

KNOX COUNTY, TENNESSEE

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

For the Fiscal Year Ended June 30, 2014



KNOX COUNTY, TENNESSEE

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

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, budgetary comparison statement of the general fund, fiduciary fund types and the aggregate remaining fund information of Knox County, Tennessee (the "County") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 29, 2014. Our report includes a reference to other auditors who audited the financial statements of The Development Corporation of Knox County ("TDC"), a discretely presented component unit reported in the financial statements of the County, and the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented component unit, reported in the financial statements of the Knox County Board of Education (the "BOE"). This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Partnership were not audited in accordance with *Government Auditing Standards*.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs referenced as item 2014-002 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 referenced as items 2014-001, 2014-003 and 2014-004 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is referenced as 2014-004 in the accompanying Schedule of Findings and Questioned Costs.

Knox County, Tennessee's Response to Findings

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

Purpose of this Report

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

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 29, 2014

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

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

Report on Compliance for Each Major Federal Program

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

The County's basic financial statements include the operations of The Development Corporation of Knox County (the "TDC"), a discretely presented component unit, reported in the financial statements of the County, and the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented component unit, reported in the financial statements of the Knox County Board of Education (the "BOE"). According to the other auditor's reports, TDC and the Partnership did not receive any federal awards for the year ended June 30, 2014.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

We have audited the financial statements the County as of and for the year ended June 30, 2014, and have issued our report thereon dated December 29, 2014 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal and state awards are presented for purposes of additional analysis as required by OMB Circular A-133 and the Tennessee Comptroller of the Treasury and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal and state awards are fairly stated in all material respects in relation to the financial statements as a whole.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 29, 2014

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, 2014

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-14-38976-00	\$ 1,333,364
Women, Infants, and Children (WIC)	10.557	GG-13-33694-00	<u>400,163</u>
Total U.S. Department of Agriculture			<u>1,733,527</u>
U.S. Department of Housing and Urban Development Direct Programs:			
Community Development Block Grant	14.218	B-12-UC-47-0001	718,274
Community Development Block Grant	14.218	B-13-UC-47-0001	<u>351,867</u>
Total CDBG - Entitlement Grants Cluster			<u>1,070,141</u>
HOME Investment Partnerships Programs	14.239	M-13-UC-47-0204	29,212
HOME Investment Partnerships Programs	14.239	M-12-UC-47-0204	90,487
HOME Investment Partnerships Programs	14.239	M-11-UC-47-0204	87,626
HOME Investment Partnerships Programs	14.239	M-10-UC-47-0204	65,029
HOME Investment Partnerships Programs	14.239	M-09-UC-47-0204	<u>248</u>
Total HOME Investment Partnerships Programs			<u>272,602</u>
Total U.S. Department of Housing and Urban Development			<u>1,342,743</u>
U.S. Department of Justice:			
U.S. Department of Justice Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program:			
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-0080	20,827
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-3451	56,887
Edward Byrne Memorial Justice Assistance Grant	16.738	2009-DJ-BX-1324	<u>31,900</u>
Total Edward Byrne Memorial Justice Assistance Grants			<u>109,614</u>
Public Safety Partnership and Community Policing Grant Program:			
Organized Crime Drug Enforcement Task Forces	16.710	SE-TNE-193	16,217
Safe Streets - FBI Overtime Reimbursement	16.710	281D-KX-61230	23,114
Safe Streets - FBI Overtime Reimbursement	16.710	281D-KX-61230	<u>14,914</u>
Total Public Safety Partnership and Community Policing Grant Program			<u>54,245</u>
State and Local Anti-Terrorism Training:			
Joint Terrorism Task Force FY 12-13	16.614	415-KX-68278-MOU-156	11,024
Joint Terrorism Task Force FY 13-14	16.614	415-KX-68278-MOU-156	<u>7,836</u>
Total State and Local Anti-Terrorism Training Grant Program			<u>18,860</u>
Bureau of Justice Assistance State Criminal Alien Assistance Program	16.606	2013-H2540-TN-AP	<u>13,209</u>
Bureau of Justice Edward Byrne Memorial Competitive Grant Program	16.751	2009-D2-BX-0027	<u>59,867</u>
Total U.S. Department of Justice Direct Programs			<u>255,795</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, 2014

