

Knox County



Tennessee

*Single Audit Report
And
Findings and Recommendations*

*For the Fiscal Year Ended
June 30, 2011*



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, 2011

KNOX COUNTY, TENNESSEE

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Independent Auditors' 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 business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Knox County (the County) as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 22, 2011. Our report referred to the adoption of a new accounting standard effective July 1, 2010. Our report was also modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Student Activity Funds agency fund, a discretely presented component unit of the Knox County Board of Education, and The Great Schools Partnership, a component unit of the Knox County Board of Education, of Knox County Tennessee, as of and for the year ended June 30, 2011, as described in our report on the County's financial statements. 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

Management of the County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.



A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following to be a significant deficiency in internal control over financial reporting.

Finding 2011-01, GENERAL GOVERNMENT, Financial Reporting at the Trustees Office:

The Trustees Office (Trustees) has oversight responsibility related to the processing of approximately \$800 million in transactions annually, and it closely coordinates these efforts with the Finance Department. These transactions are reported on various schedules presented in the County's CAFR. Further, it is responsible for reconciling approximately 30 bank accounts monthly. During fiscal year 2011, we observed the following:

- The Trustees Office was unable to produce the schedules required for the CAFR timely. The final schedules which appropriately balanced were not submitted to the Finance Department until approximately four months after year-end.
- The draft schedules produced by the Trustees Office at various iterations through the closing process did not balance.
- The system generated reports documenting the preparation of the monthly bank statement reconciliations indicates that bank reconciliations were not prepared timely throughout fiscal year 2011.

We recommend that the Trustees Office, in close coordination with the Finance Department, develop detailed procedures documenting the production of the schedules to be provided for CAFR preparation. These procedures should be very specific, including documenting the format and content of the various system generated reports needed to support these schedules. These procedures should further document the system generated information necessary to perform the monthly bank reconciliations within 30 days of year end.

Finally, given that this finding has been recurring in nature as it relates to the Combined Schedule of Assets and Liabilities, Combined Schedule of Cash Receipts, Disbursements and Balances, and Combined Analysis of Fee and Commission Accounts schedules which are provided for CAFR reporting purposes (CAFR schedules), we recommend that the Audit Committee:

- Review and approve the newly developed policies and procedures over the Trustees Office closing process; and
- Require that the Trustees Office provide the Audit Committee with the CAFR schedules at least quarterly during the fiscal year and provide verification that the monthly bank reconciliations have been completed timely to ensure that the newly established policies and procedures are operating effectively.

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 County, 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

November 22, 2011



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Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited Knox County, Tennessee (the County's compliance) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. 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.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-02.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the



purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2011-02 to be a material weakness.

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. We consider the deficiency of internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2011-02 to be a significant deficiency.

The County's response to the findings identified in our audit is 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 the response.

Schedules of Expenditures of Federal and State Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011, which was modified to refer to other auditors and to the adoption of a new accounting pronouncement. 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, respectively, 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, are 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 County, 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

January 12, 2012, except for the schedules of
expenditures of federal and state awards
which is as of November 22, 2011

