Tennessee Comptroller of the Treasury

Performance Audit Report

Department of Economic and Community Development

September 2020

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Comptroller of the Treasury

Division of State Audit

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TENNESSEE
COMPTROLLER
OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

September 1, 2020

The Honorable Randy McNally
  Speaker of the Senate
The Honorable Cameron Sexton
  Speaker of the House of Representatives
The Honorable Kerry Roberts, Chair
  Senate Committee on Government Operations
The Honorable Martin Daniel, Chair
  House Committee on Government Operations
      and
Members of the General Assembly
State Capitol
Nashville, TN 37243
      and
The Honorable Bob Rolfe, Commissioner
Department of Economic and Community Development
312 Rosa L. Parks Avenue, 27th Floor
Nashville, TN 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Department of Economic and Community Development. We audited the department for the period July 1, 2016, through January 31, 2020. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated.*

Our audit disclosed certain findings, which are detailed in the Audit Conclusions section of this report. Management of the Department of Economic and Community Development has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Department of Economic and Community Development should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit

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Division of State Audit

Department of Economic and Community Development

Performance Audit
September 2020

Our mission is to make government work better.

AUDIT HIGHLIGHTS

Department of Economic and Community Development's Mission Statement
The Department of Economic and Community Development's mission is to help make Tennessee the #1 location in the Southeast for high-quality jobs.

Scheduled Termination Date

June 30, 2021

We have audited the Department of Economic and Community Development for the period July 1, 2016, through January 31, 2020. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts or grant agreements in the following areas:

- department management oversight,
- the Division of Internal Audit,
- Foreign Direct Investment,
- the Broadband Accessibility Program,
- the FastTrack program,
- TNInvestco,
- the subrecipient monitoring plan,
- the Tennessee Job Skills Program,
- staff turnover analysis, and
- public records management.

KEY CONCLUSIONS

FINDINGS

- The Director of Internal Audit did not properly manage the department's internal audit function by following Yellow Book auditing standards, identifying risk areas, and performing sufficient internal control audits (page 9).
- Management did not implement adequate internal controls for key points in the grant application, grant award, and grant monitoring process for the Broadband Accessibility Program (page 25).
- Management did not establish adequate controls to mitigate risks associated with FastTrack grants awarded to support job creation in Tennessee (page 31).

OBSERVATION

- Management of the Foreign Direct Investment (FDI) program did not have written policies and procedures governing the evaluation and effectiveness of the FDI representatives' contract performance (page 19).

MATTERS FOR LEGISLATIVE CONSIDERATION

- Steps to wind down TNInvestco should be better defined (page 42).
- The Tennessee Job Skills Program may have reached the end of its usefulness (page 45).

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INTRODUCTION

AUDIT AUTHORITY

This performance audit of the Department of Economic and Community Development (the department) was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated.* Under Section 4-29-242, the department is scheduled to terminate June 30, 2021. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the department should be continued, restructured, or terminated.

BACKGROUND

Created by the General Assembly in 1972, the Department of Economic and Community Development has a mission to "help make Tennessee the #1 location in the Southeast for high-quality jobs." As described in Section 4-3-703, *Tennessee Code Annotated*, its responsibilities include coordinating "development services to communities, businesses, and industries in the state" to stimulate job creation. The department has regional directors who focus on improvements and attracting new business to an area of the state. To attract international business, the department contracts with international recruitment representatives in countries such as China, Germany, Italy, Japan, and South Korea.

The Department of Economic and Community Development's organizational chart is on page 56.

The department contracts with Tennessee Technology Development Corporation, dba Launch Tennessee (LaunchTN), to foster job creation and economic growth. LaunchTN has a June 30, 2021, Sunset date; however, it was not included in the scope of this audit.

The department's organizational structure is described in **Appendix 2.**

AUDIT SCOPE

We have audited the Department of Economic and Community Development for the period July 1, 2016, through January 31, 2020. Our audit scope included a review of internal controls and compliance with laws, regulations, policies, procedures, and provisions of contracts or grant agreements in the following areas:

- department management oversight,

- the Division of Internal Audit,
- Foreign Direct Investment,
- the Broadband Accessibility Program,
- the FastTrack Program,
- TNInvestco,
- the subrecipient monitoring plan,
- the Tennessee Job Skills Program,
- staff turnover analysis, and
- public records management.

The Department of Economic and Community Development's management are responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, policies, procedures, and provisions of contracts and grant agreements.

We provide further information on the scope of our assessment of internal control significant to our audit objectives in **Appendix 1**. In compliance with generally accepted government auditing standards, when internal control is significant within the context of our audit objectives, we include in the audit report (1) the scope of our work on internal control and (2) any deficiencies in internal control that are significant within the context of our audit objectives and based upon the audit work we performed. We provide the scope of our work on internal control in the detailed methodology of each audit section and in **Appendix 1**, and we identify any internal control deficiencies significant to our audit objectives in our audit conclusions, findings, and observations.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. Although our sample results provide reasonable bases for drawing conclusions, the errors identified in these samples cannot be used to make statistically valid projections to the original populations. We present more detailed information about our methodologies in **Appendix 3**.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

SINGLE AUDIT

As part of the annual Single Audit of the State of Tennessee, the Comptroller of the Treasury's Division of State Audit performs a risk assessment and audits certain federal programs administered by state agencies. We review the systems of internal control over federally funded programs and compliance with program regulations. The audit's objective is to determine the state's compliance with federal requirements regarding the use of those funds. For the audit period covered by this performance audit, the Department of Economic and Community Development was included in the state's Single Audits for fiscal years 2016, 2017, 2018, and 2019, as described in **Table 1.**

Table 1
Single Audit Findings – Department of Economic and Community Development

Federal Program	Federal Funds Expended (Average for Fiscal Years 2016–2019)	Findings by Fiscal Year			
		2016	2017	2018	2019
Community Development Block Grant (CDBG)	$35,255,939	N/A	N/A	2	3

Source: Single Audit reports for fiscal years 2016, 2017, 2018, and 2019.

SINGLE AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

2019-004	For the second year, management has not established proper controls over CDBG report preparation and report review processes and has reported inaccurate information to the federal grantor
2019-005	Management's review process for the federal Performance and Evaluation Report is inadequate; as a result, the Department of Economic and Community Development has reported inaccurate information to the federal grantor
2019-006	The Department of Economic and Community Development did not provide adequate internal controls in one specific area increasing the risk of data loss and the inability to continue operations

In response to audit findings and recommendations, the department must develop corrective action plans to submit to the appropriate federal awarding agency. The federal grantor is responsible for issuing final management decisions on the department's findings, including any directives to repay the federal grants. Our office is required to determine whether the department has taken full corrective action, partial corrective action, or no corrective action.

PRIOR AUDIT FINDINGS

REPORT OF ACTIONS TAKEN ON PRIOR AUDIT FINDINGS

Section 8-4-109(c), *Tennessee Code Annotated,* requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The prior performance audit report, dated October 2016, contained five findings. On April 27, 2017, the department filed its report with the Comptroller of the Treasury. We conducted a follow-up of the prior audit findings as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Economic and Community Development resolved four of the five prior audit findings:

- department management did not report and track all TNInvestco program data and did not accurately report jobs created and retained, including jobs held by women and minority employees;
- the department's Grant Committee did not include approval for all FastTrack grants in its meeting minutes;
- department management failed to include required information in the monitoring plan, to issue monitoring reports, and to submit monitoring reports to the Comptroller; and
- management failed to include all statutorily required information in the Tennessee Job Skills Program's grants and annual report.

DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
AUDIT FINDINGS

October 2016 Performance Audit

5 findings

September 2020 Performance Audit

Resolved 4 of 5 prior audit findings

2 new findings

1 repeat finding

1 observation

REPEATED AUDIT FINDING

The prior audit report also contained a finding stating that FastTrack grantees' self-reported data was not always submitted timely and that grantees may need more guidance to ensure accurate self-reporting of jobs data. In our current audit, we found that management had not ensured that FastTrack grantees submitted self-reported data timely or at all. Additionally, in the current audit we found that management had not implemented sufficient corrective action to ensure that the grantees' supporting documentation matched their self-reported information, that grantees reported jobs based on the contract's definition of a job, and that grantees provided contract required information to determine if all jobs aligned with contract definitions. We repeated this finding in the applicable section of this report (see **Finding 3** on page 31).

AUDIT CONCLUSIONS

Department Management Oversight

To achieve the department's mission, management has the responsibility to establish the necessary operational processes to carry out the department's functions, objectives, and goals. These key operational processes should include effective internal control activities, including management's own responsibility to oversee the processes to fulfill the department's stated mission.

The U.S. Government Accountability Office sets internal control standards for federal entities through its *Standards for Internal Control in the Federal Government* (Green Book). Green Book standards, which also serve as best practices for nonfederal government entities, give management the responsibilities of

- establishing an organizational structure;
- assigning responsibility;
- delegating authority to achieve the entity's objectives;
- developing and maintaining documentation of its internal control system;
- designing control activities to achieve objectives; and
- identifying, analyzing, and responding to risks related to achieving the defined objectives.

According to the Green Book, control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.

Audit Results

Audit Objective: Did management establish operational processes to achieve its mission; establish and enforce internal control activities to ensure compliance with statute, policies, and procedures; and oversee the processes and controls as a primary responsibility?

Conclusion: We found that management did not fully establish operational processes and, therefore, could not enforce internal control activities or provide adequate oversight.

The department's leadership must provide strong oversight to guide department personnel in the administration of their duties and responsibilities. Without such oversight, the leadership may not promptly identify and address operational issues and cannot effectively manage the strategic direction of the department. As a result of our review within the following detailed sections, we identified the following areas of concern:

- The Director of Internal Audit did not properly manage the department's internal audit function by following relevant auditing standards, identifying risk areas, and performing sufficient internal control audits. See **Finding 1.**
- Management of the Foreign Direct Investment program did not have written policies and procedures governing the evaluation and effectiveness of the FDI representatives' contract performance. See **Observation 1.**
- Management did not implement adequate internal controls for key points in the grant application, grant award, and grant monitoring process for the Broadband Accessibility program. See **Finding 2**.
- Management did not establish written policies and procedures governing the FastTrack Grant program, disregarded controls over state procurement, and informally changed grant contract requirements. See **Finding 3.**

Providing clear oversight by establishing and enforcing controls is one of management's primary responsibilities and is key to making Tennessee the number one location in the Southeast for high-quality jobs. Management also has the responsibility to establish effective controls that ensure staff comply with state statutes, protect state assets, and provide services to the state's citizens.

Division of Internal Audit

According to the Institute of Internal Auditors, the internal audit function should focus on "identifying the risks that could keep an organization from achieving its goals, making sure the organization's leaders know about these risks, and proactively recommending improvements to help reduce the risks." With the grants and subsidies the Department of Economic and Community Development has awarded—$186,334,065 in 2019 alone—internal audit should be a vital part of the department's risk assessment and control structure. Internal auditors must adhere to minimum standards, which the Office of the Comptroller of the Treasury and the state's Executive Internal Auditor have the authority to establish to safeguard taxpayer dollars.

With the grants and subsidies the Department of Economic Development has awarded—$186,334,065 in 2019 alone—internal audit should be a vital part of the department.

Tennessee's Executive Internal Auditor brings consistency to the executive branch internal audit divisions by providing training and peer review, developing comprehensive standards,[1] and reviewing and approving internal audit plans. (The position was created in 2016 by Section 4-4-124, *Tennessee Code Annotated.*) According to the current Executive Internal Auditor, the first official Executive Internal Auditor created work groups to develop standardized practices among the Executive Branch Internal auditors to fulfill the requirements of state statute. One work group developed the "Internal Audit Risk Analysis Tool," to assess risk and develop annual audit plans. As part of the risk analysis tool, internal auditors provide a listing of all potential audits or areas to audit. This listing is the starting point for the risk assessment process and helps ensure that all areas are considered.

<u>Standards Relevant to Internal Auditing</u>

The original Executive Internal Auditor also established a workgroup to address the standards that the Executive Branch would follow. The group proposed, and the Executive Internal Auditor agreed, that the Executive Branch internal auditors should follow the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (the Red Book) unless a division had already implemented and was fully following the U.S. Government Accountability Office's *Government Auditing Standards* (the Yellow Book). According to the Director of Internal Audit, she performs audits by following the Yellow Book.

Both Red Book and Yellow Book standards require that internal audit divisions participate in peer reviews and that Internal Audit management clearly identifies which standards the internal auditor followed when completing the audits and preparing the internal audit reports. Additionally, Yellow Book requires internal auditors who are unable to follow or do not follow the required Yellow Book standards to document the standard(s) exceptions and to describe the effects of not following the standard(s) on the work performed, including modifying language in the internal audit report to note the exceptions and effects on the work.

In addition, the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (the Green Book), provides practical standards to help management strengthen internal controls and identify risks within their organizations. Based on Section 4-4-124(b)(1)(A)(i), the Executive Internal Auditor incorporates the Green Book into the comprehensive standards established for internal audit divisions. The Green Book describes internal controls as a system to assure management that the objectives of an entity will be achieved (Principles OV1.01 and 1.03).

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[1] Section 4-4-124(b)(1), *Tennessee Code Annotated,* states,

> The Executive Internal auditor shall: **(A)** Develop comprehensive internal audit standards for executive branch agencies, which shall:
>
> **(i)** Incorporate the Standards for Internal Control in the Federal Government issued by the United States government accountability office, referred to as the "Green Book," as amended, revised, or modified;
>
> **(ii)** Incorporate the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors [referred to as Red Book], as amended, revised, or modified; and
>
> **(iii)** Include any other standards deemed appropriate by the executive internal auditor.

Initial Review of Reports Released and Standards Specified

According to the Director of Internal Audit, she follows Yellow Book standards for all audit work performed. **Table 2** summarizes our review of reports released for fiscal years 2017 through 2019.

Table 2
Internal Audit Division Reports Released by Fiscal Year

Fiscal Year	Number of Reports Released	Yellow Book Standards Specified in the Report	No Standards Specified in the Report
2017	4	0	4
2018	5	4	1
2019	2	1	1

Source: Internal Audit reports provided by the Department of Economic and Community Development.

As noted above, failure to identify that Yellow Book standards were followed is a violation of Yellow Book requirements. As a result of our preliminary review, we expanded our work to include the following audit objectives.

Audit Results

1. Audit Objective: Did the Division of Internal Audit follow Yellow Book standards and issue reports for audits, reviews, or other work completed?

Conclusion: The division released 4 reports identified as "limited reviews" in fiscal year 2017, 5 in 2018, and 2 in fiscal year 2019; however, the division did not follow Yellow Book standards to conduct the reviews. See **Finding 1**.

2. Audit Objective: Did the Division of Internal Audit use an appropriate risk-based process to develop the internal audit plan, including the risk analysis tool as purposed by the Executive Internal Auditor appointed workgroup?

Conclusion: While the Director of Internal Audit stated she used a risk-based process to develop an internal audit plan, she also stated this process was based mostly on her "professional experience" and the department's grantee risk assessments. We found specifically that for the three years we reviewed, the Director followed almost the same audit plan, which suggests that she did not perform a thorough risk assessment each year. Furthermore, although the Director followed the audit plan, she had not assessed risks, developed a plan based on identified risks, or designed audits to assist management in mitigating those risks. In addition, we found that the Director performed only one review each year that focused on testing the strength of management's internal controls. See control deficiency **Findings 2 and 3 and Observation 1.**

3. Audit Objective: Did the Division of Internal Audit perform all audits identified on the approved internal audit plan? If not, how did the division address audits planned but not completed?