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Federal Expenditures
Knox County, Tennessee (Primary Government) (Continued):			
U.S. Department of Justice (Continued):			
Passed through the Tennessee Department of Children's Services:			
Juvenile Court Accountability Incentive Grant	16.523	EDISON 29026	\$ 19,047
Total Passed through the Tennessee Department of Children's Services			<u>19,047</u>
Total U.S. Department of Justice			<u>274,842</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration:			
Passed through Tennessee Department of Transportation:			
Alcohol Open Container Requirements	20.607	Z-13-GHS170	62,185
Alcohol Open Container Requirements	20.607	Z-14-GHS188	<u>28,554</u>
Total U.S. Department of Transportation - National Highway Traffic Safety Administration			<u>90,739</u>
Institute of Museum and Library Services:			
Passed through Tennessee Secretary of State:			
National Endowment for the Arts - Festival of Reading	45.310	13-5200-7145	10,000
Library Services - Materials for the Disadvantaged	45.310	EDISON 34320	6,400
Tennessee State Archives Library Technology Assistance Grant	45.310	EDISON 33564	<u>8,494</u>
Total Institute of Museum and Library Services			<u>24,894</u>
Environmental Protection Agency Direct Programs:			
Air Pollution Control Program Support:			
Air Pollution Control Section 105	66.001	A-00408310-3	249,221
Air Pollution Section 103 Clean Air Monitoring	66.001	PM-96497608	<u>147,883</u>
Total Air Pollution Control Program Support			<u>397,104</u>
Passed through Tennessee Department of Agriculture:			
Knox County Soil Conservation District Stock Creek Watershed Restoration Project	66.460	EDISON 36165	<u>50,000</u>
Total Environmental Protection Agency			<u>447,104</u>
U.S. Election Assistance Commission:			
Passed through Tennessee Secretary of State:			
Help America Vote Act Requirements Payments	90.401	EDISON 40147	<u>95,647</u>
Total U.S. Election Assistance Commission:			<u>95,647</u>
U.S. Department of Health and Human Services:			
Passed through Tennessee Department of Health:			
Centers for Disease Control and Prevention Programs:			
Tuberculosis Prevention and Control	93.116	GG-14-39111-00	<u>123,118</u>
Immunization Cooperative Agreements Grants Program:			
Immunizations and Vaccines for Children Program	93.268	GG-14-41023-00	96,371
Immunizations and Vaccines for Children Program	93.268	GG-13-35753-00	<u>89,003</u>
Total Immunization Cooperative Agreements Grants Program			<u>185,374</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, 2014

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):			
Public Health Emergency Preparedness Aligned Cooperative Agreements:			
Public Health Emergency Preparedness Pandemic	93.074	GG-14-37323-01	\$ 576,846
Total Public Health Emergency Preparedness			<u>576,846</u>
Centers for Disease Control and Prevention - Investigations & Technical Assistance:			
Tobacco Prevention	93.283	GG-15-40936-00	10,114
Tobacco Prevention	93.283	GG-13-35226-00	<u>26,154</u>
Total CDC Investigations & Technical Assistance			<u>36,268</u>
Centers for Disease Control and Prevention Programs			
HIV Prevention Activities Program:			
HIV Prevention	93.940	GG-14-39790-00	84,383
HIV Prevention	93.940	GG-13-35174-00	<u>84,643</u>
Total HIV Prevention Activities Program			<u>169,026</u>
Preventive Health Services - Sexually Transmitted Disease Control Grants:			
Infertility Youth Screening Project	93.977	GG-14-40443-01	34,821
Infertility Youth Screening Project	93.977	GG-13-34973-00	33,092
Sexually Transmitted Disease	93.977	GG-14-39790-00	79,294
Sexually Transmitted Disease	93.977	GG-13-35174-00	<u>71,272</u>
Total Preventive Health Services - STD Control Grants			<u>218,479</u>
Injury Prevention and Control Research Programs:			
Rape Prevention	93.136	GG-14-41004-00	20,111
Rape Prevention	93.136	GG-13-34767-00	<u>8,550</u>
Total Injury Prevention and Control Research Programs			<u>28,661</u>
Assistance Programs for Chronic Disease Prevention and Control	93.945	GG-14-41079-00	<u>26,919</u>
Preventative Health and Health Services Block Grant	93.991	GG-14-38453-00	<u>61,500</u>
Total Centers for Disease Control and Prevention			<u>1,426,191</u>
Health Resources and Services Administration Programs:			
HIV Care Formula Grant Program:			
HIV Centers of Excellence	93.917	GG-14-40632-00	98,714
HIV Centers of Excellence	93.917	GG-13-36377-00	<u>291,800</u>
Total HIV Care Formula Grant Program			<u>390,514</u>
Maternal and Child Health Services Grants:			
Breast and Cervical Cancer Early Detection Program	93.994	GG-14-36951-00	67,800
Children's Special Services	93.994	GG-14-35827-00	111,750
Family Planning Services	93.994	GG-13-38051-00	252,778
Neonatal Abstinence Syndrome Services	93.994	GG-14-41325-00	<u>6,202</u>
Total Maternal and Child Health Services Grants			<u>438,530</u>
Total Health Resources and Services Administration Programs			<u>829,044</u>
Office of the Secretary:			
Teenage Pregnancy Prevention Program	93.297	5TP1AH000008-04-00	<u>602,719</u>
Office of Population Affairs:			
Family Planning Services	93.217	GG-13-38051-00	<u>281,141</u>
Total Passed through Tennessee Department of Health			<u>3,139,095</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, 2014