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government):			
U.S. Department of Agriculture:			
Passed through Tennessee Department of Health:			
Special Supplemental Nutrition for Women, Infants and Children Program:			
Women, Infants, and Children (WIC)	10.557	GG-10-30179-00	\$ 1,077,481
Women, Infants, and Children (WIC)	10.557	GG-09-26592-00	<u>290,870</u>
Total U.S. Department of Agriculture			<u>1,368,351</u>
U.S. Department of Housing and Urban Development Direct Programs:			
CDBG - Entitlement Grants Cluster:			
Community Development Block Grant	14.218	B-09-UC-47-0001	989,625
ARRA-Community Development Block Grant	14.253	B-09-UY-47-0001	<u>34,681</u>
Total CDBG - Entitlement Grants Cluster			1,024,306
HOME Investment Partnerships Programs	14.239	M-00-UC-47-0204	<u>1,293,023</u>
Total U.S. Department of Housing and Urban Development			<u>2,317,329</u>
U.S. Department of Justice Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program:			
Edward Byrne Memorial Formula Grant Program-Drug Court	16.579	4155	418,149
Edward Byrne Memorial Justice Assistance Grant	16.579	2010-DJ-BX-0769	111,145
Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-1324	142,728
Edward Byrne Memorial Justice Assistance Grant	16.738	2008-DJ-BX-0453	1,005
Edward Byrne Memorial Justice Assistance Grant	16.738	2007-DJ-BX-0485	<u>99,418</u>
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>772,445</u>
ARRA-Edward Byrne Memorial Justice Assistance Recovery Program:			
ARRA-Edward Byrne Memorial Justice Assistance Recovery Grant	16.804	2009-SB-B9-2035	277,202
ARRA-Edward Byrne Memorial Justice Assistance Recovery Grant	16.803	4232	93,215
ARRA-Edward Byrne Memorial Justice Assistance Recovery Grant	16.803	3547	49,612
ARRA-Edward Byrne Memorial Justice Assistance Recovery Grant	16.803	3842	<u>99,199</u>
Total ARRA-Edward Byrne Memorial Justice Assistance Recovery Program			<u>519,228</u>
Total Edward Byrne Memorial Justice Assistance Grants			<u>1,291,673</u>

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (continued):			
U.S. Department of Justice Direct Programs (continued):			
Public Safety Partnership and Community Policing Grant Program:			
Federal Bureau of Investigation - Mortgage Fraud	16.302	N/A	\$ 4,342
Federal Bureau of Investigation - Mortgage Fraud	16.302	N/A	6,790
Organized Crime Drug Enforcement Task Forces	16.710	SE-TNE-191H	7,244
Organized Crime Drug Enforcement Task Forces	16.710	SE-TNE-191H	3,713
Safe Streets - FBI Overtime Reimbursement	16.710	281D-KX-61230	14,789
Total Public Safety Partnership and Community Policing Grant Program			<u>36,878</u>
Bulletproof Vest	16.607	N/A	4,616
National Institute of Justice Cold Case Grant	16.741	2009-DN-BX-K166	171,195
Coverdell Forensic Science Improvement	16.742	2010-CD-BX-0084	104,636
Bureau of Justice Assistance Adjudication Pilot Hire Program	16.751	2009-D2-BX-0027	84,036
Total U.S. Department of Justice Direct Programs			<u>1,693,034</u>
Passed through the Tennessee Department of Children's Services:			
Juvenile Justice and Delinquency Prevention Program:			
Public Defender - Commission on Children & Youth	16.540	GG-10-30069-00	3,347
Total Juvenile Justice and Delinquency Prevention Program			3,347
Juvenile Court Accountability Incentive Grant	16.523	GG-10-30069-00	50,087
Total passed through the Tennessee Department of Children's Services			<u>53,434</u>
Total U.S. Department of Justice			<u>1,746,468</u>
Institute of Museum and Library Studies			
Passed through Tennessee Secretary of State:			
Library Services	45.310	GG-10-30545-00	6,902
Total Institute of Museum and Library Studies			<u>6,902</u>
Environmental Protection Agency Direct Programs:			
Air Pollution Control Program Support:			
Air Pollution Control Section 105	66.001	A-00408310-3	239,793
Air Pollution Control Section 105	66.001	A-00408310-2	57,604
Air Pollution Section 103 Clean Air Monitoring	66.001	PM-96437805-2	177,425
Diesel Retrofit	66.001	DE-95417609-0	18,223
Total Air Pollution Control Program Support			493,045
Water Quality	66.463	CP-96455806	7,001
Total Environmental Protection Agency			<u>500,046</u>

