>
Total Special Education (IDEA) Cluster				<u>13,356,810</u>
Office of Career, Technical, and Adult Education:				
Career and Technical Education - Basic Grants to States:				
Career and Technical Education - Carl Perkins	84.048A	2017		1,012,391
CTE Perkins Reserve	84.048A	2017		<u>9,966</u>
Total Office of Career, Technical, and Adult Education				<u>1,022,357</u>
Total Passed through Tennessee Department of Education				<u>35,750,883</u>
Passed through Tennessee Department of Human Services:				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	34570-51317		<u>44,683</u>
Total U.S. Department of Education				<u>35,795,566</u>
Total Federal Awards--Knox County Board of Education Component Unit				<u>58,277,790</u>
Total Federal Awards			<u>\$ 1,073,728</u>	<u>\$ 66,390,809</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 FINANCIAL ASSISTANCE
For the Year Ended June 30, 2017

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government):		
Tennessee Department of Corrections:		
Community Corrections (CAPP)	GG-11-32083-1	\$ <u>650,303</u>
Total Tennessee Department of Corrections		<u>650,303</u>
Tennessee Commission on Children and Youth:		
Children Services - Youth Officer	EDISON 39605	<u>9,000</u>
Total Tennessee Commission on Children and Youth		<u>9,000</u>
Tennessee Secretary of State:		
General Library Services	30504-00217-02	<u>45,500</u>
Total Tennessee Secretary of State		<u>45,500</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-17-50860-00	382,573
Immunization	GG-18-54543-00	23,248
Immunization	GG-16-48709-00	59,777
Sexually Transmitted Disease	GG-17-52507-00	15,418
Sexually Transmitted Disease	GG-16-48499-00	14,377
Sexually Transmitted Disease	GG-17-52507-00	3,447
Sexually Transmitted Disease	GG-16-48499-00	13,182
Family Planning	GG-13-38051-00	33,047
Oral Health	GG-17-50995-00	238,371
Adolescent Pregnancy	GG-17-49913-00	44,312
Children's Special Services	GG-17-50069-00	76,577
EPSDT Tenndercare	GG-17-50347-00	336,300

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 FINANCIAL ASSISTANCE
For the Year Ended June 30, 2017

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government) (Continued):		
Tennessee Department of Health (Continued):		
Fetal Infant Mortality	GG-17-49495-00	\$ 150,000
Diabetes	GG-17-50990-00	150,000
Adult Emergency Dental Services	GG-17-50995-00	51,244
Help Us Grow Successfully	GG-15-41709-00	241,900
Total Tennessee Department of Health		1,833,773
Tennessee Department of Human Services:		
Edward Byrne Memorial Formula Grant Program-Drug Court	EDISON 50788	383,539
Edward Byrne Memorial Formula Grant Program-Juvenile Court	EDISON 50250	3,845
Juvenile Court InnerChange Grant	EDISON 43847	140,776
Total Tennessee Department of Human Services		528,160
Tennessee Department of Agriculture - Forestry Division:		
Tenn. Agriculture Enhancement Program - Farmer's Market	EDISON 58702	483
Tenn. Agriculture Enhancement Program - Farmer's Market	EDISON 63657	1,000
Total Tennessee Department of Agriculture - Forestry Division		1,483
Tennessee Department of Transportation:		
Litter Grant	Z17LIT047	144,600
Gap Creek Bridge/Kimberlin Heights Road Project Bridge #47024360003	475ABI-S3-002	12,215
Total Tennessee Department of Transportation		156,815
Total State Financial Assistance - Knox County Primary Government		3,225,034

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 FINANCIAL ASSISTANCE
For the Year Ended June 30, 2017

Program Title	Identifying Number	State Expenditures
Knox County Board of Education (Component Unit):		
Tennessee Department of Education:		
Coordinated School Health	2016-2017	185,000
Pre-Kindergarten	2016-2017	2,014,203
Safe Schools Act	2016-2017	197,844
Read to be Ready Coaching Network	2016-2017	4,973
Governor's Academy for School Leaders	2016-2017	3,142
Family Resource Center	2016-2017	1,513
Child Nutrition State Matching	2016-2017	<u>251,796</u>
Total Tennessee Department of Education		<u>2,658,471</u>
Total State Financial Assistance - Knox County Board of Education (Component Unit)		<u>2,658,471</u>
Total State Financial Assistance		<u>\$ 5,883,505</u>

The accompanying notes are an integral part of this schedule.

