

**KNOX COUNTY, TENNESSEE**

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

**For the Fiscal Year Ended June 30, 2016**



**KNOX COUNTY, TENNESSEE**

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

**For the Fiscal Year Ended June 30, 2016**

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

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, budgetary comparison statement of the general fund and the aggregate remaining fund information of Knox County, Tennessee (the "County") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 22, 2016. Our report includes a reference to other auditors who audited the financial statements of The Development Corporation of Knox County ("TDC"), a discretely presented component unit reported in the financial statements of the County, and the Great Schools Partnership Charitable Trust (the "Partnership"), a discretely presented component unit, reported in the financial statements of the Knox County Board of Education (the "BOE"). This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a significant deficiency.



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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Knox County, Tennessee's Response to Findings**

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

## **Purpose of this Report**

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

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
December 22, 2016

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REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;  
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND  
REPORT ON SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY THE *UNIFORM GUIDANCE*

INDEPENDENT AUDITOR'S REPORT

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

**Report on Compliance for Each Major Federal Program**

We have audited Knox County, Tennessee's (the "County") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2016. 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"). Based upon the report of the other auditor's, TDC and the Partnership did not receive any federal awards for the year ended June 30, 2016.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



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## 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, 2016.

## Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the County as of and for the year ended June 30, 2016, and have issued our report thereon dated December 22, 2016 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the *Uniform Guidance* and the Tennessee Comptroller of the Treasury and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.

*Pugh & Company, P.C.*

Certified Public Accountants  
Knoxville, Tennessee  
December 22, 2016

**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, 2016**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>Knox County, Tennessee (Primary Government):</b>				
U.S. Department of Agriculture:				
Passed through Tennessee Department of Health:				
Special Supplemental Nutrition Program for Women, Infants and Children:				
Women, Infants, and Children (WIC)	10.557	GG-15-43543-00	\$	2,141,314
Women, Infants, and Children (WIC)	10.557	GG-15-43543-00		<u>122,082</u>
Total U.S. Department of Agriculture				<u>2,263,396</u>
U.S. Department of Housing and Urban Development:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grant	14.218	B-15-UC-47-0001	\$	<u>723,709</u>
Total CDBG - Entitlement Grants Cluster				<u>723,709</u>
HOME Investment Partnerships Programs	14.239	M-13-UC-47-0204 M-14-UC-47-0204 M-15-UC-47-0204		<u>267,000</u>
Total U.S. Department of Housing and Urban Development				<u>990,709</u>
U.S. Department of Justice:				
Grants to Encourage Arrest Policies & Enforcement of Protection Orders	16.590	OVW2012-AX-WE-0025		<u>53,546</u>
Edward Byrne Memorial Justice Assistance Grant Program:				
Edward Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-0591		73,830
Edward Byrne Memorial Justice Assistance Grant	16.738	2014-DJ-BX-0564		8,707
Edward Byrne Memorial Justice Assistance Grant	16.738	2013-DJ-BX-0335		<u>4,611</u>
Total Edward Byrne Memorial Justice Assistance Grant Program				<u>87,148</u>
Federal Bureau of Investigation:				
Law Enforcement Assistance - FBI Field Police Training	16.302	2016		11,316
Law Enforcement Assistance - FBI Field Police Training	16.302	2015		<u>2,116</u>
Total Federal Bureau of Investigation				<u>13,432</u>
Office of Community Oriented Policing Services:				
Public Safety Partnership & Community Policing Grants - Organ. Crime	16.710	SE-TNE-193		21,486
Public Safety Partnership & Community Policing Grants - Safe Streets	16.710	281D-KX-61230		<u>7,801</u>
Total Office of Community Oriented Policing Services				<u>29,287</u>
Bureau of Justice Assistance :				
State Criminal Alien Assistance Program	16.606	2015-AP-BX-0333		<u>7,187</u>
Total U.S. Department of Justice				<u>190,600</u>