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (continued):			
U.S. Department of Energy Direct Programs:			
U.S. Department of Energy:			
ARRA - Energy Efficiency and Conservation Block Grant	81.128	Award DE-EE0002315	\$ 2,088,480
Total Department of Energy Direct Programs			<u>2,088,480</u>
U.S. Department of Education:			
Passed through Tennessee Department of State:			
ARRA - Project Diabetes	84.397	GG-11-33993-00	160,762
Total Department of Education			<u>160,762</u>
U.S. Election Assistance Commission:			
Passed through Tennessee Department of State:			
Help America Vote College Program	90.400	NA	20,000
Help America Vote Act Requirements Payments	90.401	Z-09-217234.00	68,800
Total U.S. Election Assistance Commission:			<u>88,800</u>
U.S. Department of Health and Human Services:			
Passed through Tennessee Department of Health:			
Tuberculosis Nursing Program:			
Tuberculosis Nursing	93.116	GG-10-28821-00	60,219
Tuberculosis Nursing - Recovery Act Grant	93.116	GG-10-28821-00	201,482
Total Tuberculosis Nursing Program			<u>261,701</u>
Immunization Grants Program:			
Immunization	93.268	GG-11-34918-00	105,526
Immunization	93.268	GG-10-31691-00	95,398
Total Immunization Grants Program			<u>200,924</u>
Centers for Disease Control and Prevention Program:			
Emergency Preparedness Pandemic	93.283	GG-11-33993-00	471,622
Emergency Preparedness Pandemic	93.283	GG-10-16138-00	37,469
Tobacco Prevention	93.283	GG-11-35271-00	14,398
Tobacco Prevention	93.283	GG-10-31138-01	36,911
Total Centers for Disease Control and Prevention Program			<u>560,400</u>

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (continued):			
U.S. Department of Health and Human Services (continued):			
HIV Care Formula Grant Program:			
HIV Centers of Excellence	93.917	GG-1135263	\$ 84,754
HIV Centers of Excellence	93.917	GG-10-33742-00	<u>255,843</u>
Total HIV Care Formula Grant Program			<u>340,597</u>
HIV Prevention Activities Program:			
HIV Prevention	93.940	GG-11-35266	64,038
HIV Prevention	93.940	GG-10-31520-00	<u>65,866</u>
Total HIV Prevention Activities Program			<u>129,904</u>
Infertility Youth Screening Projects:			
Infertility Youth Screening Project	93.977	GG-11-34723-00	35,670
Infertility Youth Screening Project	93.977	GG-10-30756-00	<u>30,227</u>
Total Infertility Youth Screening Projects			<u>65,897</u>
Preventive Health Services-Sexually Transmitted Disease Control Grants:			
Sexually Transmitted Disease	93.977	GG-10-31520-00	66,048
Sexually Transmitted Disease	93.977	GG-09-28498-00	<u>68,252</u>
Total Preventive Health Services-Sexually Transmitted Disease Control Grants			<u>134,300</u>
Maternal and Child Health Services Grants:			
Children's Special Services	93.994	GG-11-33371-00	70,257
Family Planning Services	93.994	GU-10-30470-00	<u>306,300</u>
Total Maternal and Child Health Services Grants			<u>376,557</u>
Preventative Health and Health Services Block Grant:			
Rape Prevention	93.136	GG-11-34017-00	20,180
Rape Prevention	93.136	GG-10-29156-00	<u>9,248</u>
Total Preventative Health and Health Services Block Grant			<u>29,428</u>
PSST Project - Teen Pregnancy	93.297	TPIAH000008-01-00	134,596
Family Planning Services	93.217	GU-10-30470-00	340,600
Breast and Cervical Cancer	93.919	GG-11-33361-00	56,500
Health Promotion	93.991	GG-10-29771-00	<u>61,500</u>
Total passed through Tennessee Department of Health			<u>2,692,904</u>