KNOX COUNTY, TENNESSEE

**NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE**

For the Year Ended June 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedules of expenditures of federal awards and of state financial assistance (the "Schedules") include the federal award and state grant activity of Knox County, Tennessee (the "County"), and its discretely presented component unit, Knox County Board of Education, (the "Board"), for the year ended June 30, 2017. The information in these Schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the Tennessee Comptroller of the Treasury. Because the Schedules present only a selected portion of the operations of Knox County, Tennessee, they are not intended to and do not present the financial position, changes in net position, or cash flows of Knox County, Tennessee.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedules are reported on the modified-accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown in the Schedules represent adjustments or credits made in the normal course of business to amounts reported as expenditures in the prior years.

NOTE 3 - LOANS OUTSTANDING

The County had the following loan funding balances outstanding at June 30, 2017. 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 2017 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grant	14.218	\$ 0	\$ 412,170
HOME Investment Partnerships Programs	14.239	0	904,158

NOTE 4 - SUBRECIPIENTS

Of the expenditures presented in the schedule of expenditures of federal awards, 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	\$ 791,443
HOME Investment Partnerships Programs	14.239	282,285
Total Subrecipient Awards		\$ <u>1,073,728</u>

NOTE 5 - NON-CASH ASSISTANCE

The Board 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 6 - INDIRECT COSTS

A number of the County's and Board'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 awards and of state financial assistance. The County and Board have elected not to use the ten percent de minimis indirect rate as allowed under the *Uniform Guidance*.

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes 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 2 CFR 200.516(a)?

yes no

Major federal programs for Knox County, Tennessee for the year ended June 30, 2017 are:

<u>Program Name</u>	<u>CFDA#</u>
Child Nutrition Cluster	10.553, 10.555
Career and Technical Education – Basic Grants to States (Perkins IV)	84.048A
Supporting Effective Instruction State Grant	84.367A

Dollar threshold used to distinguish between Type A & Type B programs: \$1,991,724

Auditee qualified as low-risk auditee? yes no

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section II - Financial Statement Findings

Current Year Audit Findings:

2017-001 Accrual of Sick Leave Retirement Liability, Other Postemployment Benefits Liability and Financial Review

Criteria or Specific Requirement - Generally accepted accounting principles (GAAP) requires that expenditures and related liabilities be reported when incurred, in the government-wide and/or where applicable, in the fund financial statements.

Condition - During the audit it was noted that an accrual for the County and the Board's liability for accrued sick leave, which is paid out only at retirement, was not being properly accrued as a liability on the government-wide financial statements. The amount previously recorded by the County was \$ 200,000 (\$0 for Board). As a result, audit adjustments were recorded for approximately \$2.3 million for the County and approximately \$12 million for the Board to adjust the liabilities and net position to the proper amounts as of July 1, 2016 (the beginning of 2017) for the portion of the liability related to prior years. Adjustments were also made to record the change in these liabilities for the year ended June 30, 2017.

In addition, we determined that a liability for other post-employment health insurance benefits provided to retired certified Board personnel covered by a TCRS teacher retirement legacy plan was not recorded on the government-wide financial statements. As a result, an audit adjustment was recorded for approximately \$10.4 million to record the liability and adjust net position of the Board as of July 1, 2016, (beginning of the year) representing the portion of the liability related to prior years. The change in this liability for the year ended June 30, 2017 was also recorded as an adjustment.

Cause and Effect - In the preparation of the year-end financial statements, which include the Board as a discretely presented component unit, communication and coordination between the County and Board is essential. The communication and coordination related to the year-end close and CAFR preparation and review should be improved. Also, there is no comprehensive listing of all Board employee benefits, which should incorporate any updates or changes as they occur. The failure to properly record all expenses and accrue all related liabilities can result in misstatement of the financial statements.