Conclusion: The Director generally carries any uncompleted areas to the next year's plan.

Finding 1 – The Director of Internal Audit did not properly manage the department's internal audit function by following Yellow Book auditing standards, identifying risk areas, and performing sufficient internal control audits

Background

According to the Institute of Internal Auditors (IIA), internal auditing is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations." The institute describes internal auditing as, at "its simplest . . . identifying the risks that could keep an organization from achieving its goals, making sure the organization's leaders know about these risks, and proactively recommending improvements to help reduce the risks." The Comptroller of the Treasury has recommended internal audit organizations follow Yellow Book standards.

In the event the internal auditor chooses not to prescribe to Yellow Book standards, the Comptroller of the Treasury accepts internal audits prepared under the best practice guidance for internal audit organizations: The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (the Red Book). The Red Book, as a best practice for internal auditors, states that internal audit "considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance."

According to the ECD Director of Internal Audit, ECD is a Yellow Book agency and has chosen to follow those standards for audit work.

Conditions and Criteria

Our review of the department's Division of Internal Audit found that the department's internal audit function has not been sufficient. Our results included the following three issues.

Director and Internal Audit Staff Did Not Follow Yellow Book Standards When Issuing Reports

> The Director could not provide us documentation describing why the reports deviated from Yellow Book requirements.

The Director and internal audit staff did not issue reports in accordance with Yellow Book standards as declared. The Yellow Book specifies exact wording required for inclusion in the audit report conducted in accordance with Yellow Book standards. The department's Division of Internal Audit classified the 11 reports issued for fiscal years 2017 through 2019 as "limited reviews," stating in the audit reports that they followed Yellow Book standards when conducting these five audits. We found, however, that the Director had altered the prescribed paragraph by changing "audit" to "limited review." Since the

Yellow Book does not mention or include the term "limited review," we are unclear about the Director's use of the term or why she believed she could alter Yellow Book required language. We also found that the Director could not provide us documentation describing why the reports deviated from Yellow Book requirements, as required by those standards.

For the remaining six "limited reviews," the Director of Internal Audit may have intended to follow standards given her statement that ECD is a Yellow Book agency; however, she did not include information in the reports to identify that staff followed Yellow Book standards or any other standards, as required.

<u>The Director and Audit Staff Did Not Follow Green Book Standards or Best Practices for the Internal Audit Risk Assessments and Audit Plans</u>

Principles 6, 7, and 8 of the Green Book require management to define objectives to identify risk(s) that may affect management's ability to meet the objective. Once management has identified risk(s), management should analyze and respond to the risk. This allows management to design and implement internal controls and subsequently monitor the operating effectiveness of the internal controls to ensure management identify, analyze, and respond to changes that could impact the control system.

As the common standard of public and private internal audit organizations, Red Book Standard 2010.A1 states, "The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually." Standards require a plan based on the organization's strategies, objectives, and risks; the "chief audit executive" (the Director, for the department) must adjust the plan in response to organizational changes.

> The Director's internal audit risk assessments did not follow Green Book or Red Book standards. Instead, she stated they were based on her "professional experience."

The Director's internal audit risk assessments did not follow Green Book or Red Book standards. Instead, she stated they were based on her "professional experience," using the Executive Internal Auditor's recommended Internal Audit Risk Analysis Tool to help evaluate risks. Based on our review, however, we found that the audit plan, which remained almost the same from year to year, focused on low-risk compliance work. Additionally, we could not verify that the Director properly used the recommended tool to develop internal audit plans based on identified areas of risk.

Audit plans stated, and the Director confirmed, that she excluded higher-risk programs (CDBG/Federal Programs, TNInvestco, and LaunchTN) from internal audit work. The Director noted that these areas were frequently audited by State Audit or others, and thus they did not need to be addressed by Internal Audit. However, it is management's responsibility to perform annual department-wide risk assessments, and it is the Director of Internal Audit's responsibility to perform annual internal audit risk assessments to develop the internal audit plans. The work of external auditors cannot fulfill internal audit's responsibility to perform adequate risk assessments.

Director and Audit Staff Rarely Performed Tests of Internal Controls

Based on our discussions and review of internal audit reports, we did not see evidence that the Director of the Division of Internal Audit consistently acted to evaluate and improve management's internal controls. Without tests of controls, the Director has not provided critical information to management about the department's risks and/or the effectiveness of mitigating controls, which is paramount to the internal auditor's role and responsibilities.

Green Book 12.05 states management periodically reviews policies, procedures, and related control activities for continued relevance and effectiveness in achieving an entity's objectives. Management relies on internal audit to be an integral part of the review and monitoring of controls activities.

Standard 2130 in the Red Book, which serves as a best practice for internal auditors, states, "The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement." However, we found that the majority of internal audit's work did not include any tests of management's controls. In the two reports that did include control testing,[2] Internal Audit staff only tested controls over equipment inventory and did not include control work related to the department's spending of the $186,334,065 of grants and subsidies the Department of Economic and Community Development was awarded in 2019 alone. We believe it would be more beneficial to department management for the Director of Internal Audit to focus her internal audit work on controls related to the programs and operations necessary to achieve the department's mission.

Cause

The Director of Internal Audit stated that she was following Yellow Book standards; the Director disagreed that her "limited reviews" would be anything other than that.

Also, the Director said that she completed the assessment of risk for the audit plan, feels the items included in the plan were required, and believed that she was covering the most important work. Since she believes it is appropriate to rely on State Audit or other external auditors for higher risk areas and that the department has adequate controls in place, she did not include testing controls in her risk assessment or audit plan.

Given her comments, we believe the Director has an overall lack of understanding of risk management and relevant standards.

Effect

Because Internal Audit staff did not identify and follow Yellow Book auditing standards, they increased the risk that the Division of Internal Audit would issue reports that do not meet standards designed to ensure fair, accurate, evidence-based conclusions.

[2] These reports were issued in fiscal years 2018 and 2019.

Without proper internal audit risk assessments, the Director of Internal Audit cannot help management improve the department's operational and financial control environment. If Internal Audit staff had identified the control deficiencies we report in **Findings 2 and 3 and in Observation 1** and suggested corrective action to management, Internal Audit staff might have assisted management in preventing those deficiencies.

Recommendation

The Commissioner should work with the state's Executive Internal Auditor to ensure the Department of Economic and Community Development's Division of Internal Audit Director

- familiarizes herself and staff with auditing standards, then conducts audits and issues reports in accordance with Yellow Book standards;
- properly conducts the internal audit risk assessments in accordance with recommendations of the executive internal auditor and audit guidelines to determine effective internal audit plans;
- ensures the department complies with statute, regulations, and policies and procedures by performing internal audits based on a properly developed internal audit plan; and
- ensures audits include tests of controls that mitigate higher-risk areas.

Management's Comments

We concur in part on your Finding 1 as a whole. We must first address the written statement, "The Director of Internal Audit did not properly manage the department's internal Audit...," which is not validated. There was no egregious oversight or malicious intent on our part sufficient to warrant the tone in this finding. Additionally, this statement could be injurious to the auditor's professional reputation.

As to the proper management of the internal audit function by identifying risk areas, we do not concur. Internal Audit supports Management's Annual Assessment of Risk by providing Enterprise Risk Management training assistance, consultation, and collaboration with management to facilitate submission of the timely risk analysis document as required. Internal Audit determines risk areas to be addressed by the Internal Audit Plan using the recently developed Internal Audit Plan Risk Assessment Tool Kit and using professional judgment supported by 20 years of audit experience (including more than eleven years spent working for the Comptroller of the Treasury's Division of State Audit), education, and continuing professional education. The internal auditors' use of professional judgment in the selecting, planning, and conducting of audit activities is repeatedly referenced in the GAO Yellow Book.

As to the performance of more "internal controls" audits, we generally concur that more types of internal audit activities could have been included if we had more resources at our disposal. There is an inherent limit to the number of audit activities that can be performed by a two-person audit shop.

As to the more rigorous following of the Yellow Book format and wording in presenting our reports, we concur that we should have titled our reports as Agreed Upon Procedures reports rather than "limited reviews." This was our error in an attempt to diminish confusion with fully unmodified Yellow Book audits. We had not yet met all of the requirements for Peer Review and Independence during this performance audit period, so we hesitated to mislead the users of our reports by stating that our reports met all Yellow Book requirements. Our reports are limited as to their distribution to the Commissioner and the Executive Leadership Team as management tools. The internal audit reports are not distributed to members of the general public. We have since undergone the required external peer review and achieved a "Pass" rating.

Executive Internal Auditor

We concur in part with the finding. Regarding performing sufficient internal control audits, we agree that the Director of Internal Audit did not perform sufficient audits of internal controls over the time frame July 2016 through January 2020 that followed relevant auditing standards.

The Government Accountability Office's (GAO) 2011 Government Auditing Standards are "*effective for financial audits and attestation engagements for periods ending on or after December 15, 2012, and for performance audits beginning on or after December 15, 2011.*" For the Economic and Community Development (ECD) reports released in fiscal years 2017 through 2019, the 2011 revision of Government Auditing Standards applies.

The reports released by the Director of Internal Audit were not results from full Performance Audits or Financial Audits as described by Generally Accepted Government Auditing Standards (GAGAS). The Director of Internal Audit performed engagements that were reported as limited reviews and closer to Attestation Engagements that resulted in an Agreed-Upon Procedures Report. However, even with the effort to complete Agreed-Upon Procedures Reports according to Yellow Book Attestation standards, the reports delivered by the Director of Internal Audit still did not contain enough required elements to be in full compliance with the 2011 Yellow Book reporting standards.

In Chapter 2 of the 2011 Yellow Book, "Standards for Use and Application of GAGAS," standard 209 (C) describes Agreed-Upon Procedures as consisting of "auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. In an agreed-upon procedures engagement, the auditor does not express an opinion or conclusion, but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied." There is work to be done to clarify requirements with ECD internal audit staff relating to consulting engagements or Agreed-Upon Procedures, and we will focus on that going forward.

Going Forward – What Will Be Done:

Going forward into fiscal year 2021, the Executive Internal Auditor will work with the executive branch internal audit departments either in a workgroup or just with the internal audit staff that have adopted Yellow Book Standards, to develop a template for Attestation Engagement reports and the related field work requirements. The EIA will also work with the same group to develop better awareness of the standards for "routine activities" and nonaudit services as defined by the GAO through in-house training or internal audit roundtable discussions. This will be initiated before November 30, 2020.

Also, ECD's Director of Internal Audit will adjust the fiscal year 2021 internal audit plan that is submitted to the EIA to include additional audit work on internal controls, Green Book Compliance, or additional audits based on higher risk areas as identified in the risk assessment produced by management. The internal audit plan will be adjusted to reflect the broader audit universe that correlates more closely to the risks of ECD. This will be done before September 30, 2020.

The Executive Internal Auditor will meet (virtually) with ECD's Director of Internal Audit and management before September 30, 2020 to discuss ECD's internal audit team resources and any concerns with the adjustments to the internal audit plan. ECD's internal audit department resources consist of two auditors. As they incorporate more audit engagements of higher risk areas as well as those areas that are routinely audited by the State Audit team of auditors, the near future will include more coordination with State Audit to avoid duplication of efforts.

ECD's Internal Audit staff will meet (virtually) with the EIA and management by September 30, 2020 to discuss the Observations/Recommendations from the External Peer Review reported in May 2020 and the corrective action plan.

What Has Been Done Since January 2020

An External Peer Review was performed in April 2020 on the Internal Audit Activity for ECD. The rating was indicated as "Pass" but there were areas for continuous improvement identified.

In May 2020, the staff at ECD had to complete an annual training module titled "*Department of Economic and Community Development Training on Internal Controls in State Government Agencies for Managers, Supervisors, and Employees.*" The training module was developed by the Director of Internal Audit and incorporates an overview of the COSO Internal Control principles that closely mirror the Green Book Internal Control elements.

The ECD Director of Internal Audit has initiated and led discussions on the impact of statewide policy compliance work in an effort to reduce time that ECD's Internal Audit Department spends with lower risk but mandatory compliance activity. These proactive discussions were an effort to free up resources and time for audit work on areas of higher risk.

We do not concur that the Director of Internal Audit did not properly manage the department's internal audit function by failing to *identify* risk areas. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment of whether:

- Organizational objectives support & align with the department's mission.
- Significant risks are identified and assessed.
- Appropriate risk responses are selected that align risks with the organization's risk appetite.

- Relevant risk information is collected and communicated in a timely manner across the department, enabling staff, and management to carry out their responsibilities.

The guidance made available to executive branch management for Risk Management can be found on the link: https://www.tn.gov/finance/fa-accounts-risk-managment.html. The Director of Internal Audit was an integral part of ECD management's annual risk assessment process that supports the Financial Integrity Act filing requirements. The "Optional Use Toolset" forms were completed including Form 3 titled "ERM Components: Event/Risk Identification." The Director of Internal Audit was and has been integral in facilitating the completion of the Enterprise Risk Management (ERM) forms and the annual Financial Integrity Act filing.

We understand that the integration of that enterprise risk assessment content into actionable internal audit plans for ECD's highest risk areas did not occur as needed over the past four years. Not all of the identified risks are auditable and when the "audit universe" was organized by the internal audit department and the risks were prioritized, that is where we acknowledge misalignment of the assessed risk with internal audit plans. The optional "Internal Audit Risk Analysis Tool" isn't a tool that replaces the ERM forms that are used with the annual risk assessment process. We believe internal audit staff resources are more of a factor related to this finding than the lack of understanding of risk management concepts and standards.

Auditor Rebuttal

This basic message of our finding is that the Director of Internal Audit could not or did not provide evidence of her own internal audit risk assessment as defined in IIA standards or based on the Internal Audit Plan Risk Assessment to properly develop a "risk-based" audit plan; did not perform sufficient internal control audits (perhaps because of not having an internal audit risk assessment); and did not follow Yellow Book standards although the published internal audit reports indicated otherwise.

Our finding addresses the Director's **internal audit risk assessment**, which is a tool she should prepare annually in order to develop a "risk-based" internal audit plan for the upcoming year. Our finding does not focus on management's departmental risk assessment, which they should prepare annually. Management's risk assessment should also include their own analysis of any potential risks associated with the Division of Internal Audit, such as the risk that the division has not performed the internal audit risk assessment in accordance with best practices and the Green Book.

FOREIGN DIRECT INVESTMENT

General Background

The Department of Economic and Community Development strives to attract companies from all industries to the State of Tennessee. To accomplish this goal, the department's five Directors of Business Development and seven Foreign Direct Investment Representatives identify and build relationships with foreign and domestic businesses. Through these relationships, the department seeks to support economic growth in Tennessee.

According to a *2019 International Business Machines (IBM)-Plant Location International's Global Location Trends* report, the State of Tennessee ranked second in the nation for job creation through foreign direct investment for fiscal year 2018. The department reports there are more than 1,032 foreign-based establishments operating in Tennessee employing over 152,152 individuals. See **Table 3**.