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (continued):			
U.S. Department of Health and Human Services (continued):			
Passed through Tennessee Department of Human Services:			
Local Medical Reserve Corps	93.008	6 MRCSG061001-03	\$ 690
Child Support Enforcement IV-D	93.563	GG-11-32079-00	<u>270,867</u>
Total U. S. Department of Health and Human Services			<u>2,964,461</u>
U.S. Federal Emergency Management Agency:			
Passed through Tennessee Emergency Management Agency:			
TEMA Stormwater Management	97.039	HMGP-1821-003	9,325
FEMA Fire Investigation Grant	97.044	2009-M8-0001GF	<u>49,096</u>
Total passed through Tennessee Emergency Management Agency			<u>58,421</u>
Total U. S. Federal Emergency Management Agency			<u>58,421</u>
U.S. Department of Homeland Security:			
Passed through Tennessee Department of Military:			
Homeland Security Grant Program:			
Homeland Security 2007	97.067	GG-08-24520-00	36,982
Homeland Security 2008	97.067	GG-3958	466,738
Homeland Security 2009	97.067	GG-10-30184	<u>417,668</u>
Total Homeland Security Grant Program			<u>921,388</u>
Total U.S. Department of Homeland Security			<u>921,388</u>
Office of National Drug Control Policy:			
Passed through Laurel County, Kentucky:			
High Intensity Drug Trafficking Areas	95.001	G-09-AP0001A	17,870
High Intensity Drug Trafficking Areas	95.001	I8PAPP501Z	<u>19,738</u>
Total Office of National Drug Control Policy			<u>37,608</u>
Total Federal Financial Assistance-Knox County Primary Government			<u>12,259,016</u>

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit):			
U.S. Department of Agriculture :			
Passed through Tennessee Department of Agriculture:			
Child Nutrition Cluster:			
USDA School Breakfast Program	10.553	2011	\$ 3,420,320
USDA School Lunch Program	10.555	2011	<u>11,118,670</u>
Total Child Nutrition Cluster			<u>14,538,990</u>
Total U.S. Department of Agriculture			<u>14,538,990</u>
U.S. Department of Labor:			
Passed through Tennessee Department of Labor and Workforce Development:			
Adult Education Program:			
Adult Education Dislocated Worker	17.260	Z-09-219703-00	35,625
CTE Benchmark	17.267	MOU	2,000
GED Testing Center	17.260	Z-10-222139	<u>754</u>
Total passed through Tennessee Department of Labor and Workforce Development			<u>38,379</u>
Total U.S. Department of Labor			<u>38,379</u>
U.S. Department of Transportation:			
STEM Education for Teachers - Federal Highway Administration	20.200	DTFH61-08-G-00020	<u>110,028</u>
Total U.S. Department of Transportation			<u>110,028</u>
U.S. Department of Education:			
Passed through National Institute of Excellence Teaching:			
ARRA - NIET Teacher Incentive Fund	84.374A	2011	<u>247,100</u>
Total passed through National Institute of Excellence Teaching			<u>247,100</u>
Passed through Tennessee Arts Commission:			
Arts 360 Grant	84.351D	GG-1133286	<u>140,627</u>
Total passed through Tennessee Arts Commission			<u>140,627</u>
Passed through Tennessee Department of Labor and Workforce Development			
Adult Education Program:			
Adult Basic Education	84.002	Z-10-218525-00	285,310
English Literacy and Civics	84.002	P07026	<u>44,028</u>
Total passed through Tennessee Department of Labor and Workforce Development			<u>329,338</u>

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (continued):			
U.S. Department of Education (continued):			
Passed through Tennessee Department of Education:			
Title I Program Cluster:			
Title I	84.010A	2011	\$ 14,677,202
ARRA - Title I	84.389	2010	4,327,900
ARRA - Title I - School Improvement - High School Redesign	84.389	2009	<u>247,728</u>
Total Title I Part A Program Cluster:			<u>19,252,830</u>
Special Education (IDEA) Cluster:			
Individuals with Disabilities Education Act Part B:			
Individuals with Disabilities Education Act Part B	84.027A	2009.21	176,737
Individuals with Disabilities Education Act Part B	84.027A	2010.21	860,275
Individuals with Disabilities Education Act Part B	84.027A	2011	8,409,671
IDEA Training Inclusion Technology	84.027A	2011	<u>80,433</u>
Total Individuals with Disabilities Education Act Part B			<u>9,527,116</u>
ARRA-Individuals with Disabilities Education Act Part B	84.391A	2010	5,729,301
Preschool Program:			
Preschool	84.173A	2010.21	10,844
Preschool	84.173A	2011.01	<u>295,588</u>
Total Preschool Program			<u>306,432</u>
ARRA-Preschool	84.392A	2010	<u>113,516</u>
Total Special Education (IDEA) Cluster			<u>15,676,365</u>
Career and Technical Education Program:			
Carl Perkins	84.048A	2010-2011	<u>887,746</u>
Total Career and Technical Education Program			<u>887,746</u>
Reading First Program:			
Title I Part B - Reading First	84.357	FY09	<u>33,918</u>
Total Reading First Program			<u>33,918</u>
Safe and Drug-Free Schools and Communities Program:			
Title IV	84.186A	2010	<u>63,420</u>
Total Safe and Drug-Free Schools and Communities Program			<u>63,420</u>