The accompanying notes are an integral part of this schedule.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2016**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>Knox County, Tennessee (Primary Government) (Continued):</b>				
U.S. Department of Transportation				
U.S. Department of Transportation - Federal Highway Administration:				
Passed through Tennessee Department of Transportation:				
Highway Planning & Construction Cluster:				
Highway Planning and Construction - Traffic Signal Coordination Project	20.205	Agreement No. 140233		\$ 14,720
Highway Planning and Construction - Advanced Traffic Management	20.205	Agreement No. 140234		<u>80,115</u>
Total Highway Planning & Construction Cluster				<u>94,835</u>
Total U.S. Department of Transportation - Federal Highway Administration				<u>94,835</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration:				
Passed through Tennessee Department of Transportation:				
Alcohol Open Container Requirements	20.607	Z-15-GHS186		58,882
Alcohol Open Container Requirements	20.607	Z-14-GHS188		<u>21,423</u>
Total U.S. Department of Transportation - National Highway Traffic Safety Administration				<u>80,305</u>
Total U.S. Department of Transportation				<u>175,140</u>
Institute of Museum and Library Services:				
Passed through Tennessee Secretary of State:				
Grants to States:				
National Endowment for the Arts - Festival of Reading	45.310	13-5200-7145		10,000
Library Services - Materials for the Disadvantaged	45.310	EDISON 34320		6,400
Archives Library Technology Assistance	45.310	EDISON 33564		<u>3,388</u>
Total Institute of Museum and Library Services				<u>19,788</u>
Environmental Protection Agency:				
Office of Air and Radiation:				
Air Pollution Control Program Support:				
Air Pollution Control Program Support - Section 105	66.001	A-00408315-3		283,138
Air Pollution Control Program Support - Section 103	66.001	PM-96497615		<u>130,081</u>
Total Office of Air and Radiation				<u>413,219</u>
Office of Water:				
Passed through Tennessee Department of Agriculture:				
Nonpoint Source Implementation Grant	66.460	EDISON 44778		<u>77,389</u>
Total Environmental Protection Agency				<u>490,608</u>

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**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, 2016**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>Knox County, Tennessee (Primary Government) (Continued):</b>				
U.S. Department of Education:				
Passed through Tennessee Department of Education:				
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	2016		\$ 57,753
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	2015		<u>44,706</u>
Total U.S. Department of Education				<u>102,459</u>
U.S. Department of Health and Human Services:				
Passed through Tennessee Department of Mental Health and Substance Abuse Services:				
U.S. Substance Abuse & Mental Health Services Administration:				
Substance Abuse & Mental Health Services - Projects of Regional and National Significance:				
Felony Recovery Court Services-Specific Assistance to Individuals	93.243	DGA48204_2015-2016_005		<u>984</u>
Total U.S. Substance Abuse & Mental Health Services Administration				<u>984</u>
Passed through Tennessee Department of Health:				
Centers for Disease Control and Prevention Programs:				
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	GG-15-42750-00		<u>379,767</u>
Immunization Cooperative Agreements Grants Program:				
Immunizations and Vaccines for Children Program	93.268	GG-16-48709-00		100,876
Immunizations and Vaccines for Children Program	93.268	GG-15-43852-00		<u>93,750</u>
Total Immunization Cooperative Agreements Grants Program				<u>194,626</u>
Public Health Emergency Preparedness	93.069	GG-16-46674-00		<u>73,598</u>
Centers for Disease Control and Prevention - Investigations & Technical Assistance:				
CDC Disease Control & Prevention - Tobacco Prevention	93.283	GG-16-45506-00		10,542
CDC Disease Control & Prevention - Tobacco Prevention	93.283	GG-16-45506-00		<u>25,108</u>
Total CDC Disease Control & Prevention Investigations & Technical Assistance				<u>35,650</u>
HIV Prevention Activities Program:				
HIV Prevention Activities - Health Department Based	93.940	GG-16-48499-00		89,515
HIV Prevention Activities - Health Department Based	93.940	GG-15-44164-00		<u>101,629</u>
Total HIV Prevention Activities Program				<u>191,144</u>