According to the Global Director of Foreign Direct Investment, the Foreign Direct Investment (FDI) program management's goal is to attract foreign direct investment through capital investment and job gains. To achieve this goal, the department has established Foreign Direct Investment offices. For fiscal year 2020, the Foreign Direct Investment offices are located in China, Germany, Italy, Japan, South Korea, Switzerland, and the United Kingdom. Offices are not physical locations; rather, they are the areas the Foreign Direct Investment Representatives cover as part of their contract.

Table 3 – Cumulative Foreign Investment in Tennessee
Fiscal Years 2011 through 2019

Country	Number of Tennessee Establishments	Total Tennessee Employment
Japan	196	51,512
Germany	127	19,917
United Kingdom	119	10,523
Canada	83	9,330
France	82	10,604
Switzerland	48	5,257
Italy	41	4,820
Sweden	33	7,363
China	24	3,571
South Korea	15	3,144
Other Countries	264	26,111
All Countries	**1,032**	**152,152**

Source: FDI Dashboard reported on **www.tn.gov/transparenttn/open-ecd**.
Data reported from 2011 through January 3, 2020.

Selection Process

The department's process of contracting with Foreign Direct Investment Representatives begins with a Request for Proposal (RFP) to solicit interested candidates. Potential FDI representatives respond to the department's RFP.[3] After the department receives responses to the RFPs, the Commissioner, Assistant Commissioner of Business Development, and Global Director of Foreign Direct Investment review and score the proposals. The

[3]The RFP process follows the Department of General Services' Central Procurement Office (CPO) policies.

Commissioner, Assistant Commissioner, and Director of Foreign Direct Investment then complete a face-to-face interview with each applicant. Based on the proposal scores and the interviews, the department selects the winning applicant and completes a contract. If no one is qualified, the department starts the process over.

Representative Performance Evaluations

The department's management holds the department's Business Development Directors and the contracted Foreign Direct Investment Representatives to similar performance standards. The focus of these standards is the recruitment of companies to Tennessee, which impacts the department's annual job creation goal. Department management evaluates Business Development Directors as state employees through the state's Individual Performance Plan. The Global Director of Foreign Direct Investment stated that she evaluates the Foreign Direct Investment Representatives based on the performance expectations outlined in each representative's contract. Management indicated that these expectations include the representative's contribution to the department's annual job creation goal, the number of prospective business meetings held, the number of stakeholder meetings held, and industry events attended per month.

For this audit, we focused our work on the department's monitoring of Foreign Direct Investment Representatives.

To gain an understanding of management's contract performance review process, we interviewed the Global Director.

To allow the department to track the representatives' performance, the Global Director of Foreign Direct Investment has instructed the representatives to use the department's Customer Relationship Management (CRM) system to self-report the numbers of business meetings held, stakeholder meetings held, and industry events attended. According to the state's contracts with FDI representatives, on a monthly basis, FDI representatives must

- develop target industries and companies to contact the following month;
- meet with ten prospective companies;
- conduct a monthly review and planning call with the Global Director; and
- attend four stakeholder meetings and/or networking events.

On a quarterly basis, FDI representatives must

- meet with the Global Director to review their activities; and
- submit a quarterly plan/memo discussing their stakeholder meetings.

On a semi-annual basis, FDI representatives must submit an action plan to the Global Director. The action plan provides information on events and outreach that the representative is going to take part in over the following quarter. FDI representatives must visit the United States twice a year and support the department's visits to their country twice a year. Each FDI representative also has a job creation goal that aligns with the department's mission to encourage more companies to invest in Tennessee. An FDI representative receives credit for job creation after a company that the FDI representative has met with announces the opening of business within Tennessee or signs an incentive letter. During the communication process with the state to develop incentives, the department identifies what number of jobs the company will be bringing to the state. The department tracks this information within CRM and notes if the company is the result of work of an FDI representative. The Global Director utilizes this information to determine whether an FDI representative is meeting the job creation numbers maintained in the contract.

Table 4 - ECD Foreign Offices and Amount Paid to the Contracted Representative in that Country for Fiscal Year 2019

FDI Country Office	FY 19 Contract Amount Paid
Japan*	$238,800
Japan	$236,488
Germany†	$164,260
France‡	$223,000
Italy#	$166,000
China	$169,000
South Korea	$164,680
Total	**$1,362,228**

* Retired
† Germany Office covers Canada, United Kingdom, Switzerland, Sweden
‡ Canceled Contract
# Italy office covers Spain

According to the Global Director, she uses her professional experience and understanding to judge whether representatives' contract performance metrics, submitted into CRM, appear valid. Specifically, the Global Director considers the number of meetings reported in comparison to the company announcements or incentive letters that are attributable to the representatives' meetings. The Global Director noted that as a result of her reviews, if necessary, the department can cancel contracts with representatives.

Audit Results

Audit Objective: Did management evaluate Foreign Direct Investment Representatives' performance based on contract performance metrics (i.e., meetings, industry events, and job creation)?

Conclusion: Management was able to explain the evaluation of Foreign Direct Investment Representatives but was unable to provide documented evidence. Furthermore, management did not have formal written policies and procedures over their process. See **Observation 1.**

Observation 1 – Management of the Foreign Direct Investment (FDI) program did not have written policies and procedures governing the evaluation and effectiveness of the FDI representatives' contract performance

The Green Book assigns governing bodies responsibilities for an organization's control environment, including making strategic decisions. Green Book Principle 3, "Establish Structure, Responsibility, and Authority," states that "management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives." Per paragraphs 3.10 and 3.11, management documents internal controls to establish and communicate the who, what, when, where, and why of internal controls to responsible staff.

Lack of Formal Policies and Procedures

Management is responsible for designing, implementing, and monitoring internal controls. However, management has not developed written policies and procedures, or implemented the necessary controls to evaluate the performance of Foreign Direct Representatives to ensure that they achieved contract requirements.

No Documented Evaluation Process

According to the Global Director, she evaluates each FDI representative's performance on a biweekly to monthly basis and documents the performance through personal notes and observations, culminating in an annual performance review to determine whether the representative meets the performance goals set by the contract. However, the Global Director could not provide us with her personal notes or the annual performance evaluations; therefore, we could not determine whether management actually evaluated the FDI representatives' performance or that the representatives' performance met the requirements of their contract. Furthermore, while the contracts include the specific measures the representatives should achieve, management did not document how evaluations were conducted or the reasoning for any conclusions reached.

Management did not document how evaluations were conducted or the reasoning for any conclusions reached.

No Validation of Self-Reported Data

FDI representatives self-report their performance metrics (e.g., contacts made, and meetings attended) directly into the department's Customer Relationship Management (CRM) system. However, the Global Director does not require the FDI representatives to provide any documentation to substantiate the work they completed on behalf of the state. According to the Global Director, she knows the FDI representatives are completing their work based on tangible leads that the state receives, and representatives are also able to demonstrate successful work through a company announcement or incentive letter. During our interviews, we inquired about the department's process for validating the representatives' self-reported information within CRM; however, the Global Director of Foreign Direct Investment stated that the department does not have a process in place to validate the representatives' self-reported data.

Contract Cancellations

During the audit period, the Global Director recommended to department management the cancellation of one FDI representative's contract because the representative did not produce any tangible leads during the contract period. While the contract was canceled, the Global Director could not provide documentation to support the decision to cancel the contract.

> The Global Director does not require the FDI representatives to provide any documentation to substantiate the work they completed on behalf of the state.

The Global Director, in addition to the Director of Internal Audit, stated that the department relies on the FDI contracts to regulate the FDI program, so FDI program policies and procedures are not required. FDI management said the FDI representatives demonstrate their work on a particular project by a company announcement or incentive letter. Management also said they use professional observation of FDI representatives' work.

Without properly documented controls and procedures governing FDI representatives' performance, management cannot ensure contractors have met contract requirements or that the resources expended in the program accomplished the intended mission. Properly designed and effective controls reduce the risks associated with noncompliance, errors, fraud, waste, and abuse of state funds.

The Commissioner should ensure the Global Director develops formal policies and procedures governing FDI contract management, including evaluation of contractors' performance. The policies and procedures should include management's process to review contract performance measures and program goals, including documentation requirements for both reviews.

BROADBAND ACCESSIBILITY PROGRAM

General Background

In 2017, the Governor signed into law the Tennessee Broadband Accessibility Act (TBAA or Accessibility Act), codified in Section 4-3-708, *Tennessee Code Annotated*, after the joint *Internet Connectivity and Utilization in Tennessee 2016* report[4] identified the state's broadband needs. This report stated, "During 2015, elected leaders, business executives and economic development professionals across the State identified broadband availability as a key strategic initiative to improve future economic development efforts in rural Tennessee." The joint Broadband report found that 87% of Tennessee's population (roughly 5.5 million people) had access to broadband speeds that

[4] The Department of Economic and Community Development, Strategic Networks Group, and NEOConnect released the report dated July 19, 2016.

meet the Federal Communications Commission (FCC) definition.[5] The remaining 834,545 people had no broadband access. The report provided cost estimates to build out **fiber to the premise (FTTP)**, $1.25 billion to provide homes that did not have a 10 Mbps/1 Mbps connection,[6] and up to $1.7 billion to build FTTP to every home without a 25 Mbps/3 Mbps connection.[7]

The joint Broadband report found that 87% of Tennessee's population (roughly 5.5 million people) had access to broadband. . . . The remaining 834,545 people had no broadband access.

Section 4-3-708(d), *Tennessee Code Annotated,* authorizes the department to provide state-funded program grants to eligible broadband providers, including political subdivisions, corporations, limited liability companies, partnerships, or other business entities for the purpose of assisting those entities in providing broadband services by installing infrastructure in locations without access to highspeed internet and whose infrastructure will "support broadband services scalable to higher download and upload speeds."

In addition to providing grants to eligible broadband providers, the statute authorizes the department, in partnership with the Tennessee State Library and Archives, to provide funding to local libraries for digital literacy training, and allows the department to designate as "Broadband Ready Communities" political subdivisions that meet department guidelines based on statutory requirements.

The department has established its current Broadband Accessibility Program guidelines to govern the grant awards by emphasizing that the program is for unserved and underserved areas without a fixed connection supporting download speeds of 25 megabits per second and upload speeds of 3 megabits per second. The program's guidelines also describe statutory priorities that include

- accepting providers' applications proposing to acquire and install infrastructure that supports broadband service scalable to higher download and upload speeds;
- serving locations without access to download speeds of at least 10 megabits per second;
- serving locations with community support including the Broadband Ready Community program; and
- prioritizing providers that have not received awards for other federal or state broadband programs.

[5] The FCC defines broadband internet access as the speed benchmark for advanced telecommunications capability with a download speed of 25 megabytes per second (Mbps) and an upload speed of 3 Mbps. The FCC has a short-term goal of addressing the poorest performing areas with broadband projects at a 10 Mbps download / 1 Mbps upload speed.
[6] Minimum speed required by Section 4-3-708(e), *Tennessee Code Annotated*, the Tennessee Broadband Accessibility Act, and the Connect America Fund of the FCC.
[7] Definition of broadband established by the Federal Communications Commission in February 2015.

Section 4-10-113, *Tennessee Code Annotated,* directs the Tennessee Advisory Commission on Intergovernmental Relations (TACIR) to provide an updated report on Broadband Internet Deployment, Availability, and Adoption in Tennessee, to the General Assembly by January 15, 2021.

Grant Application and Award Process

In 2018, the initial year for the program, the department invited broadband providers to sign up for the Broadband program mailing list. Prior to making the annual applications available, the department sends emails to all broadband providers on the mailing list. Providers complete and return the applications to the department. A team consisting of the Broadband Director, the Senior Rural Policy Advisor, and the Assistant Commissioner of Rural Development evaluates broadband applications. According to the Broadband Director, the team jointly scores applications at the same time, based on the following:

- the provider's need for grant funding, which may be related to a lack of federal funding or difficulty serving the area;
- the provider's ability to leverage and match awarded funds;
- the provider's broadband speed, expandability, and affordability;
- the provider's ability to sustain and implement the broadband service;
- the economic and community impact of increasing access for businesses and an underserved community;
- the provider's strategy to encourage adoption in the community;
- the community's desire to have broadband services; and
- the community's location in a "distressed" or "at-risk" county.

Additionally, projects that met the previously discussed priorities received greater consideration.

The team also consults a broadband network engineer from a private technology firm when scoring technical aspects of the applications. Once applications are ready for approval, the team sends them to the department's Grant Committee (the committee) for its approval, after which the Commissioner signs the contracts. Management submits applications to the committee for approval once a year. The committee consists of ECD's Executive Leadership team, which includes the Commissioner and Assistant Commissioners. According to the Broadband Director, the committee only receives the final score for each application.

Grants Awarded

During the first two years of the program, grantees addressed service areas that lacked access to a 10 Mbps/1 Mbps connection. In the third year of the program, the department accepted provider grant applications to service areas that lacked a 25 Mbps/3 Mbps connection. The committee has awarded the following grants:

- ✓ For fiscal year 2018, $9,844,862 was awarded from the $10 million appropriation to 9 of the 74 applications.
- ✓ For fiscal year 2019, $14,788,311 was awarded from the $15 million appropriation to 13 of the 59 applications.
- ✓ For fiscal year 2020, $19,735,131 was awarded from the $20 million appropriation to 17 applicants.

Grantees, as part of the award, provide matching funds. In the first year, the department developed a matching rate based on a provider grantee's ability to pay, but in the second year, the department implemented a flat 50% match for providers. Over the first two years, the grantees provided matching funds of $22.8 million to bring the total project funding to $47.5 million. For the final year, the department expects $29.8 million in matching funds to complete the awarded projects.

The statute allows the department to apply up to 5% of grant funds toward administrative costs. The department spent $38,000 of the 2018 fund for technical assistance and $75,000 of the 2019 fund "to secure technical services and field service verification during the application evaluation."

Grant Awards for Digital Literacy Training

For fiscal year 2018, the department awarded 52 grants totaling $108,903 for digital literacy training through the Tennessee State Library and Archives, within the Tennessee Department of State. For fiscal year 2019, the department awarded 36 grants totaling $136,569 for digital literacy training. Overall, 44 libraries held a total of 495 classes with over 2,000 attendees for traditional digital literacy classes, and 8 libraries held a total of 277 events with hundreds of students participating in advanced STEM and coding classes.

Management's Monitoring of Grant Awards

According to the Broadband Director, she completes risk assessments for each grantee based on the Central Procurement Office's (CPO) Policy 2013-007, which requires that state agencies complete a risk assessment for each grantee who receives an award. The Broadband Director uses the risk assessments to identify what level[8] of monitoring will be performed for each grantee. To accomplish the monitoring activities, the Broadband Director stated that she reviews the grant information including maps of the service area and then travels to the site to conduct an observation visit. Because grant contracts are construction based, she is only able to observe in-progress construction. The project's success and results cannot be fully assessed until the completion of the project. After the monitoring visit, the Broadband Director enters the progress visit information, including the location of the work, into the department's Customer Relationship Management (CRM) system.

[8] There are two types of reviews performed: desk reviews and on-site reviews.

Performance Measures

Passings: The number of residential or business addresses that will have new access to internet under the expanded coverage.

To measure the success of the program, Broadband management described the current process and stated that they tracked the total grants awarded, the number of counties served by a grant, and the total number of "passed locations" each grantee achieved. The grantees' "passings" include all residential or business addresses to which the infrastructure is projected to make high-speed internet available.