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):			
Office of Administration for Children and Families:			
Passed through Tennessee Department of Human Services:			
Child Support Enforcement:			
Child Support Enforcement IV-D	93.563	GG-11-32034-04	\$ 198,390
Child Support Enforcement IV-D	93.563	GG-11-32079	<u>256,863</u>
Total Child Support Enforcement Passed through TN Department of Human Services			<u>455,253</u>
Total U. S. Department of Health and Human Services			<u>3,594,348</u>
U.S. Department of Homeland Security:			
Passed through Tennessee Emergency Management Agency			
Disaster Grants - Public Assistance	97.036	FEMA 1974 DR TN	95,509
Assistance to Firefighters Grant	97.044	EMW-2008-FP-01488	<u>19,187</u>
Total Passed through Tennessee Emergency Management Agency			<u>114,696</u>
Passed through Tennessee Department of Military:			
Homeland Security Grant Program:			
Homeland Security 2011	97.067	GG-18000	118,550
Homeland Security 2012	97.067	GG-11-34400	355,433
Homeland Security 2013	97.067	EDISON 12689	<u>41,571</u>
Total Passed through Tennessee Department of Military:			<u>515,554</u>
Total U.S. Department of Homeland Security			<u>630,250</u>
Executive Office of the President:			
Passed through Laurel County, Kentucky:			
High Intensity Drug Trafficking Areas Program	95.001	G-13-AP0001A	33,913
High Intensity Drug Trafficking Areas Program	95.001	G-14-AP0001A	<u>25,444</u>
Total Executive Office of the President			<u>59,357</u>
Total Federal Financial Assistance-Knox County Primary Government			<u>8,293,451</u>
Knox County Board of Education (Component Unit):			
U.S. Department of Agriculture :			
Passed through Tennessee Department of Agriculture			
Food and Nutrition Service:			
USDA School Breakfast Program	10.553	2014	3,902,730
USDA School Lunch Program - Cash Assistance	10.555	2014	11,175,704
USDA School Lunch Program - Non-Cash Assistance	10.555	2014	<u>1,933,767</u>
Total Food and Nutrition Service			<u>17,012,201</u>
Total U.S. Department of Agriculture			<u>17,012,201</u>
U.S. Department of Labor:			
Passed through Tennessee Department of Labor and Workforce Development:			
Employment Training Administration:			
Incentive Grants - WIA Section 503	17.267	LW03P111AENCNTV	<u>76,711</u>
Total passed through Tennessee Department of Labor and Workforce Development			<u>76,711</u>
Total U.S. Department of Labor			<u>76,711</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, 2014