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (continued):			
U.S. Department of Education (continued):			
Education Technology Programs:			
Title II Part D	84.318X	2011	\$ 137,818
ARRA - Title II Part D	84.386	2010	<u>125,789</u>
Total Education Technology Programs			<u>263,607</u>
Education for Homeless Children and Youth Programs:			
Homeless Education	84.196A	001-11-1-010	<u>102,070</u>
Total Education for Homeless Children and Youth Programs			<u>102,070</u>
English Language Acquisition Grants Program:			
Title III	84.365A	2011	207,562
Title III - Immigrant	84.365A	2011	14,783
English Language Acquisition Grant	84.365A	2009	<u>4,055</u>
Total English Language Acquisition Grants Program			<u>226,400</u>
Project Serve Program	84.184S	2011	31,468
21st Century	84.287C	2011	380,774
Title I - Early Reading First	84.410	2011	812,114
State Teacher Incentive Fund	84.374	2011	45,412
ARRA - School Improvement Grant	84.388A	2011	771,687
ARRA - Race-to-the-Top Incentive Grants:			
ARRA - Focus Schools	84.395A	2011	42,540
ARRA - Stem Academy Battelle	84.395	280740	553,325
ARRA - RTT Renewal Schools	84.395	2011	10,093
ARRA - First to the Top	84.395	2011	1,014,932
ARRA - Teacher Principal Evaluation	84.395	2011	4,507
ARRA - RVAS	84.395	2011	11,242
ARRA - Title I Part B - Reading First	84.395	2011	<u>75,989</u>
Total ARRA - Race-to-the-Top Incentive Grants			<u>1,712,628</u>
Improving Teacher Quality Title II - Part A	84.367A	2011	3,006,259
Title I Part B - Reading First	84.359B	FY09	341,186

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, 2011

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County Board of Education (Component Unit) (continued):			
U.S. Department of Education (continued):			
State Fiscal Stabilization Fund Cluster:			
ARRA-State Fiscal Stabilization Fund Education State Grants Program	84.394	2011	\$ 8,955,329
ARRA-State Fiscal Stabilization Fund Government State Grants Program:			
ARRA - Family Resource Center	84.397	2011	33,300
ARRA - Tech Access/ConnecTen	84.397	2011	163,282
ARRA - Safe Schools Act	84.397	2011	163,399
ARRA - Coordinated School Health	84.397	2011	<u>185,000</u>
Total ARRA-State Fiscal Stabilization Fund Government Services Program			<u>544,981</u>
Total State Fiscal Stabilization Fund Cluster			<u>9,500,310</u>
Total passed through Tennessee Department of Education			<u>53,108,194</u>
Passed through Tennessee Department of Human Services:			
Case Manager	84.126	GG-08-22112-03	<u>20,704</u>
Total passed through Tennessee Department of Human Services			<u>20,704</u>
Total U.S. Department of Education			<u>53,845,963</u>
U.S. Department of Health and Human Services:			
Passed through Tennessee Department of Health:			
SNAP	93.714	2011	<u>368,485</u>
Total passed through Tennessee Department of Health			<u>368,485</u>
Total Federal Financial Assistance--Knox County Board of Education Component Unit			<u>68,901,845</u>
Total Federal Financial Assistance			<u>\$ 81,160,861</u>

The accompanying notes are an integral part of the schedule.