During the provider grantee's closeout phase, the Broadband Director confirms the total number of passed locations and the final cost for service to customers. This information is compared to the projected numbers submitted with the provider's application. Additionally, the Broadband Director obtains the actual number of customers who have signed up for the provider grantee's high-speed internet service. During the current audit period, only two of nine fiscal year 2018 grants reached the project closeout phase (the last project is expected to end by summer 2022). According to the Broadband Director, the two grants that reached the closeout phase met their projected passing location goal; however, the number of customers who signed up for their Broadband internet services was lower than projected. See **Table 5** for general grant information. For a map of the grant award provider locations, see **Appendix 4.**

Table 5
Broadband Accessibility Program Information for Fiscal Years 2018, 2019, and 2020

	FY 2018	FY 2019	FY 2020	Total
Grant Award Amounts	$9,844,862	$14,788,311	$19,735,131	$44,368,304
Minimum Number of Contracted Passings	5,274	8,356	12,700	26,330
Number of Counties Covered by Awards	9	13	20	42
Passings to Date* (12/1/19)	322	†	†	322
Customers to Date* (12/1/19)	72	†	†	72

Source: 2018 and 2019 Broadband contracts. April 3, 2020, Department Announcement for 2020 contracts.
*At the time of our audit, the department did not have final data.
†Data for fiscal years 2019 and 2020 has not been submitted yet; therefore, we could not report passings or subscribers.

Audit Results

1. **Audit Objective:** Did Broadband program management award grants in accordance with statute and program guidelines? Did management maintain documentation of the award process?

Conclusion: We found that management awarded grants according to statutory requirements and program guidelines; however, management did not establish adequate internal control procedures to ensure that applications were scored appropriately. See **Finding 2**.

2. **Audit Objective:** Did program management have a documented process in place to monitor contract performance measures? Did management establish adequate controls over its grant monitoring activities?

   Conclusion: We found that management did not establish written policies and procedures to measure contract performance; additionally, management did not establish appropriate controls for the program's monitoring activities. See **Finding 2**.

Finding 2 – Management did not implement adequate internal controls for key points in the grant application, grant award, and grant monitoring process for the Broadband Accessibility Program

Condition, Effect, and Criteria

Lack of Internal Controls

Grant Scoring

From our review of the department's implementation of the Broadband program and the processes for grant application, scoring, and grant award decisions, we found that the Broadband team reviewed and scored applications and submitted the highest scored applications to the Grant Committee. We found, however, that management had not established a review process to ensure that the Broadband team correctly scored the providers' applications before submitting them to the Grant Committee. Without sufficient supervisory reviews of the application evaluation, including application scoring, and a review to ensure final grant award recommendations were based on supporting documentation, management cannot ensure that the ultimate grant award decisions were appropriate.

Contract Performance Measures and Grants Monitoring

We gained an understanding of Broadband management's process to ensure provider grantees meet contract performance measures and other grant requirements. We found the following:

- The department did not establish written policies and procedures for evaluating grant contract performance.
- Management had not properly segregated duties within their grant monitoring process to avoid potential conflicts of interest. For example, the Broadband Director had the responsibility for both program decisions, such as grant awards, and for monitoring contract performance including conducting subrecipient risk assessments, issuing the monitoring reports, and assessing grantees' corrective action plans. By allowing the

Broadband director to participate in both functions, management cannot mitigate the risk that the director may have potential conflicts or lack of objectivity when dealing with the grantee providers.

Without adequate controls over the Broadband Accessibility Program contract performance measures and monitoring efforts, the department increases the risk of noncompliance, fraud, waste, and abuse. According to Green Book Principle 10.02,

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.

Additionally, Central Procurement Office Policy Number 2013-007, "9.2.3 Monitoring Activities," states, "To the extent possible, there should be a separation of duties between monitoring staff and program operations staff to allow for independence and objectivity."

Cause

The Broadband Director believed the Grant Committee's review was a sufficient control over the grant award selection process. In addition, the director had not developed a formal review process for monitoring grantees' progress within the program, including proper segregation of duties. While the Senior Rural Policy Advisor is able to review the grantee's progress once it is entered into the CRM, the Senior Rural Policy Advisor was not able to provide any documentation that reviews of grantee performance were performed.

Recommendation

The Commissioner should ensure that program management understands the importance of comprehensive written policies and procedures governing the grant award processes, including management's role for properly documenting the awards and management's monitoring process to ensure grantees have met expectations of the grant requirements.

Management's Comment

- *Audit Objective 1 Conclusion: We found that management awarded grants according to statutory requirements and program guidelines; however, management did not establish adequate internal control procedures to ensure that applications were scored appropriately. See Finding 2.*
    - Do not concur. The Broadband Accessibility Grant Program has established extensive project evaluation that includes numerous internal controls prior to making grant awards. This process includes the following:
        - ECD evaluates grant projects through a detailed application process. Broadband providers are notified of grant application availability and have approximately three months to complete an application. Among application information includes applicant

technical qualifications and project feasibility such as providing documentation on technology performance and proof of project financing. All applications must be reviewed by a qualified engineer prior to submission. Applications lacking this review are considered incomplete and ineligible for funding.

- ECD conducts a transparent scoring process and makes the scoring rubric publicly available. This informs applicants of how their applications will be reviewed.
- Numerous ECD team members including those outside the broadband program are involved in the scoring process to ensure fair and unbiased review. Team members who have scored previously include the Broadband team, the Senior Rural Policy Advisor, the Deputy Assistant Commissioner of Rural Development, the Rural Development Grants Coordinator and members of the Center for Economic Research in Tennessee (CERT). Additionally, as mentioned in the report, ECD consults a network engineer obtained by a competitive RFP process through CPO for technical review of applications.
- Next, ECD hosts a public comment period by presenting application information on tn.gov/broadband. This allows members of the public and broadband providers to comment on submitted applications and share information relevant to the application evaluation process. The results of the public comment period are factored into the scoring process.
- For applications with remaining eligibility questions, a third-party network engineering team conducts on-site service verification by physically inspecting the grant area.
- Lastly, CERT conducts due diligence to determine concerning legal or financial issues with entities prior to grant award.
- Based on the scoring results of numerous parties, public comment period, on-site inspections and due diligence, the ECD broadband team presents recommended projects to the Grant Committee. The report erroneously notes that only the final scores are provided to Grant Committee. The broadband team provides final scores, CERT's due diligence findings, project location via infrastructure maps and a detailed description on each project. The description includes a summary of the application evaluation as described above and highlights areas of interest or points of discussion. The Broadband Director fields questions from the Grant Committee regarding the recommendations and the Grant Committee makes the final funding determination. Lastly, upon project award, project locations are made publicly available on ECD's Broadband Assistance dashboard. ECD fields numerous questions through the project life cycle from grant area constituents.
- We believe the process designed above is fair, transparent, and reasonable and makes every feasible effort to follow statutory requirements of the Tennessee Broadband Accessibility Act. The process includes multiple opportunities for parties outside of ECD's Broadband team, including other ECD team members, network engineering consultants, and members of the public to have input on the award decisions.

- *Audit Objective 2 Conclusion: We found that management did not establish written policies and procedures to measure contract performance; additionally, management did not establish appropriate controls for the program's monitoring activities. See Finding 2.*

- Do not concur. We do concur that the Broadband team, who oversees the application evaluation process, also conducts grant project monitoring during project construction. However, the report omits the role of the project close-out process which requires a professional engineer (PE) or a third-party broadband consultant as approved by ECD to physically inspect the completed project. This review confirms that the project was completed by the grantee as contractually obligated and includes a physical inspection of the completed project, the number of homes and businesses served and a review of marketing materials used in the grant area. Projects cannot be closed and grantees cannot receive final grant payment until a satisfactory report has been completed. This review includes a detailed close-out report noting project details and ECD has no influence over the PE or consultant's findings. The report also omits the reimbursable nature of the grants, which requires grantees to incur project expenses and request reimbursement rather than receiving funding in advance. This reimbursement process allows for an additional check on project progress. The rural development grants coordinator and accounting team, not the Broadband team, conduct the reimbursement request review. This process is fair and transparent, and includes both ECD employees outside the broadband team responsible for making grant payments as well as an entity outside ECD with network engineering expertise to authorize project completion and final payment. It is also worth noting that the process described above has resulted in the successful completion to date of 100% of the Broadband Accessibility Grant projects on time and within budget.

Auditor Rebuttal:

As noted throughout our section background and in our finding, we have included the same process information (although an abbreviated version) as detailed by management in their comment. Our finding does not take issue with these process details.

Management has not addressed the primary conditions of our finding. These critical conditions are related to the importance of management developing comprehensive written policies and procedures governing the grant award processes, including management's role for supervisory review over the entire program, proper documentation of the awards, management's monitoring process to ensure grantees have met grant expectations and requirements, and clear guidance on segregation of duties to avoid conflicts of interest.

Management clearly states in their comments that they rely on external third parties to assist with the delivery of broadband program services. As such, it is vital that management promptly develop a supervisory review governing activities of department staff and more critically all external third parties to the process to ensure the state is getting what it pays for through the grant awards.

FastTrack Program

To help Tennessee communities attract the companies and capital investment needed for long-term jobs, the department's FastTrack program offers grants for infrastructure development, job training assistance, and economic development. There are three types of grants: the FastTrack Economic Development Fund, the FastTrack Infrastructure Development Program, and the FastTrack Job Training Assistance Program.

FastTrack Awards by Year	
Fiscal Year	Amount Awarded
2017	$ 70,239,215
2018	159,387,000
2019	26,928,499

The department's executive management team serves as the Grant Committee for FastTrack and meets regularly to approve grant contracts. **Our audit work focused primarily on the FastTrack Economic Development Fund, which requires grantees to commit to creating jobs.**

FastTrack Economic Development Fund Grant Contracts

Through FastTrack Economic Development Fund grants, management contracts with county or city Industrial Development Boards (IDBs) to support job-creating companies. As a pass-through entity, an IDB passes the state's grant funding to those job-creating companies, which use the funds to cover expenses such as real estate, construction, and upgrades to existing buildings. As part of the department's contract process, the department uses the date on the "Permission to Incur Costs" letter as the start date of the contract. The Permission to Incur Costs letter allows the company to spend contract money before the department and company have agreed to and signed the final contract. Companies may hire staff and purchase land, equipment, or buildings; the IDBs reimburse the companies for those allowable expenditures. The department reimburses the IDBs.

Companies' Accountability Agreement for Job Creation

In 2013, Section 4-3-731, *Tennessee Code Annotated*, established the department's requirement to obtain signed accountability agreements from the companies benefiting from the FastTrack Economic Development Fund grants. The accountability agreement is negotiated between the department, the IDB, and the company, and is attached to the grant contract. The accountability agreement documents the negotiated number of jobs projected under the grant contract and also defines a job as a newly created full-time position with medical benefits, filled during the agreement period and held for a minimum of 26 weeks over a 12-month period. Accountability agreements can also address out-of-state transfers or backfilled positions, when one employee leaves and another fills the position. Most notably, the department's accountability agreement requires the IDB to ensure the company provides 80% of its estimated jobs commitment.[9]

The accountability agreement allows the department to recover grant funds in case the grantee fails to fulfill the negotiated commitments of the grant contract as described through the agreement and the grant.

[9] The 80% job commitment requirement is based on a three-year average of the number of jobs created during the five-year grant contract. The department and the company determine which three-year period will go towards the average within the accountability agreement.

Performance Reports

Companies must submit an initial baseline report to provide the department with a clear starting point to gauge the company's job creation from the effective date of the accountability agreement. Throughout the grant period, the companies are required to submit performance reports to the department annually through the duration of the term set by the accountability agreement, to provide the department with updates on the number of created jobs. As required by the company's accountability agreement, in order to claim a job has been created, the company must have that job filled continuously for 26 weeks before it can report the job to the department in performance reports.

The companies submit these reports to the department's Legal Division for review and entry into the department's Customer Relationship Management (CRM) system, which also functions as a repository for communications between companies and the department. The CRM also feeds information to the department's website. Section 4-3-716, *Tennessee Code Annotated*, requires the department to report the information included in these performance reports to the Commissioner of Finance and Administration as well as the Speaker of the House of Representatives, the Speaker of the Senate, the State Treasurer, the Comptroller of the Treasury, the Secretary of State, and the Office of Legislative Budget Analysis. In the event that a company does not meet the 80% job creation requirement, the department has the authority to require the company to return the difference between the amount awarded and what the department would have awarded for the actual number of jobs created.

Results of Prior Audit

In the October 2016 performance audit of the Department of Economic and Community Development, we reported that the grantees did not submit self-reported job data timely and that department management did not document the Grant Committee's contract approvals for the FastTrack Economic Development Fund Grant Contracts. In response to the finding, management stated they would continue to have staff reach out to grantees to request the data. Additionally, management stated that they modified the process to ensure they consistently documented all Grant Committee actions in the meeting minutes.

Audit Results

1. Audit Objective: In response to the prior audit finding, did management implement sufficient controls to ensure that grant recipients submitted accurate and timely Baseline and Performance reports? Additionally, did management compare the self-reported data to companies' employment records to ensure accuracy of the self-reported information?

Conclusion: We found that management had not established internal controls to ensure grantees submitted timely and accurate Baseline and Performance reports. Furthermore, we found that management did not establish a review that included a comparison of the company's self-reported data with any of the company's supporting documentation to ensure the data matched. See **Finding 3**.

2. **Audit Objective:** In response to the prior audit finding, did the Grant Committee document grant contract approvals in its meeting minutes?

   Conclusion: Based on our review of minutes from 100 meetings, covering 470 grant awards, we found evidence that the committee documented its approval for grant contract awards in 98 of 100 sets of minutes. For the remaining 2 sets of minutes we reviewed (2%), the minutes did not reflect the committee's explicit approval of 12 grant contracts. For both exceptions, the grant approvals were moved and seconded, but the minutes did not indicate whether the motion was passed.

3. **Audit Objective:** Did FastTrack management establish adequate controls to ensure the department's website reported accurate information based on grant recipient data entered into the Customer Relationship Management system?

   Conclusion: We found that management did not establish adequate internal control procedures to ensure the accuracy of recipient data entered into the Customer Relationship Management system. See **Finding 3**.

Finding 3 – Management did not establish adequate controls to mitigate risks associated with FastTrack grants awarded to support job creation in Tennessee

Criteria, Condition, and Cause

In order to successfully fulfill its mission and objectives, department management is responsible for establishing internal controls over all department programs and processes, including the FastTrack program. Management relies on the information they enter into their Customer Relationship Management (CRM) system to facilitate their reporting of the department's mission critical information through the department's website and in reports provided to the Governor, the General Assembly, and other stakeholders. Based on our review of the FastTrack program, we found that management had not ensured adequate controls were established to mitigate the risks associated with grants awarded to support job creation in Tennessee.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards and is considered best practice for nonfederal entities. Green Book Principle 10.02, "Response to Objectives and Risks," states,

> Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks.

Paragraph 13.05 of the Green Book adds,

> Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. Management considers these characteristics as well as the information processing objectives in evaluating processed information and makes revisions when necessary so that the information is quality information. Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks.