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:			
Passed through National Institute of Excellence Teaching			
Office of Innovation and Improvement:			
NIET Teacher Incentive Fund	84.374A	2013-2014	\$ 3,816,761
NIET Teacher Incentive Fund (Support)	84.374A	2013-2014	<u>764,798</u>
Total passed through National Institute of Excellence Teaching			<u>4,581,559</u>
Passed through Tennessee Arts Commission:			
Office of Innovation and Improvement:			
Arts in Education Grant	84.351D	31625-14079	<u>173,294</u>
Total passed through Tennessee Arts Commission			<u>173,294</u>
Passed through Tennessee Department of Labor and Workforce Development			
Adult Education Program:			
Adult Basic Education	84.002	PO 25531	354,932
English Literacy and Civics - Critical Need	84.002	LWC47F122ELCV13	36,973
English Literacy and Civics	84.002	PO 25702	<u>52,908</u>
Total passed through Tennessee Department of Labor and Workforce Development			<u>444,813</u>
Passed through Tennessee Department of Education:			
Title I Program:			
Title I	84.010A	2013-2014	12,408,369
Title I - Signing/Retention Bonus	84.010A	2013-2014	<u>2,330</u>
Total Title I Part A Program:			<u>12,410,699</u>
Special Education (IDEA) Cluster:			
Individuals with Disabilities Education Act Part B	84.027A	2013-2014	11,349,360
Special Education Lit Coach	84.027A	2013-2014	<u>87,273</u>
Total Individuals with Disabilities Education Act Part B			<u>11,436,633</u>
Preschool Program:			
Preschool	84.173A	2013-2014	<u>269,971</u>
Total Preschool Program			<u>269,971</u>
Total Special Education (IDEA) Cluster			<u>11,706,604</u>
Career and Technical Education Program:			
Career and Technical Education - Carl Perkins	84.048A	2013-2014	<u>720,586</u>
Total Career and Technical Education Program			<u>720,586</u>
Education for Homeless Children and Youth Programs:			
Homeless Education	84.196A	2013-2014	<u>273,262</u>
Total Education for Homeless Children and Youth Programs			<u>273,262</u>
English Language Acquisition Grants Program:			
Title III	84.365A	2013-2014	252,303
Title III - Immigrant	84.365A	2013-2014	<u>28,096</u>
Total English Language Acquisition Grants Program			<u>280,399</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, 2014

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):			
21st Century Community Learning Centers	84.287C	2013-2014	\$ <u>498,559</u>
State Teacher Incentive Fund	84.374A	2013-2014	<u>814,482</u>
School Improvement Grants:			
School Improvement Grant	84.388A	2013-2014	297,613
School Improvement Grant - Reallocation	84.388A	2013	25,307
School Improvement Grant Cohort 3 SMG	84.377A	2013-2014	<u>290,623</u>
Total School Improvement Grants			<u>613,543</u>
Focus Schools Grants:			
Focus Schools	84.010	2013-2014	191,431
Focus Schools - Carryover	84.010	2013	<u>9,125</u>
Total Focus Schools			<u>200,556</u>
Race-to-the-Top Incentive Grants:			
First to the Top	84.395A	2013-2014	2,767,101
Stem Karst Hub - passed through Battelle	84.395	319362	520,551
RTT Renewal Schools	84.395A	2013-2014	282,709
Race to Top - IAF	84.395	2013-2014	1,474,486
RTT Reward School	84.395	2013-2014	<u>73,141</u>
Total - Race-to-the-Top Incentive Grants			<u>5,117,988</u>
Improving Teacher Quality Title II - Part A	84.367A	2013-2014	<u>2,047,009</u>
Safe and Drug-Free Schools - School Climate Grant	84.184	2013-2014	<u>355,071</u>
Total passed through Tennessee Department of Education			<u>35,038,758</u>
Passed through Tennessee Department of Human Services:			
Vocational Rehabilitation Services - Case Manager	84.126	Z-14-70513-00	<u>5,446</u>
Total passed through Tennessee Department of Human Services			<u>5,446</u>
Total U.S. Department of Education			<u>40,243,870</u>
Total Federal Financial Assistance--Knox County Board of Education Component Unit			<u>57,332,782</u>
Total Federal Financial Assistance			<u>\$ 65,626,233</u>