The accompanying notes are an integral part of this schedule.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2016**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant/Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>Knox County, Tennessee (Primary Government) (Continued):</b>				
U.S. Department of Health and Human Services (Continued)				
Passed through Tennessee Department of Health (Continued)				
Centers for Disease Control and Prevention Programs (Continued)				
Preventive Health Services - Sexually Transmitted Disease Control Grants:				
Preventive Health Services - STD Control Grant - Infertility Youth Screening	93.977	GG-16-48524-00	\$	36,035
Preventive Health Services - STD Control Grant - Infertility Youth Screening	93.977	GG-15-44164-00		32,171
Preventive Health Services - Sexually Transmitted Disease Control Grant	93.977	GG-16-48499-00		49,515
Preventive Health Services - Sexually Transmitted Disease Control Grant	93.977	GG-15-44164-00		<u>60,719</u>
Total Preventive Health Services - STD Control Grants				<u>178,440</u>
Injury Prevention and Control Research Programs & Community Based Programs:				
Community Based Programs	93.136	GG-15-44316-00		11,993
Injury Prevention and Control Research	93.136	GG-15-44316-00		<u>21,727</u>
Total Injury Prevention and Control Research Programs				<u>33,720</u>
Assistance Programs for Chronic Disease Prevention and Control	93.945	GG-14-41079-03		<u>65,425</u>
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946	GU-15-45140-00		<u>6,300</u>
Preventive Health and Health Services Block Grant	93.991	GG-16-45539-00		<u>61,500</u>
Total Centers for Disease Control and Prevention Programs				<u>1,220,170</u>
Health Resources and Services Administration Programs:				
Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting Program	93.505	GG-16-46487-00		<u>108,033</u>
HIV Care Formula Grant Program:				
HIV Care Formula Grant	93.917	GG-16-48902-00		101,186
HIV Care Formula Grant -Centers of Excellence	93.917	GG-15-44623-00		<u>278,196</u>
Total HIV Care Formula Grant Program				<u>379,382</u>
Maternal and Child Health Services Block Grants to the States:				
Maternal and Child Health Services Block Grant - Breast & Cervical Cancer	93.994	GG-15-41706-00		67,800
Maternal and Child Health Services Block Grant - Children's Special Services	93.994	GG-16-45543-00		93,831
Maternal and Child Health Services Block Grant - Family Planning Services	93.994	GG-13-38051-00		<u>306,300</u>
Total Maternal and Child Health Services Grants				<u>467,931</u>
Total Health Resources and Services Administration Programs				<u>955,346</u>
Office of the Secretary:				
Teenage Pregnancy Prevention Program	93.297	5TP1AH000008-04-00		<u>142,656</u>
National Bioterrorism Hospital Preparedness Program	93.889	GG-16-46674-00		<u>514,800</u>
Office of Population Affairs:				
Family Planning Services	93.217	GG-13-38051-00		<u>340,600</u>
Total Passed through Tennessee Department of Health				<u>3,173,572</u>