Recommendations -

- a. We recommend that the County and Board Finance Departments' personnel individually and jointly review the year-end Comprehensive Annual Financial Report (CAFR) to determine that all applicable entries are recorded at year-end, including any changes or updates to employee-related benefits or policies.
- b. The Board should consider incorporating all employee benefit programs, including those for retirees, into their employee manual so that a comprehensive list is available. These disclosures would include a description of who is qualified and how the benefits are earned.
- c. Consider implementing joint quarterly meetings throughout the year to discuss financial related matters in order to improve communications and financial reporting, with members of both County and Board finance departments in attendance.
- d. The Board should consider designating an individual in their Finance Department to coordinate with the County in the preparation of the Board's portion of the CAFR.
- e. The use of a comprehensive governmental financial reporting and disclosure checklist could be useful in conjunction with the review of the year end CAFR.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2017-001 Accrual of Sick Leave Retirement Liability, Other Postemployment Benefits Liability and Financial Review (Continued)

Management's Response -

Board Response - The Board will consider the recommendations in light of the budgetary constraints placed on staffing and operations of the Board Finance Department. The recommendation regarding the employee benefit programs will be passed to the Board Benefits Department.

County Response - The County finance department concurs with the audit recommendations. We plan to meet on a regular basis with the Board finance staff to discuss financial related matters and at year-end to review and discuss the CAFR.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2017-002 Purchasing Policies and Procedures

Criteria or Specific Requirement - The County has a procurement department with established written purchasing regulations which are established to ensure that all purchases are appropriately approved and comply with the Knox County Procurement Code. In addition, the Board has policy F-110, *Alterations and Modifications to Facilities*, which requires that alterations, modifications and/or additions to facilities requiring a building permit be approved by the Board before work may begin.

Condition - In June 2017, a purchase order for approximately \$400,000 was issued utilizing funds from the FY 2018 budget for the alteration and modification of a Board school facility. At the time of the issuance of this purchase order, funds had not been allocated in the approved FY18 budget for this particular project, however the purchase order was approved by Board management in mid-June. Although work of this nature requiring a building permit must have Board approval, work on this project was begun at that point without Board approval.

In addition, the County's purchasing regulations do not include the Federal grant compliance requirement in the *Uniform Guidance* to verify and document that a vendor is not suspended or debarred before making purchases with Federal funds.

Cause and Effect - There was no approval of the above project by the Board prior to the work being started. The effect was the Board had to appropriate additional funds to cover the costs of the unapproved project, since the work was started before approval was obtained. Failure to verify that a vendor is suspended or debarred could result in the County or Board making a purchase with Federal funds that could be unallowable.

Recommendations - We recommend the following:

- a. All significant alterations, modifications and/or additions to Board facilities should receive proper approval prior to being sent to the procurement department.
- b. Review and approval of all procurement requests over a certain predetermined dollar amount should be made by executive level management.
- c. Examine and consider improvements to the level of budgetary control in the procurement process to prevent issuing purchase orders without available budgeted funds at a project level.
- d. Consider amending the County's purchasing regulations to include all the requirements of the Board's policies, a specific dollar amount that triggers the requirement to obtain a purchase order from the Procurement department, and clarify the requirement of when a purchase order should be approved by the County Commission and/or Board.
- e. We recommend that the Procurement Code be amended to include all applicable requirements of the *Uniform Guidance* relating to procurement with Federal funds, including a requirement to verify and document that a vendor is not suspended or debarred before entering into any contracts or purchase orders with them.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2017-002 Purchasing Policies and Procedures (Continued)

Management's Response-

Board Response - We concur that the Knox County Purchasing Regulations should be amended to include the requirements of all applicable Board policies. As noted in the Procurement Code for Knox County, purchasing regulations can only be issued and modified by the Knox County purchasing director (Sec. 2-612). In the interim, Knox County Schools (KCS) has developed and implemented the following—