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

For the Year Ended June 30, 2014

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government):		
Tennessee Department of Corrections:		
Community Corrections (CAPP)	GG-11-32083-04	\$ <u>664,465</u>
Total Tennessee Department of Corrections		<u>664,465</u>
Tennessee Office of Criminal Justice Programs		
Internet Crimes Against Children Program	EDISON ID 26477	4,033
AFIS Livescan Equipment	EDISON ID 39209	<u>33,000</u>
Total Tennessee Office of Criminal Justice Programs		<u>37,033</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	EDISON 34320	<u>45,500</u>
Total Tennessee Secretary of State		<u>45,500</u>
Tennessee Department of Environment and Conservation:		
Waste Tire	EDISON 25703	293,632
Used Oil	GG-12-38009	1,000
TDEC Waste Tire Grant - Site Specific	EDISON 35802	109,915
Clayton Park TDEC LPRF Grant Phase I	Grant Contract 33139	<u>98,222</u>
Total Tennessee Department of Environment and Conservation		<u>502,769</u>
U.S. Election Assistance Commission:		
Passed through Tennessee Secretary of State:		
Help America Vote Certification Program	EDISON 40147	<u>5,603</u>
Total U.S. Election Assistance Commission:		<u>5,603</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-14-39111-00	401,459
Immunization	GG-14-41023-00	33,507
Immunization	GG-13-35753-00	43,317
Sexual Transmitted Disease	GG-14-39790-00	16,827
Sexual Transmitted Disease	GG-13-35174-00	17,632
Family Planning	GG-13-38051-00	33,356

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

For the Year Ended June 30, 2014

Program Title	Identifying Number	State Expenditures
Knox County, Tennessee (Primary Government) (Continued):		
Tennessee Department of Health (Continued):		
Oral Health	GG-12-35512	\$ 212,903
Adolescent Pregnancy	GG-10-29670-02	50,000
EPSDT Tenndercare	GG-14-38548-00	314,286
Welcome Baby	GG-14-38548-00	1,245
Neonatal Abstinence Syndrome Services	GG-14-41325-00	6,202
Children's Special Services	GG-14-35827-00	91,431
Diabetes	GG-14-38937-00	150,000
Adult Emergency Dental Services	GG-14-39992-00	86,760
Help Us Grow Successfully	GG-14-35829-00	<u>204,463</u>
Total Tennessee Department of Health		<u>1,663,388</u>
Tennessee Department of Human Services:		
Edward Byrne Memorial Formula Grant Program-Drug Court	EDISON 33901-52913	418,247
Edward Byrne Memorial Formula Grant Program-Juvenile Court	EDISON 33901-39578	7,500
Juvenile Court InnerChange Grant	EDISON ID 38743	<u>175,502</u>
Total Tennessee Department of Human Services		<u>601,249</u>
Tennessee Department of Agriculture - Forestry Division:		
TAEP FY 2014 Tree Planting Program	Edison 0000005873	5,705
Tenn. Agriculture Enhancement Program - Farmer's Market	6922	<u>372</u>
Total Tennessee Department of Agriculture - Forestry Division		<u>6,077</u>
Tennessee Department of Transportation:		
Litter Grant	Z14LIT047	<u>144,700</u>
Total Tennessee Department of Transportation		<u>144,700</u>
Tennessee Emergency Management Agency:		
TEMA Disaster Recovery - April 2011 Storm	TEMA 1974 DR TN	<u>13,644</u>
Total Tennessee Emergency Management Agency		<u>13,644</u>
Total State Financial Assistance - Knox County Primary Government		<u>3,693,428</u>

KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)
KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2014

Program Title	Identifying Number	State Expenditures
Knox County Board of Education (Component Unit):		
Tennessee Department of Labor and Workforce Development:		
Adult Education	PO 25531	\$ 71,003
EL Civics	PO 25702	10,584
EL Civics - Critical Needs	LWC47F122ELCV13	<u>7,396</u>
Total Tennessee Department of Labor and Workforce Development		<u>88,983</u>
Tennessee Department of Education		
Coordinated School Health	2013-2014	185,000
Pre-Kindergarten	2013-2014	1,865,003
Safe Schools Act	2013-2014	189,565
Food & Nutrition - State Matching	2013-2014	235,026
Food & Nutrition - Fresh Fruit & Vegetable Program	2013-2014	312,559
Ticket Subsidy Grant - Passed through the TN Arts Commission	2013-2014	<u>36,012</u>
Total Tennessee Department of Education		<u>2,823,165</u>
Total State Financial Assistance - Knox County Board of Education (Component Unit)		<u>2,912,148</u>
Total State Financial Assistance		<u>\$ 6,605,576</u>

KNOX COUNTY, TENNESSEE

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

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

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

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

NOTE 2 - LOANS OUTSTANDING

The County had the following loan funding balances outstanding at June 30, 2014. 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 2014 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grant	14.218	\$ 61,457	\$ 1,089,082
HOME Investment Partnerships Programs	14.239	105,226	1,406,753