The accompanying notes are an integral part of this schedule.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2016**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>Knox County, Tennessee (Primary Government) (Continued):</b>				
U.S. Department of Health and Human Services (Continued):				
Passed through Tennessee Department of Human Services:				
Office of Administration for Children and Families:				
Child Support Enforcement	93.563	CONTRACT 44946-01		\$ 185,091
Child Support Enforcement	93.563	EDISON 36305-04		<u>242,844</u>
Total Child Support Enforcement Passed through TN Department of Human Services				<u>427,935</u>
Total U. S. Department of Health and Human Services				<u>3,602,491</u>
U.S. Department of Homeland Security:				
Passed through Tennessee Emergency Management Agency:				
Pre-Disaster Mitigation	97.047	PDMC-PJ-04-TN-2013-003		<u>21,200</u>
Total Passed through Tennessee Emergency Management Agency				<u>21,200</u>
Passed through Tennessee Department of Military:				
Homeland Security Grant Program:				
Homeland Security Grant Program	97.067	2015		33,956
Homeland Security Grant Program	97.067	2014		<u>300,140</u>
Total Passed through Tennessee Department of Military				<u>334,096</u>
Total U.S. Department of Homeland Security				<u>355,296</u>
Executive Office of the President:				
Passed through Laurel County, Kentucky:				
High Intensity Drug Trafficking Areas Program	95.001	G-16-AP0001A		17,858
High Intensity Drug Trafficking Areas Program	95.001	G-15-AP0001A		<u>23,018</u>
Total Executive Office of the President				<u>40,876</u>
Total Federal Awards - Knox County Primary Government			<u>990,709</u>	<u>8,442,438</u>

The accompanying notes are an integral part of this schedule.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2016**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>Knox County Board of Education (Component Unit):</b>				
U.S. Department of Agriculture :				
Passed through Tennessee Department of Agriculture:				
Food and Nutrition Service:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	2016		\$ 4,860,818
National School Lunch Program	10.555	2016		14,428,965
National School Lunch Program - Non-Cash Assistance - Commodities	10.555	2016		<u>1,523,294</u>
Total National School Lunch Program				<u>15,952,259</u>
Total Child Nutrition Cluster				20,813,077
Fresh Fruit and Vegetable Program	10.582	2016		259,418
State Administrative Expenses for Child Nutrition	10.560	2016		37,780
Healthier US School Challenge: Smarter Lunchrooms	10.543	2016		<u>2,500</u>
Total Food and Nutrition Service				<u>21,112,775</u>
Total U.S. Department of Agriculture				<u>21,112,775</u>
U.S. Department of Transportation - Federal Highway Administration:				
Highway Training and Education	20.215	2016		<u>350,703</u>
Total U.S. Department of Transportation				<u>350,703</u>
U.S. Department of Education:				
Passed through National Institute of Excellence in Teaching:				
Office of Innovation and Improvement:				
Teacher & School Leader Incentive Grants (formerly Teacher Incentive Fund)	84.374A	2016		<u>3,302,818</u>
Total passed through National Institute of Excellence in Teaching				<u>3,302,818</u>
Passed through Tennessee Department of Labor and Workforce Development:				
Office of Career, Technical & Adult Education:				
Adult Education - Basic Grants to States	84.002	LWC47F151AESD16		433,188
Adult Education - Basic Grants to States - Incentives	84.002	LWC47F142AES015		19,999
Adult Education - Basic Grants to States - English Literacy	84.002	LWC47F151ELCV16		<u>60,976</u>
Total passed through Tennessee Department of Labor and Workforce Development				<u>514,163</u>

The accompanying notes are an integral part of this schedule.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2016**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>Knox County Board of Education (Component Unit) (Continued)</b>				
Passed through Tennessee Department of Education:				
Office of Elementary and Secondary Education:				
Title I Grants to Local Education Agencies	84.010A	2016		\$ 15,126,947
iZone Grant	84.010A	2016		523,802
Focus Schools - Chilhowee	84.010A	2016		73,052
Focus Schools - Mooreland Heights	84.010A	2016		<u>66,267</u>
Total Title I Grants to Local Education Agencies				<u>15,790,068</u>
Special Education (IDEA) Cluster:				
Special Education - Grants to States	84.027A	2016		13,403,797
Special Education - Grants to States - Discr. Parent Involvement	84.027A	2016		<u>49,323</u>
Total Special Education - Grants to States				<u>13,453,120</u>
Preschool Program:				
Special Education - Preschool Grants	84.173A	2016		<u>377,288</u>
Total Special Education (IDEA) Cluster				<u>13,830,408</u>
Career and Technical Education - Carl Perkins	84.048A	2016		823,881
Career and Technical Education - Carl Perkins Reserve	84.048A	2016		7,879
Career and Technical Education - Carl Perkins Incentive	84.048A	2016		<u>4,999</u>
Total Career and Technical Education - Basic Grants to States				<u>836,759</u>
Education for Homeless Children and Youth Programs	84.196A	2016		<u>99,000</u>