- To ensure that all procurement requests over a certain dollar limit are reviewed and approved by senior program management, that alterations, modifications and/or additions to Board facilities receive Board approval prior to being sent to the procurement department, KCS has restricted the ability to enter MUNIS procurement system requisitions to designated individuals in the Business Services Office and in the Facilities, Maintenance, Information Technology, and Grant Departments.
- KCS has established an approval workflow for requisitioning which includes the creation of paper requisitions by the requesting department, KCS department head approval, KCS budget director review, and submission to the Business Services Office for entry to the MUNIS procurement system.
- All requisitions are now reviewed by the Business Services or respective department to ensure that the requests include all required documentation and approvals prior to a purchase being made. As applicable, requisitions must include evidence of Board approval.
- Lastly, MUNIS approval workflow is now set to require department head approval and Business Services Supervisor approval prior to submission to Knox County Purchasing for processing. Also, several years ago, the MUNIS accounting system was set to monitor budgetary compliance at the "major category" level. On September 13, 2017, the Business Services Supervisor submitted a request to Knox County Finance to immediately adjust the budget monitoring controls in MUNIS to the object level within programs to prevent issuance of purchase orders without available budgeted funds at a detailed level. Knox County Finance implemented this change in MUNIS as requested.

County Response - County Finance will work with the Procurement department to review the Purchasing Regulations and determine if any modifications need to be made. We will also include in the Procurement Code the requirements necessary to comply with the Uniform Guidance.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2017-003 Electronic Commerce Cards (E-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 the following items were noted:

1. During our audit, we noted that purchases made on several department head's E-cards that we tested were not reviewed and approved by an appropriate level individual. In some cases, there was no review other than the cardholder themselves. This indicates a lack of segregation of duties.
2. The e-card program provides contract cards that do not have the cardholder's name embossed on the front of the card, are used by multiple employees, and which have significantly larger credit limits than individual e-cards. These cards do not have significantly increased restrictions beyond those on normal e-cards and it is not readily determinable which employee(s) make each individual purchase.
3. We noted a lack of consistent documentation related to the determination of, or changes to, credit limit amounts for employee and contract cards.
4. Investigations are currently in progress related to allegations that personal or unauthorized charges were made with one or more e-cards. The State of Tennessee Comptroller's Office and local law enforcement officials are currently conducting investigations related to these e-cards to determine the extent and dollar amount of any possible unauthorized or improper use.

Cause and Effect - The lack of proper segregation of duties and lack of controls related to approval of credit limit increases creates a higher risk for the potential of misuse or abuse.

Recommendations - We recommend the following:

- a. The review and approval for payments made with departmental e-cards and e-cards issued to department heads should be performed by a senior management level individual, other than the cardholder, in order to improve segregation of duties. In addition, senior management should periodically review the chain of approvals required for each e-card. This documentation should be maintained on file.
- b. Management should review the restrictions on contract and e-cards and implement procedures to prevent unauthorized or excess usage or potential combining of credit limits from several cards in order to bypass the credit limits imposed on individual cards.
- c. All requests for credit limit increases should be documented and contain the approval of the department head or director, prior to any credit limit increases being granted. This documentation should be maintained on file in accordance with applicable record retention policies.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section II - Financial Statement Findings (Continued):

Current Year Audit Findings (Continued):

2017-003 Electronic Commerce Cards (E-cards) (Continued)

Management's Response -

- a. We concur where this is feasible. However, there is no legal level of authorization above elected officials. A review of authorized individuals will be executed concurrent with each year's budget to review for changes/elections during the past year to validate currency of personnel. The County agrees to maintain this documentation on file describing any changes to the chain of approvals.
- b. All cardholders have applications on file which have been approved by the Department Head. It is already against policy to 'combine' cards or to circumvent the procurement policy by splitting orders. If instances of this are noted, disciplinary procedures should follow. We will review the contract card policy to determine additional safeties and efficiencies and to implement such changes as deemed necessary. Combining of credit cards to bypass credit limits was not found to have occurred.
- c. We concur and will change the approval procedure to include upper level approval on all changes and keep these on file.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section III - Federal Award Findings

Current Year Audit Findings:

2017-002 Purchasing Policies and Procedures

Program(s): Child Nutrition Cluster (CFDA # 10.553 & 10.555), Career and Technical Education – Basic Grants to States (Perkins IV) (CFDA # 84.048A) and Supporting Effective Instruction State Grant (CFDA # 84.367A)

See detailed reporting in Section II.