Lack of Formal Policies and Procedures

Management uses the same process to award, monitor, and track grant contracts for the FastTrack Grant Program (also referred to as FastTrack or the program); we found, however, that FastTrack program management had not established specific written policies and procedures to govern the FastTrack program objectives and goals. Program management explained they had no written policies and procedures because the grant contracts were too individualized; however, based on our review, we found that the only difference in these grants is the accountability agreements that grantees are required by statute to sign, which document each company's negotiated requirements.

Management Override of Contract Terms

Based on our review of management's contract process, management uses a standard contract template for all grants, which states:

> Management can modify the standard grant contract language by a written amendment signed by all parties and approved by the officials who approved the Grant Contract and, depending upon the specifics of the Grant Contract as amended, any additional officials required by Tennessee laws and regulations.

Program management allowed 36 grant recipients (60%) to opt out of the 26-week job requirement included in the accountability agreements.

Based on our testwork, however, we found that from our sample of 60 FastTrack grant recipients, program management allowed 36 grant recipients (60%) to opt out of the 26-week job requirement included in the accountability agreements without following the contract amendment process. Based on our understanding, management had established the 26-week requirement to ensure a more permanent economic benefit to the state and local community. FastTrack management, however, chose to remove the requirement because of the burden the requirement placed on grant recipients. According to management, they stated that the burden was evident in industries where the companies experienced high turnover for the created job. Management communicated these changes with grant recipients via email and phone calls, but not through the formal established contract amendment process. At the time we requested a listing of companies that chose to opt-out, management could not readily provide the information. Management noted that they had to make changes to CRM to provide a report.

As of March 2019, management removed the 26-week job requirement for all new accountability agreements. A company may now report a job when it creates a new full-time position, with medical benefits, during the time period of the accountability agreement. By removing this job requirement, program management in effect negatively impacted the program's mission/objective to create long-term jobs that provide economic benefit to the state and local areas. In summary, companies can claim a new job every time the position turns over, which may be interpreted as the creation of many jobs, when instead the company is filling one job many times.

Inadequate Controls over Reporting

Management has not established adequate controls over the accuracy and completeness of the grantees' self-reported information. We found that companies made multiple errors in their self-reported Baseline and Performance reports, which are submitted to the department and keyed into CRM by staff. While companies submit supporting documentation for the self-reported data, program staff have not reconciled the support to the self-reported data to ensure the accuracy of the reported data. Additionally, by removing the 26-week job fulfillment requirement, management has in fact created a need for more oversight controls related to achieving the program missions of long-term job creation. For more detailed information, please see **Appendix 7**. We have summarized the reporting deficiencies below, including that companies

- reported information on job commitments that did not match employee records;
- submitted required Baseline and Performance reports late or not at all;
- did not report jobs based on the accountability agreement's definition;
- did not include supporting documentation identifying which positions were transfers and backfilled positions although some reports showed the positions;
- did not include required benefits, full-time, or transfer information in their reports; and
- submitted reports covering the wrong time period.

The Director of Internal Audit stated that FastTrack staff follow up with grantees on questionable information with "phone calls or emails" but "do not track that follow-up specifically." She explained that any follow-up documentation would be in the CRM system, but the department was unable to extract information, so we could not confirm follow-ups were performed or that ultimately the data was vetted for completeness and accuracy.

Additionally, management has not established a review process to ensure that program staff entered the companies' reported information accurately into CRM. As a result, management is at an increased risk that potentially inaccurate or incomplete information will be reported to stakeholders for decision-making purposes.

Overall Effect

Without formal policies and procedures, management is at an increased risk that grantees will not meet their grant and accountability agreement requirements for creating jobs. By creating new terms and conditions outside the established contract amendment process, management subjects the state to the risk of financial repercussions from potential litigation, including risks associated with grantee solicitation and contract negotiations. Without proper internal controls and procedures that ensure compliance with the grant's purpose and contract terms, management cannot ensure that FastTrack grants were awarded and administered as intended to create jobs. Management's inability to effectively measure contract performance also increases the risk of noncompliance, fraud, waste, or abuse of state funds.

Recommendation

The Commissioner should ensure that management establishes formal policies and procedures for issuing, monitoring, and managing the department's grant contracts within the established policy and statute, as applicable. Additionally, the Commissioner should ensure that management establishes the necessary controls for the FastTrack program.

Management's Comment

We concur in part. Details follow.

Inaccuracies in the Audit Draft:

Before we address the substance of Finding 3, ECD would like to correct several inaccuracies in the "FastTrack Program" overview that precedes Finding 3. They are as follows:

26-Week Opt Out

The audit states: "Based on our understanding, management had established the 26-week requirement to ensure a more permanent economic benefit to the state and local community. FastTrack management, however, chose to remove the requirement because of the burden the requirement placed on grant recipients. According to management, they stated that the burden was evident in industries where the companies experienced high turnover for the created job." ECD takes issue with the assertion that the 26-week opt out was developed due to companies experiencing high turnover for a created job. Instead, as described more fully below, the 26-week requirement was both a source of confusion and administratively burdensome for all parties involved. The 26-week requirement was not the mechanism in the Accountability Agreement that ensures long-term job creation—the three-year averaging period requires companies to maintain consistent levels of employment for the last three years of the Accountability Agreement to avoid clawback.

Additionally, the audit states: "As required by the company's accountability agreement, in order to claim a job has been created, the company must have that job filled continuously for 26 weeks before it can report the job to the department in performance reports." This statement is inaccurate as it fails to take into account all accountability agreements. As discussed in numerous meeting during the audit, and as more fully described below, ECD removed the 26-week requirement from its template Accountability Agreement entirely beginning in mid-2018.

Job Commitment Rate

The audit states: “Most notably, the department’s accountability agreement requires the IDB to ensure the company provides 80% of its estimated jobs commitment.” The audit further states: “In the event that a company does not meet the 80% job creation requirement, the department has the authority to require the company to return the difference between the amount awarded and what the department would have awarded for the actual number of jobs created.” These statements are inaccurate as they fail to take into account all accountability agreements. As discussed in numerous meetings during the audit, a policy change in 2019 changed the job commitment threshold from 80% to 90% to avoid repayment. All accountability agreements since 2020 include a 90% job commitment threshold to avoid repayment.

Job Creation Date

The original audit comments stated: “Companies must submit an initial baseline report to provide the department with a clear starting point to gauge the company’s job creation from the *effective date* of the accountability agreement.” That was incorrect. Companies must submit an initial baseline report listing all jobs in existence as of the *start date* of the accountability agreement, not the *effective date*. Both of these terms are defined in the accountability agreement. The *start date* is the agreed-upon date after which ECD will count new jobs created by the company. The *effective date* is merely the date the document was signed all parties. The audit comments were corrected to state that the starting point term was “set by the accountability agreement.” It is unclear whether this confusion affected the review.

Lack of Formal Policies and Procedures:

We do not concur to the absence of adequate controls to mitigate risk associated with FastTrack grants awarded due to the lack of formal policies and procedures. ECD’s approach to provide adequate controls is sourced from the wealth of institutional knowledge coupled with the diversity of professional experience of all involved in the award allocation process. The FastTrack grant by its very nature has required an innovative approach in every aspect to function properly within state government. Each project presented for FastTrack award consideration must be reviewed by the Pre-Grant Committee and undergo thorough diligence. It is the institutional knowledge and the diverse professional experience of the Pre-Grant Committee that provides an abundance of risk mitigation and incentive appropriate FastTrack awards. The Pre-Grant Committee members involved in the evaluation of each project include: the Assistant Commissioner of Business and Workforce Development; the Assistant Commissioner of Administration; the FastTrack Director; the FastTrack Project Manager; the Director of Tax; the Tax Information Analyst; the Business Development Specialist; the CERT Manager; and the Research Analyst.

It is the responsibility of the Pre-Grant Committee to review the Application for Incentives for completion and accuracy, to include a Certificate of Existence and proof of financing that is acceptable to ECD in form and in substance. The committee then utilizes a multitude of resources which includes the power of our Center for Economic Research Team (CERT) to identify the integrity of the company and the viability of the applicant’s industry cluster. During this process, the financial and litigation risk of the company and viability of the applicant's industry are closely evaluated to understand any potential risk and growth opportunities. During Pre-Grant, feedback from the Project Lead is provided to better understand the scope of the project, the characteristics of the project and the temperature of local support from the community which provides an unmeasurable indication towards the attractiveness of a particular company or industry.

After all factors are reviewed, comparisons of historical project awards are researched to provide a basis towards award allocation. Other factors such as tax tier location, previous FastTrack award amount, level of competitiveness, industry cluster, prior experience grantee risk assessment (if available) are all considered. Business conditions which impact award amounts are everchanging which require a very agile and rapid response in award allocations.

Written policies and procedures regarding the monitoring of all FastTrack Grants are included in the Department of Economic & Community Development's Grant Management & Subrecipient Monitoring Implementation Plan. This plan is updated each fiscal year and pursuant to Central Procurement Office Policy #2013-007.

Management Override of Contract Terms

Do not concur. ECD disagrees that the department improperly waived the 26-week job requirement and that such waiver negatively impacts the program's mission/objective to create long-term employment.

A basic tenet of contract law is that a party may waive a right under a contract by choosing not to enforce that right. A waiver may take the form of an amendment to a contract, but a formal amendment is not required for a waiver to exist. The language cited in the audit stating that "management can modify the standard grant contract language by a written amendment signed by all parties and approved by the officials who approved the Grant Contract" applies to the FastTrack Economic Development Program grant contract itself, not the Accountability Agreement at issue here which is a legal document that is separate and distinct from the grant contract.

In this case, ECD chose to voluntarily waive the 26-week requirement for two legitimate public policy reasons: 1) the 26-week requirement was a source of confusion for some companies and led to inaccuracies in reporting that required correction, and 2) the 26-week requirement was administratively burdensome for both companies and ECD when respectively submitting and reviewing reports. The waiver was offered to companies as a choice, and most companies chose to accept the waiver because it served the interests of both parties in increasing accuracy of reports and making reporting less burdensome. The company's choice was documented in CRM as well as through email communication.

ECD removed the 26-week requirement from its template Accountability Agreement entirely beginning in mid-2018 and began offering companies with existing Accountability Agreements the opportunity to opt out shortly thereafter. As stated above, the 26-week requirement was removed from the template because ECD determined that the requirement created confusion for some companies which led to those companies to inaccurately attempt to count the same position multiple times during the contract period if multiple employees filled such position for at least six months each. This is inconsistent with both the spirit and language of the

Accountability Agreement, and removing the 26-week language eliminated companies' arguments, whether made mistakenly or disingenuously, that a position could be counted multiple times during the contract period. Removing the 26-week requirement produces higher quality reporting as it does not require complicated manipulation of data by companies which can lead to greater inaccuracies and inconsistences in reporting.

To be clear, removal of the 26-week requirement does not allow a single position to be counted multiple times under the Accountability Agreement. A position is counted once per reporting period if and only if such position is filled on the annual reporting date. Net new jobs are determined by year-over-year increases in company headcount regardless of turnover or backfilling of positions. Removal of the 26-week requirement ensures absolute clarity in how net new jobs are counted and eliminates companies' inaccurate arguments that a single position could be counted multiple times if multiple employees filled such position for at least six months each.

Additionally, and finally, the 26-week requirement is not the mechanism in the Accountability Agreement that ensured long-term employment. The goal of long-term employment is accomplished under the Accountability Agreement through the averaging of the last three years of the contract period. This ensures that the company must maintain steady levels of employment for at least three years in order to avoid repayment under the Accountability Agreement. Removal of the 26-week requirement did not negatively impact the program's mission/objective to create long-term jobs. Rather, removal of the requirement served a legitimate public policy objective to make reports more accurate and to make reporting and reviewing such reports more efficient.

Inadequate Controls Over Reporting

ECD disagrees that it has not established adequate controls over the accuracy and completeness of Baseline and Performance reports.

ECD concurs that some information was submitted incorrectly by companies, some clerical errors occurred in ECD's review, and some reports and communications were documented incorrectly due to clerical error. After noticing these issues, ECD hired a dedicated staff member in 2019 to receive, review, and document Baseline and Performance reports. ECD has since made personnel changes to better reflect the skill set needed to obtain reports in a timelier manner, review reports more accurately, and document data and communications more thoroughly.

ECD concurs that some reports were submitted late but disagrees that this was entirely due to a failure on ECD's part to collect such reports. Under the language of the Accountability Agreement, ECD is able to grant an extension of reporting deadlines, and such requests are often approved if the company shows a need for additional time to gather information. Companies that do not submit reports by the deadline with no explanation receive phone calls and emails from ECD. After reasonable attempts to secure reports, ECD sends an official Notice Letter stating the report must be submitted within 30 days or ECD has the right to pursue a one hundred percent clawback against the Company. The clawback right for a reporting failure is an enforcement mechanism, but ECD does not wish to default companies for reporting failures unless absolutely necessary as this is contrary to the goal of the FastTrack Economic Development Grant program to use grant funds to support company relocations and expansions that create new jobs in Tennessee.

Some reports that appear to be submitted late were required to be revised after departmental review and were resubmitted by companies at a later date. In some cases, ECD staff would determine that prior years' reports also needed to be resubmitted for accuracy and consistency with later reports. ECD disagrees that these reports should be considered "late."

ECD disagrees with COT's assertion that it "did not report jobs based on the Accountability Agreement's definition." As explained above, ECD waived the 26-week requirement for all companies that wished to take advantage of such waiver. Because of this waiver, a company reporting all active jobs as of the annual reporting date is, in fact, reporting jobs based on the accountability agreement's definition. Companies that did not take advantage of the waiver were still required to report jobs that were in existence for 26 weeks as of the annual reporting date.

ECD disagrees that supporting documentation for transferred and backfilled positions was inadequate. As discussed above in conjunction with the removal of the 26-week requirement, backfill designation is not necessary as a position is only counted if it is filled on the annual reporting date, regardless of turnover or backfilling. ECD thoroughly reviews each report and uses professional judgment to determine whether additional information regarding transfers is needed. Many of the records provided to COT contained such documentation. Transfer documentation would not be applicable to all Accountability Agreements as many companies do not have other in-state or out-of-state locations from which an employee could transfer.

ECD disagrees that information regarding benefits, full-time, or transfer information was not included in reports. When a company submits Baseline and Performance Reports, the company is attesting that the jobs reported meet the definition in the Accountability Agreement—that such jobs are full-time, are offered medical benefits, are not transferred from another location in the state, etc. As stated above, ECD exercises professional judgment to determine whether additional information is necessary to verify whether employees have transferred. If additional information is deemed to be necessary, ECD obtains this information from the company.

ECD concurs that some reports covered the wrong time period due to clerical errors in the review process. ECD is confident that staffing changes will reduce instances of these errors.

ECD tracks reporting data and communications with companies in CRM. ECD was not able to produce all information requested by COT due to the voluminous nature of the request and the short deadline by which the department was asked to produce the information. Such data and information can be reviewed in CRM and produced as PDF documents given an appropriate amount of time.

Finally, after receiving preliminary audit findings, ECD has established a review process whereby a second staff member randomly selects a sample of grants each month to thoroughly review for accuracy of information reported as well as thoroughness of information documented in the CRM system. ECD is confident that this independent review will increase accuracy and thoroughness of information in the CRM system.