The accompanying notes are an integral part of this schedule.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2016**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Grant/Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>Knox County Board of Education (Component Unit) (Continued):</b>				
U.S. Department of Education (Continued):				
Passed through Tennessee Department of Education (Continued):				
English Language Acquisition State Grants Program:				
English Language Acquisition State Grants	84.365A	2015		\$ 251,011
English Language Acquisition State Grants	84.365A	2015		<u>56,747</u>
Total English Language Acquisition State Grants Program				<u>307,758</u>
21st Century Community Learning Centers	84.287	2016		<u>600,000</u>
Teacher & School Leader Incentive Grants (Formerly Teacher Incentive Fund)	84.374A	2016		<u>472,512</u>
School Improvement Grants:				
School Improvement Grant - Planning	84.377A	2015		325,950
School Improvement Grant - Cohort 3 SMG	84.377A	2016		426,729
School Improvement Grant - Cohort 4 VINE	84.377A	2016		<u>455,303</u>
Total School Improvement Grants				<u>1,207,982</u>
Supporting Effective Instruction State Grant (formerly Improving Teacher				
Quality State Grants - Title II - Part A)	84.367A	2015		<u>1,723,558</u>
School Safety National Activities (formerly, Safe and Drug-Free Schools &				
Communities - National Program)	84.184Y	2015		<u>211,833</u>
Total passed through Tennessee Department of Education				<u>35,079,878</u>
Passed through Tennessee Department of Human Services:				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	Z-16-70612		<u>28,557</u>
Total U.S. Department of Education				<u>38,925,416</u>
Total Federal Awards - Knox County Board of Education Component Unit				<u>60,388,894</u>
Total Federal Awards			\$ 990,709	\$ <u>68,831,332</u>

The accompanying notes are an integral part of this schedule.

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

**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**

For the Year Ended June 30, 2016

Program Title	Identifying Number	State Expenditures
<b>Knox County, Tennessee (Primary Government):</b>		
Tennessee Department of Corrections:		
Community Corrections (CAPP)	EDISON 41930	\$ <u>654,167</u>
Total Tennessee Department of Corrections		<u>654,167</u>
Tennessee Commission on Children and Youth:		
Children Services - Youth Officer	GG-10-29763-00	<u>9,000</u>
Total Tennessee Commission on Children and Youth		<u>9,000</u>
Tennessee Secretary of State:		
Tennessee State Archives Library Technology Assistance Grant	EDISON 33564	3,258
General Library Services	EDISON 34320	<u>45,500</u>
Total Tennessee Secretary of State		<u>48,758</u>
Tennessee Department of Health:		
Tuberculosis Nursing	GG-15-42750-00	107,114
Immunization	GG-15-43852-00	46,741
Immunization	GG-16-48709-00	27,689
HIV Testing	GG-16-48033-00	2,150
Sexually Transmitted Disease	GG-15-44164-00	22,483
Sexually Transmitted Disease	GG-16-48499-00	16,580
Family Planning	GG-13-38051-00	40,400
Oral Health	GG-12-35512	277,800
Adolescent Pregnancy	GG-15-41693-00	50,000
Children's Special Services	GG-15-42158-00	70,785
EPSDT Tenndercare	GG-15-42748-00	304,883
Fetal Infant Mortality	GG-15-41698-00	174,291
Diabetes	GG-14-38937-00	146,365
Adult Emergency Dental Services	GG-15-4355-00	187,020
Help Us Grow Successfully	GG-15-41709-00	<u>241,900</u>
Total Tennessee Department of Health		<u>1,716,201</u>

The accompanying notes are an integral part of this schedule.

**KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)**  
**KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
For the Year Ended June 30, 2016

Program Title	Identifying Number	State Expenditures
<b>Knox County, Tennessee (Primary Government) (Continued):</b>		
Tennessee Department of Human Services:		
Edward Byrne Memorial Formula Grant Program-Drug Court	EDISON 47269	\$ 374,073
Edward Byrne Memorial Formula Grant Program-Juvenile Court	EDISON 47268	4,478
Juvenile Court InnerChange Grant	EDISON ID 43847	<u>143,408</u>
Total Tennessee Department of Human Services		<u>521,959</u>
Tennessee Department of Agriculture - Forestry Division:		
TAEP FY15 Tree Planting Program	Edison ID 41578	1,909
Tenn. Agriculture Enhancement Program - Farmer's Market	Edison ID 41070	587
Tenn. Agriculture Enhancement Program - Farmer's Market	Edison ID 45349	<u>517</u>
Total Tennessee Department of Agriculture - Forestry Division		<u>3,013</u>
Tennessee Department of Transportation:		
Litter Grant	Z15LIT047	144,600
Gap Creek Bridge/Kimberlin Heights Road Project Bridge #47024360003	475ABI-S3-002	<u>39,835</u>
Total Tennessee Department of Transportation		<u>184,435</u>
Total State Financial Assistance - Knox County Primary Government		<u>3,137,533</u>

The accompanying notes are an integral part of this schedule.



**KNOX COUNTY, TENNESSEE (PRIMARY GOVERNMENT)**  
**KNOX COUNTY BOARD OF EDUCATION (DISCRETELY PRESENTED COMPONENT UNIT)**  
**SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE**  
For the Year Ended June 30, 2016

Program Title	Identifying Number	State Expenditures
<b>Knox County Board of Education (Component Unit):</b>		
Tennessee Department of Labor and Workforce Development:		
Adult Education	LWC47F151AESD16	\$ 72,009
Adult Education Incentive	LWC47F142AES015	4,001
EL Civics	LWC47F151ELCV16	<u>10,727</u>
Total Tennessee Department of Labor and Workforce Development		<u>86,737</u>
Tennessee Department of Education:		
Coordinated School Health	2015-2016	185,000
Pre-Kindergarten	2015-2016	1,865,003
Safe Schools Act	2015-2016	233,149
TN Arts Commission Student Ticket Subsidy Grant	2015-2016	35,085
Family Resource Center	2015-2016	29,612
Child Nutrition State Matching	2015-2016	<u>249,687</u>
Total Tennessee Department of Education		<u>2,597,536</u>
Total State Financial Assistance - Knox County Board of Education (Component Unit)		<u>2,684,273</u>
Total State Financial Assistance		<u>\$ 5,821,806</u>

The accompanying notes are an integral part of this schedule.

**KNOX COUNTY, TENNESSEE**

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

**For the Year Ended June 30, 2016**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedules of expenditures of federal awards and of state financial assistance (the "Schedules") include the federal award and state grant activity of Knox County, Tennessee (the "County"), and its discretely presented component unit, Knox County Board of Education, (the "BOE"), for the year ended June 30, 2016. The information in these Schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the Tennessee Comptroller of the Treasury. Because the Schedules present only a selected portion of the operations of Knox County, Tennessee, they are not intended to and do not present the financial position, changes in net position, or cash flows of Knox County, Tennessee.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 - LOANS OUTSTANDING**

The County had the following loan funding balances outstanding at June 30, 2016. 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 2016 Loan Funding</u>	<u>Outstanding Balance</u>
Community Development Block Grant	14.218	\$ 11,100	\$ 697,414
HOME Investment Partnerships Programs	14.239	29,000	1,023,685

**NOTE 4 - SUBRECIPIENTS**

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

	<u>CFDA Number</u>	<u>Amounts Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 723,709
HOME Investment Partnerships Programs	14.239	<u>267,000</u>
Total Subrecipient Awards		<u>\$ 990,709</u>

**NOTE 4 - NON-CASH ASSISTANCE**

The BOE 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 and BOE's federal and state funded programs allow indirect costs to be charged and include them as a line item in the grant budget. However, if the grant budget does not specifically provide for indirect costs to be charged, none of the indirect costs are reported as costs to the grantor nor are the costs included or presented in the schedules of expenditures of federal awards and of state financial assistance. The County and BOE have elected not to use the ten percent de minimis indirect rate as allowed under the Uniform Guidance.