2017-003 Electronic Commerce Cards (E-cards)

Program(s): Child Nutrition Cluster (CFDA # 10.553 & 10.555), Career and Technical Education – Basic Grants to States (Perkins IV) (CFDA # 84.048A) and Supporting Effective Instruction State Grant (CFDA # 84.367A)

See detailed reporting in Section II.

2017-004 Requests for Reimbursement - Board

Program(s): Child Nutrition Cluster (CFDA # 10.553 & 10.555)

Criteria or Specific Requirement - Good internal control procedures over compliance should include procedures whereby the requests for reimbursement related to Federal grant awards submitted to the pass-through entity or Federal agency should be reviewed by a management level individual, and the review process documented. In addition, the Compliance Supplement requires, for the Child Nutrition Cluster, Federal reimbursement payments received monthly from the administering agency be promptly credited to the food service bank account.

Condition and Context - During our audit we noted that the monthly requests for reimbursement for meals served by the Cafeteria fund were prepared by an administrative assistant and submitted electronically to the State of Tennessee for payment without review or approval by the Nutrition Director.

We also noted two months during 2017 where federal reimbursements of \$2,155,641 and \$1,758,834 were held in the Trustee's account for 3-4 months before being forwarded to the Cafeteria fund's bank account.

Cause and Effect - By not performing a review of reimbursement request reports, there is a weakness in internal control over compliance for reporting 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.

The Nutrition Department and Board Finance Department did not have sufficient internal controls in place to ensure the prompt transfer of reimbursements to the Cafeteria fund or to follow up on those not transferred promptly.

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2017

Section III - Federal Award Findings (Continued)

Current Year Audit Findings(Continued):

2017-004 Requests for Reimbursement – Board (Continued)

Recommendations - We recommend the following:

- a. We recommend that requests for reimbursement for Federal grant awards be reviewed and approved by the Nutrition Director or a management level employee before being submitted to the pass-through entity or Federal agency. The reviewer should sign and date each report as evidence of their review.
- b. The Nutrition department and Board finance department should develop a system to ensure that requests for reimbursement and the related transfer of funds from the Trustee and County Finance Department to the Cafeteria fund are reviewed and monitored on a monthly basis as part of their monthly closing process. Any reimbursements not timely received and transferred should be followed up on.

Management's Response - We concur with the finding, and have already implemented the recommendations made by the auditor. Specifically, we have a process in place whereby all requests for reimbursement in the Nutrition Department are reviewed and approved by Nutrition Director prior to submission to the State of Tennessee. Secondly, the employee who oversees the Cafeteria fund in the Board Finance department now has a schedule to track the receipt of payments from the State of Tennessee through the Knox County Trustee and County Finance Department. This schedule will be reviewed monthly as part of the month end closing process.

2017-005 Counting Meals Served - Board

Program(s): Child Nutrition Cluster (CFDA # 10.553 & 10.555)

Criteria or Specific Requirement - Schools are required to keep accurate meal counts and maintain a point of sale (POS) system that ensures Federal reimbursements are claimed only once for each student served a reimbursable meal [7 CFR 210.7(c)]. This requirement includes schools that participate in the Community Eligibility Provision (CEP) where all students receive a free lunch.

Condition and Context - During our audit we noted that one of the schools we observed that participates in the Community Eligibility Provision did not count the number of students who received a reimbursable meal. Instead the school estimated the number of meals served that day based on the difference in the beginning and ending number of entrees on the service line.

Cause and Effect - By not keeping an accurate count of reimbursable meals served to students, but instead estimating based on food consumed, the school could overstate the number of meals served to eligible students. This could result in an incorrect reimbursement from the Federal government.

Recommendations - We recommend each school participating in the Community Eligibility Provision establish a method for accurately counting the number of reimbursable meals served to students at each meal service as required by federal grant requirements.