Overall Effect

ECD disagrees with the statement that there are no formal policies and procedures in place to protect FastTrack grant funds from being at risk of noncompliance, fraud, waste, or abuse of state funds. ECD completes thorough diligence on every application that is submitted for FastTrack consideration, reviews every reimbursement thoroughly and monitors every project during the grant contract period. The Project Lead and the Pre-Grant Committee vet each company throughout the application process. Once the FastTrack contract is executed and reimbursement requests are submitted by the grantee, the FastTrack Team thoroughly reviews over every piece of necessary documentation to ensure that ECD is reimbursing the grantee for eligible activities. Failure to submit any of the required performance documentation will result in rejection of reimbursement request until all necessary documentation is submitted. If the company is held to an accountability agreement, the Legal Team receives interim reviews each year which allows ECD to review the company's current headcount. For companies who have been awarded a FastTrack grant, for 5 consecutive years, the company completes an Annual Employment Summary that reflects the company's current headcount. The Regional Team members will monitor the grant, typically in person, allowing ECD to view the activities of the company while in operation and see firsthand the benefits of how our FastTrack grant positively impacts a local community's economy.

ECD disagrees that removal of the 26-week requirement subjects the state to the risk of financial repercussions from potential litigation. Rather, ECD believes that it decreases the department's risk of litigation by eliminating any potential confusion as to whether a job can be counted more than once. ECD believes that removal of the 26-week requirement from the template and through voluntary waiver of the provision for Accountability Agreements executed prior to removal of the provision from the template will completely foreclose any opportunity for companies to mistakenly or disingenuously make such an argument in the future, thus reducing the risk of litigation.

Auditor Rebuttal

Nothing raised in management's comments conflicts with the substance of our finding. Our finding clearly states the importance of formal, written policies and procedures, especially in light of management's responsibility to establish and maintain a strong system of internal controls, as defined by best practices and the Green Book. Those critical policies and procedures should include the aspects identified in our finding.

We were not notified of any perceived inaccuracies during the audit process, at our management meetings, or during management's two-week draft comment period. Particularly, we were not notified of those perceived inaccuracies or misunderstandings that conflict with statements made during the audit.

TNInvestco

General Background

In 2009, the General Assembly passed the Tennessee Small Business Investment Company Credit Act, codified as Sections 4-28-101 through 4-28-115, *Tennessee Code Annotated,* creating TNInvestco, a public-private venture capital program intended to help start-up companies create jobs and for the state to eventually receive a return on its investment. The program allocated $200 million in tax credits to a cross section of venture capital companies with broad experience in developing new companies in Tennessee. Those companies marketed the tax credits to insurance companies that purchased the credits with capital reserves, and the venture capital companies used the capital to help Tennessee companies grow. The insurance companies received the benefits of the tax credits from January 2012 through December 2019.

In 2009, the Commissioners of the Department of Economic and Community Development and the Department of Revenue chose ten venture capital companies (TNInvestco firms), and the General Assembly established reporting requirements and independent audit requirements of the TNInvestco firms to provide oversight and accountability of the program. Additionally, department staff completed annual reviews of the program and published annual reports that the department provided to the Governor, the General Assembly, the Comptroller of the Treasury, and the public.

In December 2015, the department promulgated new rules for the TNInvestco program to assess penalties to the TNInvestco companies for failing to submit required documents and fees on or before the assigned due dates. The required documents include

- the "Fiduciary Duty and Ethics, Waste, Fraud & Abuse Policy Acknowledgment for TNInvestco Program" form due January 31 each year;
- the "Report on Remaining Designated Capital" due January 31 each year;
- the annual review fee due January 31 each year;
- the annual certification fee due April 1 each year;
- the scorecard[10] due April 30 each year; and
- the Annual Audit Report and Examination Review due April 30 each year.

Based on our review of the profit-sharing information as of December 20, 2019, we found that the TNInvestco program earned $53,538,414 as a return on the original 2009 investment of $149,220,016 in future gross premium tax credits. Since the state and TNInvestco split the profits in half, the state received $26,769,207 for an average annual return of 1.79% over the 10 years of the program.

[10] According to Section 4-28-113, *Tennessee Code Annotated*, the "scorecard" is to contain no more than six objective metrics or measures that will be used to reflect the investment strategy approved by the state.

Recovery of Initial Funding

Under state statute, for its initial investment, the state is entitled to receive 50% of TNInvestco's profit share, which is paid to the state's general fund upon liquidation of the investment. In order to earn a profit, the start-up company must grow and have a "liquidity event," which is the merger, sale, spinoff, or other transaction of a qualified business converting some or all of the investment to cash, securities, assets, distributions, or other proceeds. The profit is split 50/50 between TNInvestco and the State of Tennessee, and the initial investment returns to TNInvestco for investment in a new start-up company. Section 4-28-115, *Tennessee Code Annotated*, states, "Beginning December 31, 2021, the department shall liquidate any remaining ownership interests owned by the state."

Results of Prior Audit

In the October 2016 Department of Economic and Community Development performance audit, we reported that the department did not track and/or report all TNInvestco program data, including the amount of designated capital invested in each TNInvestco company, jobs created and retained, and jobs held by women and minority employees. In response to the finding, management stated they would report the data that was required under statute.

Audit Results

1. Audit Objective: In response to the prior audit finding, did management track and report all TNInvestco program data, including jobs created and retained and jobs held by women and minority employees?

Conclusion: Based on our review, we found that department management tracked and reported all statutorily required data.

2. Audit Objective: Did the TNInvestco companies comply with program requirements, as defined in statute, and accepted in the contract, for fiscal years 2017, 2018, and 2019? If not, did the department assess penalties in accordance with the department's rule?

Conclusion: Based on our review, we found that not all entities complied with program requirements; however, in these instances, the department appropriately assessed penalties.

3. Audit Objective: Did the department establish procedures for future winddown/liquidation of TNInvestco assets, and has the department discussed options with the Departments of Treasury and Revenue, and with the General Assembly?

Conclusion: Based on our discussion with the Director of TNInvestco at the end of audit fieldwork, the department had not established any procedures for winddown/liquidation of TNInvestco assets and had not had any substantial discussions with other interested parties. See the **Matter for Legislative Consideration**.

Matter for Legislative Consideration

Section 4-28-115, *Tennessee Code Annotated*, states that

> Beginning on December 31, 2021, the department shall liquidate any remaining ownership interests owned by the state. Methods to liquidate remaining ownership interests include the sale of interests to a third party. The sale of any ownership interests shall be approved by the treasurer.

At the end of fieldwork, management stated that they had not developed formal procedures to wind down the TNInvestco program, and they only had early discussions with the Department of Treasury. According to the TNInvestco Director, department management proposed partnering with the Department of Treasury in order to hold investments longer and reiterated the point that by law, the program will *begin* winding down on December 31, 2021. Based on our review of the statute, while the department must begin the winddown of the TNInvestco Program and liquidation of ownership interests owned by the state on December 31, 2021, the statute does not provide the department with a deadline to complete the winddown process. Additionally, the statute does not address the transfer of remaining ownership interests to another state agency to allow the state to maintain those ownership interests. As a result, the statute, as written, may allow the program to remain active indefinitely.

The General Assembly may wish to consider amending Section 4-28-115 to clarify its intent and to provide department management with a specific timeframe to complete the winddown process, as well as to provide guidance on whether the transfer of the investments to the Department of Treasury or another state agency would be allowable.

Subrecipient Monitoring Plan

Central Procurement Office (CPO) Policy 2013-007 requires each state agency to submit an annual subrecipient monitoring plan by October 1 of each year. Part 9.2.1 of policy 2013-007 describes the required components of the plan:

- the total subrecipient contracts population;
- the agency's monitoring cycle;
- all subrecipient contracts the agency will monitor during its monitoring cycle;
- description of each state or federal program to be monitored;
- sample monitoring guides to be used for each monitored program;
- full-time equivalents and personnel classifications for all monitoring staff;
- risk assessment for each subrecipient and its related contracts;
- explanation of the criteria used to assign risk to subrecipients and their related contracts;

- explanation of each finding from the previous monitoring cycle; and
- explanation of the agency's corrective action process for each finding.

Results of Prior Audit

In the October 2016 Department of Economic and Community Development performance audit, we reported that management did not include information required by CPO Policy 2013-007 in the department's annual monitoring plans. Specifically, we reported that management did not include a complete list of contracts with risk assessments and a list of subrecipients to be monitored in the monitoring plan. Additionally, we reported that staff did not issue monitoring reports and that management did not submit all monitoring reports to the Office of the Comptroller of the Treasury, as required by CPO Policy 2013-007. In response to the finding, management stated they would submit all required information, issue monitoring reports, and submit reports to the Comptroller.

Audit Results

1. Audit Objective: In response to the prior audit finding, did the department submit the subrecipient monitoring plan to CPO that included all required components and related documentation?

Conclusion: The department submitted its 2019 plan to the CPO with all required components and documentation, with minor deficiencies.

2. Audit Objective: In response to the prior audit finding, did the department submit its monitoring reports to the Office of the Comptroller of the Treasury as required?

Conclusion: The department submitted its monitoring reports to the Office of the Comptroller of the Treasury.

TENNESSEE JOB SKILLS PROGRAM

General Background

The Tennessee Job Skills Program was "created as a workforce development incentive program to enhance employment opportunities and to meet the needs of existing and new industries in the state" (Section 50-7-451, *Tennessee Code Annotated).* Initially, state statute funded the program through an appropriation of funds received through the collection of unemployment taxes from the Unemployment Trust Fund, which is administered by the Tennessee Department of Labor and Workforce Development. In accordance with statute, the Department of Labor and Workforce Development collected funds through December 31, 2001, at which time the authority through statute ceased. As of June 30, 2018, the department had approximately $525,184 available for the program's use.

Annual Reports

Section 50-7-451(f), *Tennessee Code Annotated,* requires the department's management to provide a report annually on the status of the Tennessee Job Skills Program to the Finance, Ways and Means Committee of the Senate and House of Representatives. The department's annual report must include the amount and commitment of each grant accepted since the prior report, the name of each employer receiving benefits, the total outstanding grants and commitments, and the total unobligated appropriation. In order to complete the annual report, management utilizes the grantees' final reports for any projects that closed during the reporting period.

Grantee End-of-Project Reports

Management initiates grant contracts with local area companies to carry out the Job Skills Program in Tennessee. At the end of the grant, management requires grantees to provide a final report, also known as the final end-of-project report, and the final request for reimbursement to close the project. Rule 0500-6-1.06 of the *Rules and Regulations of the Tennessee Department of Economic and Community Development* requires contractors and grantees to include in the final report the number of participants employed and unemployed at the project's conclusion and the starting wages of those employed.

Results of Prior Audit

In the October 2016 Department of Economic and Community Development performance audit, we reported that management did not ensure that staff maintained complete Tennessee Job Skills Program grant files; files did not include applications, required certifications from grantees, and documentation of unemployment taxes paid. Additionally, we reported that the department failed to include the amount of each grant authorized, each commitment accepted since the previous report, the names of grantees, the total outstanding grants and commitments, and the total unobligated appropriations. In response to the finding, management updated the application forms to ensure staff obtained all required information.

Audit Results

1. **Audit Objective:** In response to the prior audit finding, did management ensure that Tennessee Jobs Skills Program grant contractors included required information on the grantee application?

   Conclusion: We found that management updated the application forms for the program during fiscal year 2017 and ensured that the grantee application included required information.

2. **Audit Objective:** In response to the prior audit finding, did management ensure that Tennessee Jobs Skills Program grantees included required information on the grantee final reports?

Conclusion:	We found that management ensured that grantees included required information on the final report form, with minor deficiencies.
3. Audit Objective:	Did the Tennessee Jobs Skills Program staff submit the annual report to the appropriate legislative committees timely and with required information?
Conclusion:	We found that management and staff submitted the annual reports to the appropriate legislative committees timely and with required information, with minor deficiencies.

Matter for Legislative Consideration

The Tennessee Job Skills Program, created by Section 50-7-451, *Tennessee Code Annotated*, may have reached the end of its usefulness. Due to the lack of funding and only one active grant, which was awarded in fiscal year 2018, in the program, the General Assembly may wish to determine whether the program should continue. If the General Assembly decides to terminate the program, it may also wish to consider final resolution of any remaining fund balance.

STAFF TURNOVER ANALYSIS

According to the U.S. Bureau of Labor Statistics, the average turnover for state and local governments, excluding education, for calendar years 2016, 2017, 2018, and 2019, respectively, was 20.7%, 20.6%, 19.7%, and 19.5%.

Department Separation Statistics

Separations from the department include employees who died, retired, voluntarily resigned, or whose appointment expired. Total separations for 2016, 2017, 2018, and 2019 included 43 employees, 36 of whom voluntarily resigned (84%). Employee separations were highest in employees with 0-5 service years, accounting for 70% of all separations. ECD Business Development Consultants had 10 separations, and upon review we noted that 8 of the 10 separations were employees with 0-5 years of service.

Table 6
Staff Turnover Rates
For Calendar Years 2016, 2017, 2018, and 2019

Calendar Year	Separations	Average Employees Per Year	Turnover Rate
2016	6	97	6.5%
2017	12	99	12.1%
2018	13	96	13.4%
2019	12	98	12.2%

Source: Edison, the state's enterprise resource planning system.

Audit Objective: Did department staff turnover indicate problems with the department's operations and inhibit management's ability to meet their mission?

Conclusion: Based upon our analysis of the department's average turnover for calendar years 2016 through 2019, the rates were below national averages. We noted higher turnover rates for Business Development Consultant positions, but overall, there were no turnover issues noted. Turnover did not appear to indicate problems with the department's operations or inhibit management's ability to meet the department's mission.

PUBLIC RECORDS MANAGEMENT

General Background

State law requires the Public Records Commission to determine and order the proper disposition of the state's public records and to direct the Tennessee Department of State's Records Management Division. In addition to traditional documents such as papers and photographs, Section 10-7-301(6), *Tennessee Code Annotated*, includes in its definition of public records other materials such as electronic files, films, and recordings. Public officials are legally responsible for creating and maintaining records of government operations according to established records disposition authorizations (RDAs). According to Section 10-7-509, *Tennessee Code Annotated*, records must be safeguarded and disposed of according to the RDAs. Agencies must submit a certificate of destruction to the Records Management Division after properly disposing of any public records.

In March 2013, the Records Management Division developed an online application to catalog and maintain RDAs, and the Public Records Commission asked all state agencies to amend or retire their existing RDAs and to create new ones for public records still in use. Currently, the Department of Economic and Community Development (ECD) has 16 active RDAs in addition to applicable statewide RDAs.

ECD's Records Management Process

The department's Records Officer works with the Secretary of State's Division of Records Management to ensure that the department's public records are governed by an RDA. The Records Management Division conducted a public records assessment at the commission's office on July 19, 2016, to evaluate ECD's records management process, RDAs, and volume of records. The Department of State's Records Management Division issued an assessment on July 19, 2016, and noted no recommendations. The department's next assessment is scheduled in 2020.

Audit Results

1. **Audit Objective:** Did management ensure that the department's RDAs as of March 2013 were revised or retired?

   Conclusion: Management ensured that their existing RDAs were revised or retired.

2. **Audit Objective:** Did management ensure that the department's public records were governed by an RDA?

   Conclusion: Management ensured that the department's public records were governed by an RDA.