**KNOX COUNTY, TENNESSEE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2016**

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?               yes          X   no

**Federal Awards**

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?

       yes          X   no

Major federal programs for Knox County, Tennessee for the fiscal year ended June 30, 2016 are:

<u>Program Name</u>	<u>CFDA#</u>
Special Education - IDEA & Preschool	84.027A, 84.173A
Title I - Grants to LEA's	84.010A
Women, Infants, and Children (WIC)	10.557

Dollar threshold used to distinguish between Type A & Type B programs: \$2,064,940

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, 2016**

**Section II - Financial Statement Findings**

**Current Year Audit Findings:**

**2016-001 Internal Controls over the Board of Education (BOE) Payroll Bank Account**

**Criteria or Specific Requirement** - Good internal control procedures require that proper internal controls and segregation of duties be established over all bank accounts and cash disbursements. Failure to establish proper internal controls and segregation of duties increases the risk that errors or misappropriations may occur but not be detected by the Board of Education on a timely basis.

**Condition** - The BOE Finance Department management brought to our attention two checks, totaling \$14,115,200 that were improperly processed and disbursed from a payroll disbursement account subsequent to June 30, 2016. The total amount of the transaction, which was a transfer from the payroll disbursement account to the Trustee account, where the total was to be used for payment of employee insurance premiums, should have been \$1,411,520. However, due to a keying error, an employee attempted to process the check for \$14,115,200. After being told that there was a system limitation of \$10,000,000 for each check, the employee bypassed this control by creating two checks, one for \$9,999,999 and another for \$4,115,200. Electronic signatures are used on checks from this account and no review or approval of the transfer checks was required. The checks were processed, electronically signed, and sent to Knox County for deposit in the Trustee's account. The bank where the payroll disbursement account is located cleared the \$4,115,200 check and then called to verify the accuracy of the \$9,999,999 check because it would have overdrawn the account. Immediately, the BOE Finance Department instructed the bank not to honor the \$9,999,999 check and requested the Trustee's office to return the excess transfer of \$2,703,680.

Although this transaction described above occurred subsequent to June 30, 2016, the lack of controls and segregation of duties existed at year end and during 2016.

**Cause and Effect** - By not having proper segregation of duties, any individual with access to the BOE check printing system could have written a check up to \$10,000,000 without any review or approval.

**Recommendations** - Management has either already implemented or has agreed to implement the following with which we concur:

- a. All check stock should be physically safeguarded by an individual that does not have the ability to prepare or authorization to sign checks. These checks should only be issued to authorized individuals for pre-approved expenditures, and a log kept of all checks issued which includes the name of the individual issued to, the name and amount the check is to be written for, and the date.
- b. Good separation of duties would require that persons preparing or processing the check cannot also print, or authorize the printing of, the signed check.
- c. After printing, checks should be reviewed and approved by a supervisory individual who does not maintain physical possession of the checks and who does not have the ability to print checks.
- d. As part of the monthly bank account reconciliation process, the checks which have cleared the bank should be compared to the log of checks issued to ensure they represent authorized expenditures.