Management's Response - We concur with the finding, and have made a change to our daily reports, which require a headcount from each school participating in the CEP plan. In addition, as part of our regular training to cafeteria staff, we will emphasize the requirement to use either a hand clicker or tally sheet to count the number of reimbursable meals served each day.

KNOX COUNTY, TENNESSEE

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Financial Statement Findings:

PY Finding	Finding Title	Status/ Current Year Finding Number
2016-001	Internal Controls over the Board of Education (Board) Payroll Bank Account	Corrected

Federal Award Findings and Questioned Costs:

There were no prior year Federal Award Findings and Questioned Costs reported.



OFFICE OF COUNTY MAYOR TIM BURCHETT

Department of Finance • 400 Main Street, Suite 630, Knoxville, TN 37902

Corrective Action Plan

Finding 2017-001: Accrual of Sick Leave Retirement Liability, Other Postemployment Benefits Liability and Financial Review

Contact Persons Responsible for Implementing the Corrective Actions:

Chris Caldwell
Finance Director, Knox County

Robert Thomas
Superintendent, Knox County Schools

Corrective Actions Planned:

The County and Board will hold regularly scheduled meetings to discuss financial related matters and will jointly review the CAFR annually.

Anticipated Completion Date:

Management will implement the corrective actions during FY 2018.



OFFICE OF COUNTY MAYOR TIM BURCHETT

Department of Finance • 400 Main Street, Suite 630, Knoxville, TN 37902

Corrective Action Plan

Finding 2017-002: Purchasing Policies and Procedures

Contact Persons Responsible for Implementing the Corrective Actions:

Chris Caldwell
Finance Director, Knox County

Robert Thomas
Superintendent, Knox County Schools

Corrective Actions Planned:

The Board has modified their procurement process by implementing additional restrictions related to requisitions. The Board also modified their budget monitoring controls to identify purchase orders exceeding available budget. The County will update the Procurement Regulations to include the Federal requirements.

Anticipated Completion Date:

Management at the Board has implemented the corrective actions during FY 2018.
Management at the County will implement the corrective actions during FY 2018.



OFFICE OF COUNTY MAYOR TIM BURCHETT

Department of Finance • 400 Main Street, Suite 630, Knoxville, TN 37902

Corrective Action Plan

Finding 2017-003: Electronic Commerce Cards (E-cards)

Contact Persons Responsible for Implementing the Corrective Actions:

Chris Caldwell

Finance Director, Knox County

Corrective Actions Planned:

The County has modified the approval process and the documentation of this process. The credit card policy will be reviewed and amended if necessary to ensure the above issues are addressed.

Anticipated Completion Date:

Management will implement the corrective actions during FY 2018.



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Corrective Action Plan

Finding 2017-004: Requests for Reimbursement

Contact Persons Responsible for Implementing the Corrective Actions:

Russ Oaks,
Chief Operating Officer, Knox County Schools

Gary Spencer
Executive Director of Finance, Knox County Schools

Corrective Actions Planned:

We have already implemented the recommendations made by the auditor. Specifically, we have a process in place whereby all requests for reimbursement, both in the Nutrition Department and BOE Finance, are reviewed and approved by the respective Program Managers prior to submission to the State of Tennessee. Secondly, the employee who oversees the Nutrition Fund in the BOE Finance department now has a schedule to track the receipt of payments from the State of Tennessee through the Knox County Trustee. This schedule will be reviewed monthly as part of the month end closing process.

Anticipated Completion Date:

Completed as of January 2018.



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Corrective Action Plan

Finding 2017-005: Counting Meals Served

Contact Persons Responsible for Implementing the Corrective Actions:

Russ Oaks,
Chief Operating Officer, Knox County Schools

Corrective Actions Planned:

We have made a change to our daily reports, which require a headcount from each school participating in the CEP plan. In addition, as part of our regular training to cafeteria staff, we will emphasize the requirement to use either a hand clicker or tally sheet to count the number of reimbursable meals served each day.

Anticipated Completion Date:

Completed as of January 2018.