3. **Audit Objective:** Did management ensure policies and procedures were in place to manage the department's public records?

   Conclusion: Department management had policies and procedures in place to manage public records.

APPENDICES

APPENDIX 1
Internal Control Significant to the Audit Objectives

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (Green Book) sets internal control standards for federal entities and serves as best practice for non-federal government entities, including state and local government agencies. As stated in the Green Book overview,[11]

> Internal control is a process used by management to help an entity achieve its objectives . . . Internal control helps an entity run its operations effectively and efficiently; report reliable information about its operations; and comply with applicable laws and regulations.

The Green Book's standards are organized into five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. In an effective system of internal control, these five components work together to help an entity achieve its objectives. Each of the five components of internal control contains principles, which are the requirements an entity should follow to establish an effective system of internal control. We illustrate the five components and their underlying principles below:

Control Environment	
Principle 1	Demonstrate Commitment to Integrity and Ethical Values
Principle 2	Exercise Oversight Responsibility
Principle 3	Establish Structure, Responsibility, and Authority
Principle 4	Demonstrate Commitment to Competence
Principle 5	Enforce Accountability
Risk Assessment	
Principle 6	Define Objectives and Risk Tolerances
Principle 7	Identify, Analyze, and Respond to Risks
Principle 8	Assess Fraud Risk
Principle 9	Identify, Analyze, and Respond to Change

Control Activities	
Principle 10	Design Control Activities
Principle 11	Design Activities for the Information System
Principle 12	Implement Control Activities
Information and Communication	
Principle 13	Use Quality Information
Principle 14	Communicate Internally
Principle 15	Communicate Externally
Monitoring	
Principle 16	Perform Monitoring Activities
Principle 17	Evaluate Issues and Remediate Deficiencies

In compliance with generally accepted government auditing standards, we must determine whether internal control is significant to our audit objectives. We base our determination of significance on whether an entity's internal control impacts our audit conclusion. If some, but

[11] For further information on the Green Book, please refer to https://www.gao.gov/greenbook/overview.

not all, internal control components are significant to the audit objectives, we must identify those internal control components and underlying principles that are significant to the audit objectives. In the following matrix, we list our audit objectives, indicate whether internal control was significant to our audit objectives, and identify which internal control components and underlying principles were significant to those objectives.

		Internal Control Components and Underlying Principles Significant to the Audit Objectives																
		Control Environment					Risk Assessment				Control Activities			Information & Communication			Monitoring	
Audit Objectives	Significance	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Department Management Oversight																		
1 Did management establish operational processes to achieve mission; establish and enforce internal control activities to ensure compliance with statute, policies, and procedures; and oversee the processes and controls as a primary responsibility?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Department's Divison of Internal Audit																		
1 Did the Division of Internal Audit follow applicable standards and issue reports for audits, reviews, or other work completed?	Yes	No	Yes	No	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No
2 Did the Division of Internal Audit use an appropriate risk-based process to develop the internal audit plan including the risk analysis tool as purposed by the Executive Internal Auditor appointed workgroup?	Yes	No	No	No	No	No	Yes	Yes	Yes	No	No	No	No	No	No	No	No	No
3 Did the Division of Internal Audit perform all audits identified on the approved internal audit plan? If not, how did the division address audits planned but not completed?	Yes	No	Yes	No	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No
Department's Foreign Direct Investment Offices																		
1 Did management evaluate Foreign Direct Investment Representatives' performance based on contract performance metrics (i.e. meetings, industry events, and job creation)?	Yes	No	No	No	No	No	Yes	Yes	No	No	No	No	No	No	No	No	No	No
Broadband Accessibility Act																		
1 Did Broadband program management award grants in accordance with statute and program guidelines? Did management maintain documentation of the award process?	Yes	No	No	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	Yes	No	No
2 Did program management have a documented process in place to monitor contract performance measures? Did management establish adequate controls over its grant monitoring activities?	Yes	No	No	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	Yes	No	No
FastTrack																		
1 In response to the prior audit finding, did management implement sufficient controls to ensure that grant recipients submitted accurate and timely Baseline and Performance reports? Additionally, did management compare the self-reported data to companies' employment records to ensure accuracy of the self-reported information?	Yes	No	No	No	No	No	No	Yes	No	No	No	No	No	Yes	No	No	No	No
2 In response to the prior audit finding, did the Grant Committee document grant contract approvals in its meeting minutes?	Yes	No	No	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No	No
3 Did FastTrack management establish adequate controls to ensure the department's website reported accurate information based on grant recipient data entered into the Customer Relationship Management system?	Yes	No	No	No	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	No	No

Internal Control Components and Underlying Principles Significant to the Audit Objectives

		Control Environment					Risk Assessment				Control Activities			Information & Communication			Monitoring	
Audit Objectives	**Significance**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**
TNInvestco																		
1 In response to the prior audit finding, did management track and report all TNInvestco program data, including jobs created and retained and jobs held by women and minority employees?	Yes	No	No	No	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	No	No
2 Did the TNInvestco companies comply with program requirements, as defined in statute, and accepted in the contract, for fiscal years 2017, 2018, and 2019? If not, did the department assess penalties in accordance with the department’s rule?	Yes	No	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	No	No
3 Did the department establish procedures for future winddown/liquidation of TNInvestco assets, and has the department discussed options with the Departments of Treasury and Revenue, and with the General Assembly?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subrecipient Monitoring																		
1 In response to the prior audit finding, did the department submit the subrecipient monitoring plan to CPO that included all required components and related documentation?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 In response to the prior audit finding, did the department submit its monitoring reports to the Office of the Comptroller of the Treasury as required?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TN Job Skills Program																		
1 In response to the prior audit finding, did management ensure that Tennessee Jobs Skills Program grant contractors included required information on the grantee application?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 In response to the prior audit finding, did management ensure that Tennessee Jobs Skills Program grantees included required information on the grantee final reports?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 Did the Tennessee Jobs Skills Program staff submit the annual report to the appropriate legislative committees timely and with required information?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Turnover Analysis																		
1 Did department staff turnover indicate problems with the department’s operations and inhibit management’s ability to meet their mission?	Yes	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No

		Internal Control Components and Underlying Principles Significant to the Audit Objectives																
		Control Environment					Risk Assessment				Control Activities			Information & Communication			Monitoring	
Audit Objectives	Significance	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Records Disposition																		
1 Did management ensure that the department's RDAs of March 2013 were revised or retired?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 Did management ensure that the department's public records were governed by a RDA?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 Did management ensure policies and procedures were in place to manage the department public records?	No	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Appendix 2
Department Organizational Structure

Business Development

To manage the recruitment and support of new and expanding businesses in Tennessee, the Business Development Division has nine regional offices as well as international offices for Foreign Direct Investment. In addition to focusing on sectors such as the automotive, technology, and healthcare industries, Business Development Directors meet with prospective companies, create business proposals, manage projects, identify needed real estate, and serve as a liaison between the company and state agencies. The following programs are in the division:

- FastTrack – Grants from the FastTrack program to Industrial Development Boards for Cities and Counties enable infrastructure development, job training assistance, and economic development with three grants: the FastTrack Infrastructure Development Program, the FastTrack Job Training Assistance Program, and the FastTrack Economic Development Fund.
- Foreign Direct Investment Offices and International TNTrade – Focused on attracting international businesses to the state through overseas locations, the Foreign Direct Investment Offices also manage Tennessee State University's Small Business Development Program, a resource for advice, training, and support.
- Tax Administration – In addition to explaining to companies the requirements of Tennessee's tax code, the Tax Administration Division also points out incentives for doing business.
- Workforce Development – By helping companies identify workforce issues and solutions, the Workforce Development Division works with other agencies, such as the Tennessee Department of Labor and Workforce Development to ensure there are skilled workers where companies want to locate and helps coordinate training.

Community and Rural Development

Through its programs, the Community and Rural Development Division connects rural communities to economic resources and encourages them to develop community assets to attract high-quality jobs. The division includes the legislative affairs team and leads the Governor's Rural Task Force, which works with local, state, and federal partners to advance rural communities. Division programs include the following:

- Broadband – The Tennessee Broadband Accessibility Act grant program provides broadband service to rural areas and a digital literacy program through the State Library and Archives.
- Federal Programs – Infrastructure enhancements, economic development, and housing rehabilitation are among the ways the Federal Programs group aids local governments.

Programs to improve quality of life include the Community Development Block Grant, the Appalachian Regional Commission, and the Delta Regional Commission.

- Select Tennessee Site Development – With the help of the Select Tennessee Site Development group, communities connect with companies looking to move into the state. Its list of potential sites included 59 properties as of April 1, 2020.
- ThreeStar – A strategic community development program, ThreeStar incorporates asset-based planning initiatives to help communities accomplish their goals for economic development. In 2019, the department began making biennial grants available to counties.
- Tennessee Downtowns/Main Street – The Tennessee Main Street and affiliated Tennessee Downtowns Programs serve as a statewide resource for communities seeking to revitalize and manage their traditional downtown districts.
- Business Enterprise Resource Office – In 1977, the Business Enterprise Resource Office originated with Title 4, Chapter 26, *Tennessee Code Annotated*, to advocate economic inclusion for businesses owned by women, minorities, veterans, and individuals with disabilities. The office also reports on the status of these businesses.

Administration and Operations

In addition to managing day-to-day operations of TNInvestco, the Center for Economic Research in Tennessee, and Internal Audit, the Administration and Operations Division oversees program and policy implementation. Along with the budget, capital projects, human resources, fiscal matters, and information technology, the division manages the Memphis Regional Megasite, a 4,100-acre development into which the State of Tennessee has invested more than $174 million. As of February 2020, the site had not attracted any businesses. The Memphis Regional Megasite is separate from the department in sunset law. According to Section 4-29-243, *Tennessee Code Annotated*, the megasite is scheduled for sunset June 30, 2022.

- TNInvestco – In 2009, the TNInvestco program began with the sale of $200 million of future tax credits to insurance companies. Former Commissioners of the Department of Economic and Community Development and the Department of Revenue selected 10 venture capital funds to distribute the capital received from the insurance companies toward developing new companies in Tennessee. The state receives a portion of any profit upon the sale of a developed company.
- Center for Economic Research in Tennessee – Key research from the Center for Economic Research in Tennessee supports decisions for the department's recruiting and community development and offers public analysis on Tennessee's economy.
- Internal Audit – As it examines and evaluates departmental activities, the Office of Internal Audit conducts limited reviews, performs contract compliance work, ensures risks are managed appropriately and internal controls are operating effectively, provides advisory services, and serves as a liaison to the Office of the Comptroller of the Treasury.

Legal

Home to the General Counsel and staff attorneys, the Legal Division deals with a broad range of issues, including

- providing legal advice for compliance with statute,
- preparing requests for proposal for different programs,
- reviewing contracts before execution,
- aiding with negotiations on economic development projects, and
- working with international development offices and U.S. trade offices to answer questions about incentives.

Other Sections and Agencies

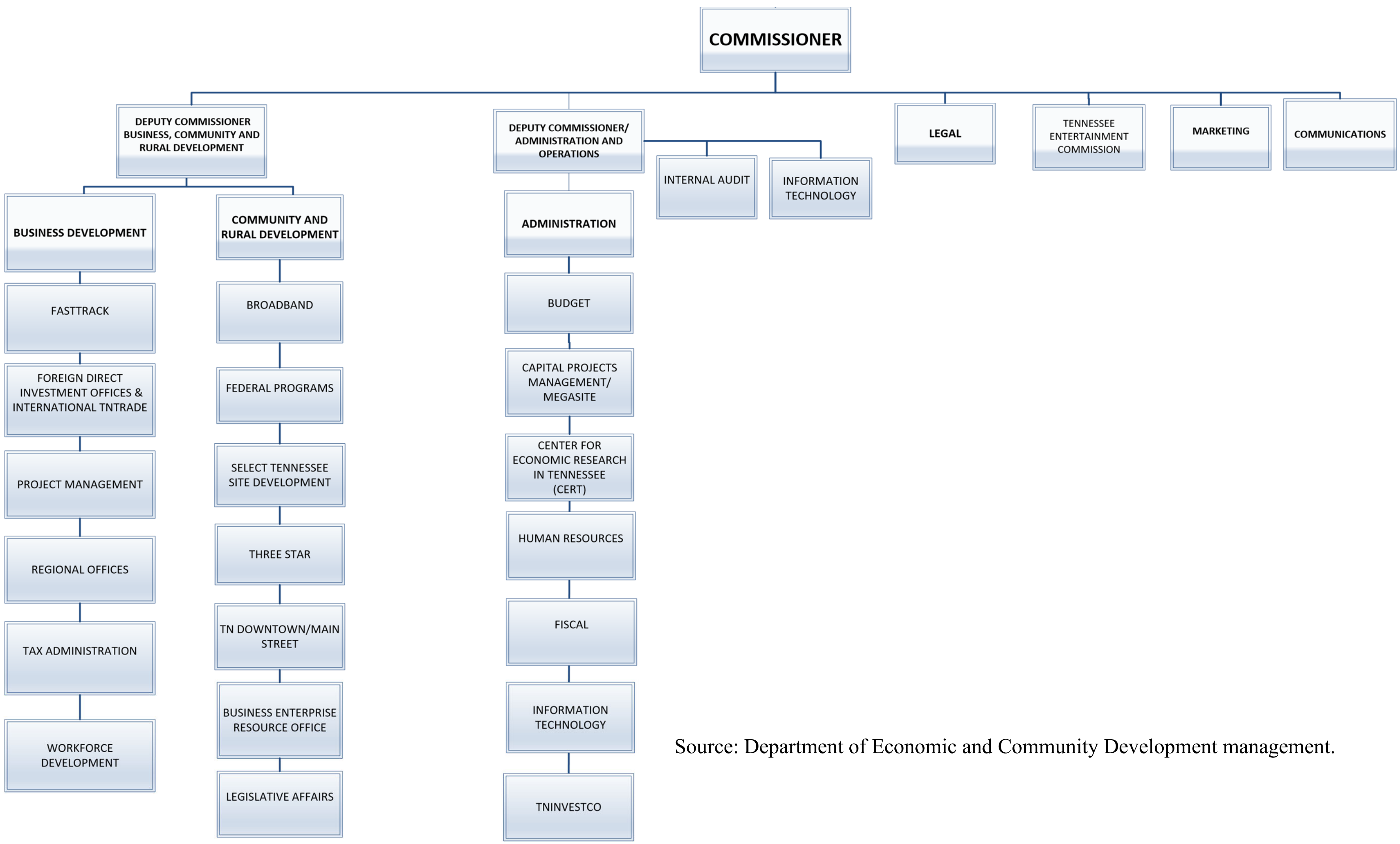
Other sections within the department support its essential functions, and other state agencies provide needed services:

- Marketing and Communications Offices – Informing the public and others of the department's services, the Marketing and Communications Offices also coordinate public events.
- Tennessee Entertainment Commission – While working to assist the state's current entertainment industry cluster, the Tennessee Entertainment Commission attracts film, television, music, and other entertainment producers to Tennessee. The commission is administratively attached to the department, and we did not review it as part of this audit. The commission is separate from the department in sunset law. According to Section 4-29-243, *Tennessee Code Annotated*, the commission is scheduled for sunset June 30, 2022.
- State Agencies – Both the Department of Finance and Administration (F&A) and the Department of Human Resources (HR) help the Department of Economic and Community Development fulfill its mission. F&A supplies accounting services, and it manages information systems through its Strategic Technology Solutions Division. HR manages enterprise human capital for the department. See **Appendix 5** for the Department of Economic and Community Development's Business Unit information.