*Knox County, Tennessee (Primary Government) and
Knox County Board of Education (Discretely Presented Component Unit)*

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2011

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government):		
Tennessee Department of Corrections:		
Community Corrections (CAPP)	GG-11-32083-01	\$ <u>661,640</u>
Total Tennessee Department of Corrections		<u>661,640</u>
Tennessee Commission on Children and Youth:		
Children Services - Youth Officer	GG-10-29763-00	<u>9,000</u>
Total Tennessee Commission on Children and Youth		<u>9,000</u>
Tennessee Secretary of State:		
General Library Services	GG-11-34076	<u>91,000</u>
Total Tennessee Department of State		<u>91,000</u>
Tennessee Environment and Conservation:		
Waste Tire	Z-03-011371-05	<u>373,388</u>
Total Tennessee Environment and Conservation		<u>373,388</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-10-28821-00	37,407
Immunization	GG-11-34918-00	48,880
Immunization	GG-09-27893-00	44,189
Sexual Transmitted Disease	GG-11-35266-00	13,186
Sexual Transmitted Disease	GG-10-31520-00	13,839
Family Planning	GU-10-30470-00	40,400
Oral Health	GG-11-33746-01	232,808
Adolescent Pregnancy	GG-10-29670-01	27,961
EPSDT Tenndercare	GG-11-32877-00	313,053
Children's Special Services	GG-11-33371-00	58,400

*Knox County, Tennessee (Primary Government) and
Knox County Board of Education (Discretely Presented Component Unit)*

SCHEDULE OF EXPENDITURES OF STATE AWARDS

For the Year Ended June 30, 2011

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government) (continued):		
TennCare EPSDT Child in DCS	NONE	\$ 79,713
Help Us Grow Successfully	GG-11-33364-00	<u>241,900</u>
Total Tennessee Department of Health		<u>1,151,736</u>
Tennessee Department of Agriculture - Forestry Division:		
Tenn. Agriculture Enhancement Program - New Harvest	5873	580
Tenn. Agriculture Enhancement Program - New Harvest	6922	<u>2,500</u>
Total Tennessee Department of Agriculture - Forestry Division		<u>3,080</u>
Tennessee Department of Transportation:		
Litter Grant	Z-11-LIT-047	<u>105,901</u>
Total Tennessee Department of Transportation		<u>105,901</u>
Tennessee Department of Military:		
TEMA Stormwater Management	HMGP-1821-003	<u>1,554</u>
Total Tennessee Department of Military		<u>1,554</u>
Total State Financial Assistance - Knox County Primary Government		<u>\$ 2,397,299</u>

*Knox County, Tennessee (Primary Government) and
Knox County Board of Education (Discretely Presented Component Unit)*
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2011

Program Title	Identifying Number	State Expenditures
Knox County Board of Education (Component Unit):		
Tennessee Department of Education:		
Pre - K State	2011	\$ 1,773,590
High Schools That Work	2011	6,000
Tech Access/ConnecTen	2011	217,414
LEAPS	119-09-3-023	<u>112,500</u>
Total Tennessee Department of Education		<u>2,109,504</u>
Tennessee Department of Labor and Workforce Development:		
Adult Education	Z-10-218525-00 PO7334/DG113220	60,973
EL Civics	PO7026	<u>9,990</u>
Total Tennessee Department of Labor and Workforce Development		<u>70,963</u>
Total State Financial Assistance - Knox County Board of Education (Component Unit)		<u>2,180,467</u>
Total State Financial Assistance		<u>\$ 4,577,766</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, 2011

(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, Knox County Board of Education, (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, 2011. 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 2011 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grant	14.218	\$ —	\$ 1,333,659
HOME Investment Partnerships Programs	14.239	85,494	1,767,028