NOTE 3 - SUBRECIPIENTS

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

	<u>CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 892,869
HOME Investment Partnerships Programs	14.239	263,751
Total Subrecipient Awards		<u>\$ 1,156,620</u>

NOTE 4 - NON-CASH ASSISTANCE

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

NOTE 5 - INDIRECT COSTS

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

KNOX COUNTY, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major federal programs:

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

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

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

Major federal programs for Knox County, Tennessee for the fiscal year ended June 30, 2014 are:

<u>Program Name</u>	<u>CFDA#</u>
National School Lunch and Breakfast Program	10.555 & 10.553
Women, Infants and Children (WIC)	10.557
Community Development Block Grant	14.218
Adult Education Program	84.002
Title I – Part A	84.010A
Title II – Part A Improving Teacher Quality	84.367A

Dollar threshold used to distinguish between Type A & Type B programs: \$1,968,787

Auditee qualified as low-risk auditee? yes X no

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2014

Section II - Financial Statement Findings

Current Year Audit Findings:

2014-001 Board of Education Credit Cards

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

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

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

Recommendations - We recommend the following:

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

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

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2014

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

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

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

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

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

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

Recommendations - We recommend the following:

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

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

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2014

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

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

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

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

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

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

Recommendations - We recommend the following:

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

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

KNOX COUNTY, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2014

Section II - Financial Statement Findings (Continued)

Current Year Audit Findings (Continued):

2014-004 Approval of Lease

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

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

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

Recommendations - We recommend the following:

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

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

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2014

2013-001 Accounting Reconciliations - Trustee's Office and Knox County Finance Department

Criteria or Specific Requirement - The Knox County Trustee is the treasurer of Knox County and operates as the internal "bank" for the County. The Trustee's accounting records should be maintained on the cash basis of accounting and should reflect the allocation of the pooled cash and investments to individual County funds. The Finance Department maintains County funds on the modified accrual basis of accounting which includes the accrual of various receivables and payables in accordance with generally accepted accounting principles (GAAP).

Condition - The Trustee's Office and the Finance Department maintain their respective accounting records utilizing accounting software that records numerous transactions applicable to both the Office and the Department. Cash basis transactions, for example, cash receipts and cash disbursements, affect both sets of accounting records and are posted simultaneously when the applicable transaction occurs. However, certain modified-accrual basis transactions (e.g., accrual of various liabilities) that do not affect the Trustee's actual cash and investment account balances, but do affect the allocation of net pooled cash and investments to the County's various Funds, also have been recorded in the Trustee's accounting records as a result of the setup of the accounting software and of the related procedures utilized in maintaining the accounting records for both the Office and the Department. This condition has resulted in unnecessary complexity in the Trustee's accounting records.

The County did not properly analyze, reconcile and adjust the balances of the above mentioned accruals recorded in the Trustee's records in the current and prior years and, as a result, in our 2013 audit we have recorded a prior period audit adjustment in the amount of approximately \$2.4 million, decreasing net pooled cash and investments allocated to the County's General and Debt Service Funds, to correct these balances as of July 1, 2012.

In addition, the Trustee's Office did not provide copies of the monthly bank reconciliations to the Finance Department as was recommended in the prior year audit finding 2012-001.

Cause and Effect - Certain accruals and allocations recorded in the Trustee's accounting records were not recorded and reconciled correctly. Failure to perform such procedures resulted in undetected errors.

Recommendations - We recommend the following:

- a. The Trustee's Office and County Finance Department should re-evaluate their accounting processes that involve both departments.
- b. The Trustee's accounting records should be maintained on the cash basis and monthly and year-end accruals should be eliminated in that office.
- c. All monthly and year-end accruals should only be maintained by the County Finance Department and recorded in the various County funds. These accruals should be properly recorded, reconciled and reviewed by supervisory personnel monthly.
- d. Copies of all monthly bank and investment reconciliations completed in the Trustee's Office should be reviewed by a member of the County Finance Department on a monthly basis.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2014

2013-001 Accounting Reconciliations - Trustee's Office and Knox County Finance Department (Continued)