**Management's Planned Corrective Actions** - Members of the BOE Finance Department management, newly hired in the third and fourth quarters of the fiscal year, found a long existing system of accounting for transactions that flowed through the school district's payroll bank account which was devoid of sufficient internal controls. These members of Finance Department management immediately began designing, developing, and implementing a comprehensive system of internal control over these transactions, focusing on the proper segregation of duties, supervision and approval of transactions, physical security over blank check stock and check writing equipment, redirection of transactions that should properly be subject to the controls over the district's and county's accounts payable system, and thorough periodic reconciliation of bank account activity, in most cases daily. This process has taken time and has extended beyond the end of the fiscal year. Management has not discovered any evidence of misappropriation, malfeasance, theft, or fraud in its review of transactions clearing the payroll bank account, and management felt it had a duty to bring this situation to the attention of the auditors. The self-directed actions taken by the BOE Finance Department management to tighten control over this system of accounting were not in response to this finding, and have been underway since the third quarter of the fiscal year.

**KNOX COUNTY, TENNESSEE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2016**

**2015-001 Accrual of Accounts Payable at Year End (Status - Corrected)**

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

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

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

**Recommendations** - We recommend the following:

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

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

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

**Current Year Status** - During the FY 2016 the Knox County Finance Department management implemented procedures to improve communication of the requirements and provided additional training to ensure compliance. Management of the County and the Board will continue to work with the applicable departments to follow up with vendors if expected billings are not received timely and to communicate with management if material late vendor billings are received after the normal cutoff dates.

**KNOX COUNTY, TENNESSEE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)**

**For the Year Ended June 30, 2016**

**2015-002 Criminal Court Clerk - Reviewing and Approving Daily Cash Receipts Reports (Status - Corrected)**

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

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

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

**Recommendations** - We recommend the following:

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

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

**Current Year Status** - Each cashier in each court managed by the Criminal Court Clerk does a daily reconciliation to their individual system report that is reviewed by the bookkeeper the next day and reconciled as a whole to the previous day's total report as the deposit is prepared. The cashiers' report, total report, and deposit slip are reviewed and signed by the Chief Financial Officer to ensure that the deposits are whole and that the cashiers are reconciling correctly. This change happened on different time schedules for each of the three courts. For Criminal Court, the Chief Financial Officer began reviewing and approving the reconciliation beginning August 1, 2015. The bookkeeper continued to reconcile all cash drawers until September 15, 2016 when the cashiers began reconciling their own drawers. For 4<sup>th</sup> Circuit Court, the Chief Financial Officer began reviewing and approving the reconciliations on February 1, 2016 and the cashiers began reconciling their own drawers on February 19, 2016. For General Sessions Court, the cashiers have always reconciled their own drawers. The head bookkeeper reviewed the daily reconciliations of General Sessions until July 1, 2016 when the Chief Financial Officer began reviewing and approving them.

**KNOX COUNTY, TENNESSEE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)**

**For the Year Ended June 30, 2016**

**2015-003 Knox County Schools Food and Nutrition Department - Misappropriation (Status - Corrected)**

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

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

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

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

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

**Current Year Status** - The former Director was charged and indicted in October 2015 and a trial date has been set for April 2017.



**KNOX COUNTY, TENNESSEE**

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (Continued)**

**For the Year Ended June 30, 2016**

**2015-004 USDA Commodities and Central Cafeteria Fund Accounting (Status - Corrected)**

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

**Criteria or Specific Requirement** - The County and BOE are required to annually report the dollar amount of federal award expenditures in the Schedule of Expenditures of Federal Awards (SEFA) to the State Comptroller's Office, the OMB Compliance Supplement and other stakeholders in accordance with Uniform Guidance. The County and BOE should have adequate internal controls and financial reporting processes to ensure the correct reporting of federal award expenditures.

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

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

**Recommendations** - We recommend the following:

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

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

**Current Year Status** - The Knox County Schools have implemented procedures to correct the recording of USDA commodities revenues, expenditures, and the related processing fees. The Knox County Schools implemented procedures during FY 2016 designed to improve the reporting of federal grant revenues, to improve the review of year end inventory calculations, and to perform a detailed annual search for capital asset purchases. The Knox County Schools now submits monthly internal financial statements for the Central Cafeteria Fund, including bank reconciliations and subsidiary details of all major balance sheet accounts, to the Knox County Finance Department for review.