(3) Subrecipients

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

	<u>CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 827,992
HOME Investment Partnerships Programs	14.239	1,292,023
ARRA Energy Efficiency and Conservation Block Grant	81.128	2,088,480
Total Subrecipient Awards		<u>\$ 4,208,495</u>

KNOX COUNTY, TENNESSEE

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2011

(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, 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, 2011

(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**

Material weaknesses: **None**

- (c) Noncompliance which is material to the basic financial statements: **None**
- (d) Significant deficiencies in internal control over major programs: **Yes – See Finding 2011-02**

Material weaknesses: **Yes – See Finding 2011-02**

- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to reported under Section 510(a) of OMB Circular A-133: **Yes – See Finding 2011-02**

- (g) Major programs:

<u>CFDA number</u>	<u>Name of federal program or cluster</u>
Child Nutrition Cluster:	
10.553	USDA School Breakfast Program
10.555	USDA School Lunch Program
Title I Part A Program Cluster:	
84.010A	Title I - Part A
84.389	Title I - Part A (ARRA)
Special Education (IDEA) Cluster:	
84.027A	Special Education - IDEA Part B
84.173A	Special Education - Preschool
84.391A	Special Education - IDEA Part B (ARRA)
84.392A	Special Education - Preschool (ARRA)
State Fiscal Stabilization Fund Cluster:	
84.394	State Fiscal Stabilization Fund (ARRA) - Education State Grants
84.397	State Fiscal Stabilization Fund (ARRA) - Government Services
Other Programs:	
84.367A	Improving Teacher Quality Title II - Part A
14.239	HOME Investment Partnerships Programs

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,527,846**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **No**

KNOX COUNTY, TENNESSEE

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

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

GENERAL GOVERNMENT

Financial Reporting at the Trustees Office

The Trustees Office (Trustees) has oversight responsibility related to the processing of approximately \$800 million in transactions annually, and it closely coordinates these efforts with the Finance Department. These transactions are reported on various schedules presented in the County's CAFR. Further, it is responsible for reconciling approximately 30 bank accounts monthly. During fiscal year 2011, we observed the following:

- The Trustees Office was unable to produce the schedules required for the CAFR timely. The final schedules which appropriately balanced were not submitted to the Finance Department until approximately four months after year-end.
- The draft schedules produced by the Trustees Office at various iterations through the closing process did not balance.
- The system generated reports documenting the preparation of the monthly bank statement reconciliations indicates that bank reconciliations were not prepared timely throughout fiscal year 2011.

We recommend that the Trustees Office, in close coordination with the Finance Department, develop detailed procedures documenting the production of the schedules to be provided for CAFR preparation. These procedures should be very specific, including documenting the format and content of the various system generated reports needed to support these schedules. These procedures should further document the system generated information necessary to perform the monthly bank reconciliations within 30 days of year end.

Finally, given that this finding has been recurring in nature as it relates to the Combined Schedule of Assets and Liabilities, Combined Schedule of Cash Receipts, Disbursements and Balances, and Combined Analysis of Fee and Commission Accounts schedules which are provided for CAFR reporting purposes (CAFR schedules), we recommend that the Audit Committee:

- Review and approve the newly developed policies and procedures over the Trustees Office closing process; and
- Require that the Trustees Office provide the Audit Committee with the CAFR schedules at least quarterly during the fiscal year and provide verification that the monthly bank reconciliations have been completed timely to ensure that the newly established policies and procedures are operating effectively.

Management Response

- The Trustee's Office agrees that the final balanced CAFR schedules required for the CAFR were not submitted to the Finance Department until approximately four months after year-end. The schedules were, however, submitted within a timeframe that allowed for timely issuance of the Knox County

KNOX COUNTY, TENNESSEE

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

financial statements taken as a whole. While there were agreed upon deadlines for the submission of these schedules between KPMG and the Finance Department, we would point out that the statutory and GFOA deadlines for publication and submission of the County's CAFR without requesting an extension are six months after fiscal year end or December 31st for Knox County.