Management's Planned Corrective Actions - Management concurs with the facts of the finding. It should be noted that management of the Finance Department and of the Trustee's Office have continually worked during 2013 to implement improvements in recordkeeping and reporting in this area. As a result, procedures have been implemented correcting four of the six recommendations related to the Trustee's office made during the 2012 audit. These corrective actions implemented in 2013 assisted in the identification of the errors noted in the 2013 finding, and these errors have now been corrected. The Trustee's Office handles a very large volume of cash receipts annually, totaling over \$265 million in 2013. It is necessary to carefully consider the consequences of changes in recordkeeping procedures to ensure that such changes are appropriate and that they result in complete and accurate reporting of not only the cash receipts and disbursements of the cash accounts maintained by the Trustee's Office but also the various funds and accounts maintained by the Finance Department. Management of both the Finance Department and the Trustee's Office have had numerous meetings and discussions and are developing a plan to implement revised procedures to fully correct the findings. We have previously identified the need to maintain the Trustee's Office records on a cash basis and to record all modified accrual basis adjustments only in the Finance Department records, and therefore our plan will address recommendations (a), (b) and (c).

It should be noted that the Trustee's Office was completing bank account reconciliations timely during FY 2013 as recommended in the 2012 audit, and these reconciliations were being reviewed by the external auditors, as recommended by the Knox County Audit Committee. Although the bank account reconciliations were not being provided to the Finance Department as recommended by the external auditors, there was an independent review being performed of these reconciliations. Beginning in FY 2014, the Trustee's Office has begun providing copies of the bank account reconciliations to the Finance Department for review by Finance Department personnel, which will address the 2012 audit recommendation (d).

Current Year Status - This finding has been satisfactorily corrected during FY 2014 with the implementations of (a), (b), (c) and (d).

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2014

2013-002 Capital Asset Recordkeeping

Criteria or Specific Requirement - Detailed capital asset records, including construction in progress schedules, are to be accounted for in a complete and accurate manner.

Condition - The County's current system of maintaining detailed capital asset records does not allow for a centralized comprehensive detail report to be generated to show listings of individual assets, the current year depreciation for each asset, and the accumulated depreciation related to that asset. This results in a situation that makes tie-in of the detailed records and related activity to the general ledger difficult and subject to the use of excel spreadsheets downloaded from the system in order to reconcile.

Cause and Effect - The opportunity exists for errors due to the complexity of the current reconciliation process using these spreadsheets.

Recommendations - We recommend that the County fully implement the use of a software program designed for capital asset record maintenance and incorporate sufficient review procedures of such records to ensure appropriate coding and classification.

Management's Planned Corrective Actions - Management concurs with the facts of the finding. The County implemented a new accounting software system in a previous year, which does include a capital asset reporting module. Management believes that the system is capable of being tailored to our reporting needs, and has arranged for assistance by the vendor to include needed refinements to the system and training of County personnel. Management expects that the changes to the system will be fully implemented in fiscal year 2014.

Current Year Status - This finding has been corrected during FY 2014.

KNOX COUNTY, TENNESSEE

SCHEDULE OF CORRECTED PRIOR AUDIT FINDINGS (Continued)

For the Year Ended June 30, 2014

2013-003: Davis-Bacon Act

Program: Community Development Block Grant (CFDA# 14.218)

Criteria or Specific Requirement - The Davis-Bacon Act is a mandatory requirement under the Community Development Block Grant which means that all laborers and mechanics employed by contractors or subcontractors to work on new construction or rehabilitation property containing 8 or more units must be paid wages not less than those established for the locality of the project (prevailing wage rates). The County must require the contractor or subcontractor to submit to the County weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (OMB No. 1215-0149).

Condition - In the course of grant testing, we noted that the County did not obtain certified payrolls from one of the subcontractors tested.

Questioned Costs - None

Context - There were four projects totaling over \$200,000 whose contracts would require the County to obtain certified payrolls from their subcontractors.

Cause and Effect - The County did not have controls in place to ensure that they obtain the required certification and certified payroll registers from their contractors. The amount, if any, by which laborers may have been paid incorrectly has not been determined.

Recommendation - We recommend that the County implement procedures to ensure that the Davis-Bacon Act is complied with for all applicable contractors by obtaining certified payrolls. There should also be a system in place for testing that the certified payrolls submitted by the subcontractors did include prevailing wage rates for their employees.

Management's Planned Corrective Actions - The lapse in Davis-Bacon monitoring requirements was due to personnel turnover in administration. This has been corrected and the employees were trained in the associated monitoring procedures.

Current Year Status - This finding has been corrected during FY 2014.