FY 2011 was a transition year with the implementation of new financial accounting software by Knox County. During this transition, finalizing all reconciliations and schedules took more time and a lot more effort than anyone anticipated, and given this the Trustee's Office chose to err on the side of accuracy versus internal deadlines. Finally, both the Finance Department and this office were posting necessary changes to multiple accounts until at least the end of October so earlier submission of finalized schedules was not possible.

- The Trustee's Office agrees that several of the draft schedules produced by this office were out of balance but these issues were noted and further investigated. This involved a line by line review of several thousands of lines of transactions posted external to this office. As mentioned previously, this was a transition year due to the new financial system implementation and as a result of this implementation this office did not have access to the County fund side of the system until the end of September 2011 and thus investigation of this sort was almost impossible until that access was finally put in place. The majority of eliminations and reclassifications to bring the CAFR schedules into balance related to items posted outside this office that needed to be investigated as described.
- The Trustee's Office agrees that not all bank accounts were reconciled in a timely fashion during fiscal year 2011. While this was not an issue in the previous fiscal year, as mentioned previously the transition to the County's new financial system made the bank reconciliation process substantially more difficult and required significantly more time. During this transition period resulting from implementation, we have had to completely redesign the bank reconciliation process and further implement additional posting process changes for both this office and the County Finance Department. Again, however, the reconciliations were completed within a timeframe that allowed for timely issuance of the Knox County financial statements taken as a whole.

With regard to the recommendations the Trustee's Office will work closely with the Finance Department as indicated to develop appropriate documentation related to the closing process. We will also work diligently to enhance interoffice communications with the Finance Department.

This office has already drafted CAFR schedules for the quarter ended September 30, 2011 and will present those schedules and the CAFR schedules for the quarter ending December 31, 2011 to the Audit Committee at its January 2012 meeting. Bank reconciliations for the month ended two months prior to the Audit Committee meeting date will offered for inspection if the Committee so requests, as the immediate preceding month's bank reconciliations will still be in process.

Additionally, the Trustee's Office has already assigned an additional staff member to help with monthly reconciliations and is in the process of hiring an additional accountant to allow for a 'Cash Manager' who can oversee and troubleshoot the bank reconciliations and reconciliation process. We are also now working directly with the software vendor support for the County's financial accounting system to identify both system settings and process modifications necessary to eliminate the remaining issues with the bank reconciliations. We anticipate further posting process changes and enhancements that will impact both the

KNOX COUNTY, TENNESSEE

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Finance Department and this office, but should ultimately reduce the extensive amount of additional time now required in the bank reconciliation process.

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

Finding 2011-02: ***Reporting***

Finding Type: **Material Weakness & Noncompliance**

CFDA#: **14.239 – HOME Investment Partnerships Program (HOME)**

Federal Agency: **U.S. Department of Housing and Urban Development**

Federal Award Year: **July 1, 2010 to June 30, 2011**

Requirement

Per review of the 2011 compliance supplement issued by the Office of Management and Budget, KPMG notes that the HOME program must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)*, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction.

Condition

During the course of our testwork, KPMG noted that the HOME program had not established an effective control structure to ensure that the required information for Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043)*, was properly obtained and compiled. Therefore, this report could not be accurately prepared and submitted for fiscal year 2011.

Questioned Cost

None

Possible Asserted Cause and Effect

Due to lack of appropriate oversight, the HUD program did not submit the Section 3 compliance report for fiscal year 2011. Continued noncompliance with program requirements could potentially result in reduced or discontinued funding.

Recommendation

We recommend that the HOME program establish effective procedures to ensure that adequate information is obtained in order to complete the Section 3 compliance report and submit it on a timely basis in accordance with program requirements stated in the compliance supplement.

KNOX COUNTY, TENNESSEE

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

View of Responsible Management

We concur. In February of 2011, the HOME program drafted and approved a specific Section 3 policy and appointed a Section 3 Coordinator to ensure the required reporting requirements are being met under the HOME program on a go-forward basis. The HOME program is now obtaining and complying with the required information in order to begin submission of the Section 3 report on a timely basis starting in fiscal year 2012.