Department of Economic and Community Development

Organizational Chart

February 2020



Source: Department of Economic and Community Development management.

Appendix 3
Audit Methodologies

Department Management Oversight

We obtained and reviewed the department's written policies and standard operating procedures, when available, that were relevant to our audit objectives. We performed interviews, walkthroughs, and observed personnel in the performance of their job duties to understand policies and procedures when there were no written policies and procedures. We also inspected documentation as part of our testwork in each audit area. We compared the results of our audit work to our expectations based on our understanding of policies and procedures. Our objectives and testwork in each area are described in further detail in the other sections of our report.

Division of Internal Audit

To achieve our objectives and to assess management's design and implementation of internal control as it relates to audit objectives 1, 2, and 3, we conducted interviews with division management. We also reviewed internal audit plans, internal audit reports, and standards issued by professional auditing organizations. In addition to evaluating whether the division completed reports based on internal audit plans and in accordance with applicable auditing standards, we evaluated the risk assessment to determine whether higher-risk items were given priority, whether past work was considered, and if there was a focus on internal controls.

Foreign Direct Investment

To achieve our objectives, we interviewed department management, the FDI Global Director, and the Director of Internal Audit. We reviewed FDI representative contracts and the department dashboards that report the number of jobs created, capital invested, and other company data. We also interviewed FDI management and the Director of Internal Audit to obtain an understanding of the department's oversight of FDI representatives' contract performance. FDI management was able to provide us with a verbal understanding of the review of FDI representatives' contract performance.

To assess management's design of internal control as it relates to our audit objective, we interviewed the FDI Global Director and the Director of Internal Audit to obtain an understanding of the contract performance process. Based on these discussions, management was able to describe a process; however, management could not provide evidence of the review process or formal policies of the reviews, so we could not determine if management implemented the process or if it was effective.

Broadband Accessibility Program

To achieve our objectives, we reviewed state statute, rules, and policies that govern the Broadband program to gain an understanding of the grant application and monitoring processes. We interviewed Broadband management to determine the process for awarding grants. We reviewed grant applications, scorecards, and contracts for the total awarded grants for fiscal years

2018 and 2019. To determine if the Broadband program management and staff awarded grants in accordance with state statute and program guidelines, we selected a nonstatistical random sample of 25, 2018 and 2019 grant applications for testwork from a population of 111 applicants.

To gain an understanding of the department's monitoring of broadband provider grant contracts, we reviewed Central Procurement Office (CPO) Policy 2013-007, "Grant Management and Subrecipient Monitoring Policy and Procedures," and the annual subrecipient grant monitoring plan for 2018, 2019, and 2020 that the department submitted to CPO. To ensure management had established and followed a sufficient process, we reviewed the department's monitoring reports for 2018 and 2019 grants to determine whether monitoring had occurred and the results of management's monitoring activities. To determine if management's monitoring efforts were effective, we obtained a population of 22 provider grants awarded in fiscal years 2018 and 2019 and reviewed risk assessments and monitoring files as evidence of monitoring efforts and results.

To assess management's design of internal control as it relates to audit objectives 1 and 2, we interviewed Broadband management to obtain an understanding of the processes and procedures over approving, monitoring, and reviewing the broadband grants. We requested documentation to verify the design and implementation of the internal controls; however, management was not able to provide evidence of the controls being in place and did not have formal policies and procedures; therefore, we did not perform any further work related to controls.

FastTrack

To achieve our objectives, we obtained an understanding of the FastTrack program, including the application and award processes, the contract approval process, grantee data submission requirements, and how management used the data. We also obtained an understanding of the grantees' accountability agreements.

We obtained a listing of all FastTrack grants with a start date from July 1, 2016, through December 1, 2019, and focused our review on 165 FastTrack Economic Development Fund grants because FastTrack grantees are the only ones required to sign the department's accountability agreement and provide additional documentation to the department. We selected a nonstatistical random sample of 60 grant contracts and obtained all related Baseline and Performance reports to ensure that the reports and supporting documentation were accurate, complete, and submitted timely.

We obtained Grant Committee meeting minutes to test grant contract approvals, then sampled 25 sets of meeting minutes from each year under audit (2016-2019) for a total of 100 sets of minutes tested that covered 470 grant award approvals. We reviewed all FastTrack grants included in the minutes to ensure that proper approval was recorded.

To assess management's design of internal control as it relates to audit objectives 1, 2, and 3, we interviewed FastTrack management to obtain an understanding of relevant internal controls. Based on interviews, we determined there were no relevant controls in place; therefore, we did not perform any further work related to controls.

TNInvestco

To achieve our objectives, we interviewed department staff, reviewed laws, department rules, annual reports, annual reviews, scorecards, penalty assessments, profit share documents, and TNInvestco webpages to gain an understanding of the TNInvestco program and to determine the cumulative earnings the state received and the return on investment for the program as of December 20, 2019, and the penalties the department assessed to the companies. We interviewed department management to determine if management had established any procedures as of February 12, 2020, for winddown/liquidation of TNInvestco assets.

Subrecipient Monitoring Plan

To achieve our objectives, we obtained and reviewed the 2019 Subrecipient Monitoring Plan the Department of Economic and Community Development submitted to the Central Procurement Office and reviewed the plan to ensure it included all required information. We reviewed the 2018 Subrecipient Monitoring Plan and compared the list of subrecipients monitored to the monitoring reports reported to the Office of the Comptroller of the Treasury.

Tennessee Job Skills Program

To achieve our objectives, we reviewed state statute, rules, and policies that govern the Tennessee Job Skills Program to gain an understanding of the specific program requirements. We interviewed the Assistant Commissioner of Business and Workforce Development and the FastTrack Program Director, who manage the program, to determine the steps taken to address the prior year finding.

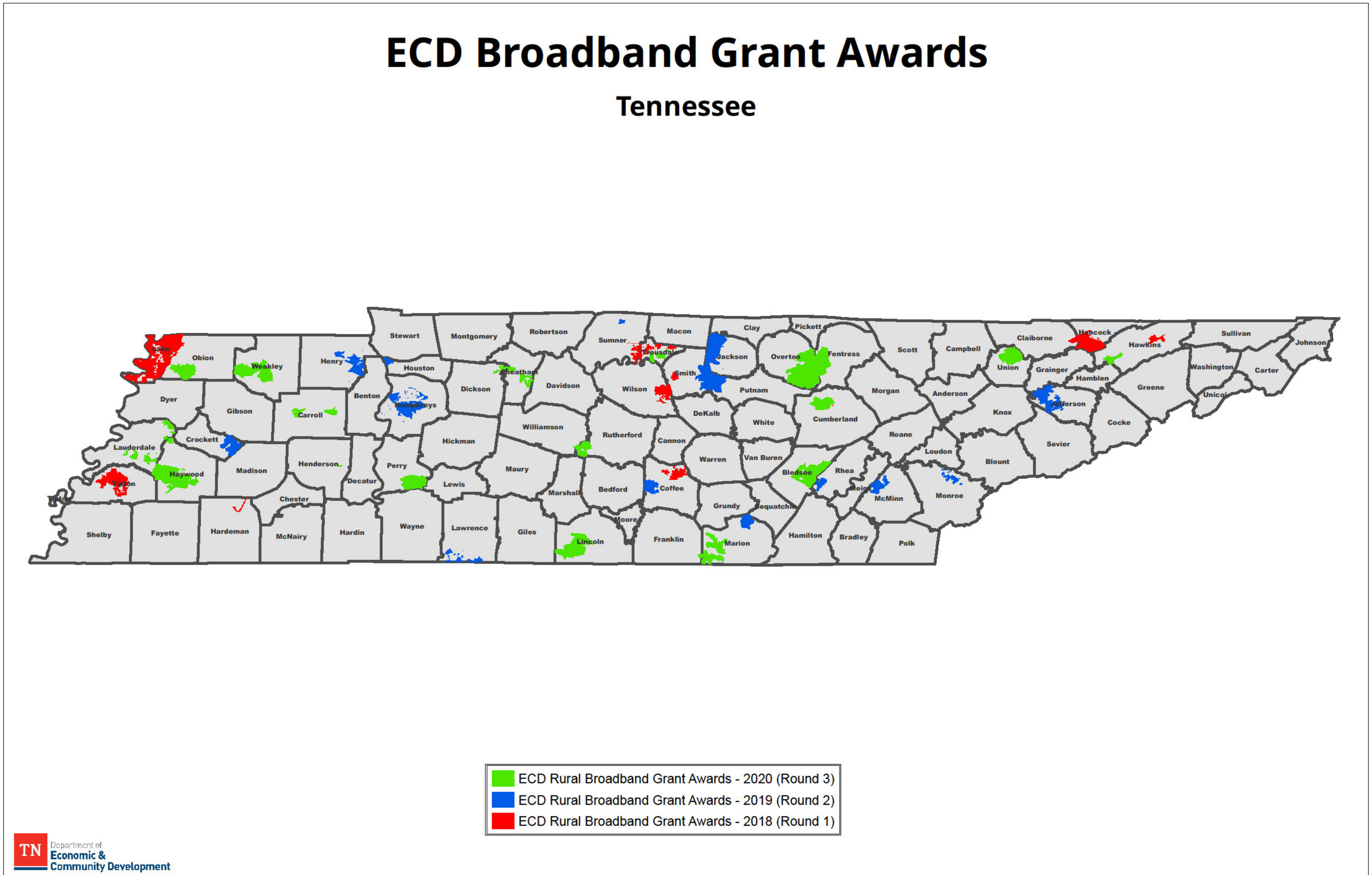
We obtained all grantee applications and final reports as well as the department's annual reports submitted during our audit period, July 1, 2016, through December 1, 2019. We tested all 10 Tennessee Job Skills annual reports and related grantee final reports submitted by the department during our audit period.

Turnover Analysis

To achieve our objective, we reviewed turnover rates for the department to gain an understanding of turnover trends. We then compared the department's turnover rates to national rates obtained from the Bureau of Labor Statistics. We also analyzed turnover rates by division to find any outliers.

Public Records Management

To achieve our audit objectives, we interviewed the department's Records Officer to gain an understanding of the records management process. We obtained and reviewed the Secretary of State's Records Management Best Practices and Procedures and related state statutes to assess the Public Records Commission's records management processes. We reviewed the department's RDAs and statewide RDAs to ensure compliance with statewide records management procedures and requirements.

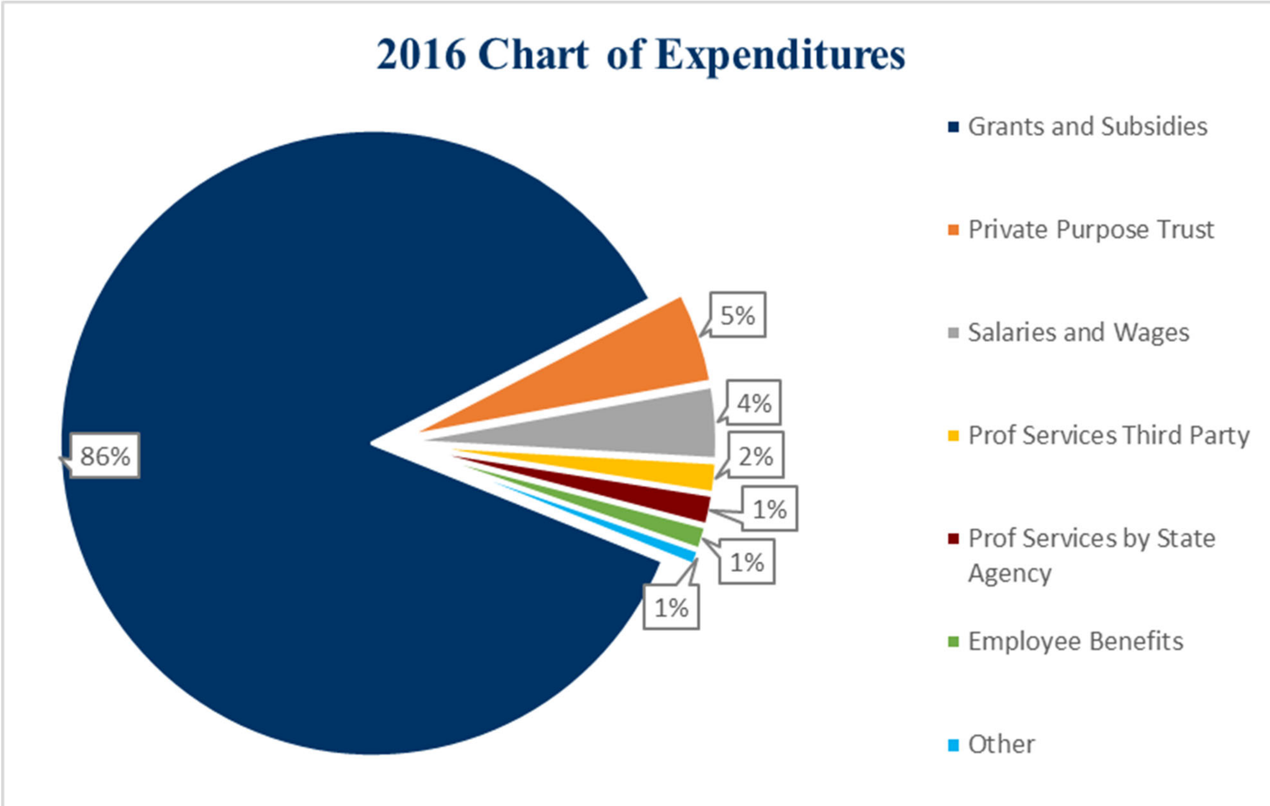

ECD Broadband Grant Awards
Tennessee
Lake
Obion
Weakley
Henry
Stewart
Montgomery
Robertson
Sumner
Macon
Clay
Pickett
Scott
Campbell
Claiborne
Hancock
Hawkins
Sullivan
Johnson
Dyer
Gibson
Carroll
Benton
Houston
Humphreys
Dickson
Cheatham
Davidson
Wilson
Trousdale
Smith
Jackson
Overton
Fentress
Putnam
Morgan
Anderson
Union
Grainger
Hamblen
Greene
Washington
Carter
Unicoi
Lauderdale
Crockett
Haywood
Tipton
Madison
Henderson
Decatur
Perry
Hickman
Lewis
Williamson
Maury
Marshall
Rutherford
Cannon
DeKalb
White
Cumberland
Roane
Knox
Jefferson
Sevier
Cocke
Loudon
Blount
Monroe
Warren
Van Buren
Bledsoe
Rhea
Meigs
McMinn
Bedford
Coffee
Grundy
Sequatchie
Shelby
Fayette
Hardeman
Chester
McNairy
Hardin
Wayne
Lawrence
Giles
Lincoln
Moore
Franklin
Marion
Hamilton
Bradley
Polk
ECD Rural Broadband Grant Awards - 2020 (Round 3)
ECD Rural Broadband Grant Awards - 2019 (Round 2)
ECD Rural Broadband Grant Awards - 2018 (Round 1)
TN Department of Economic & Community Development

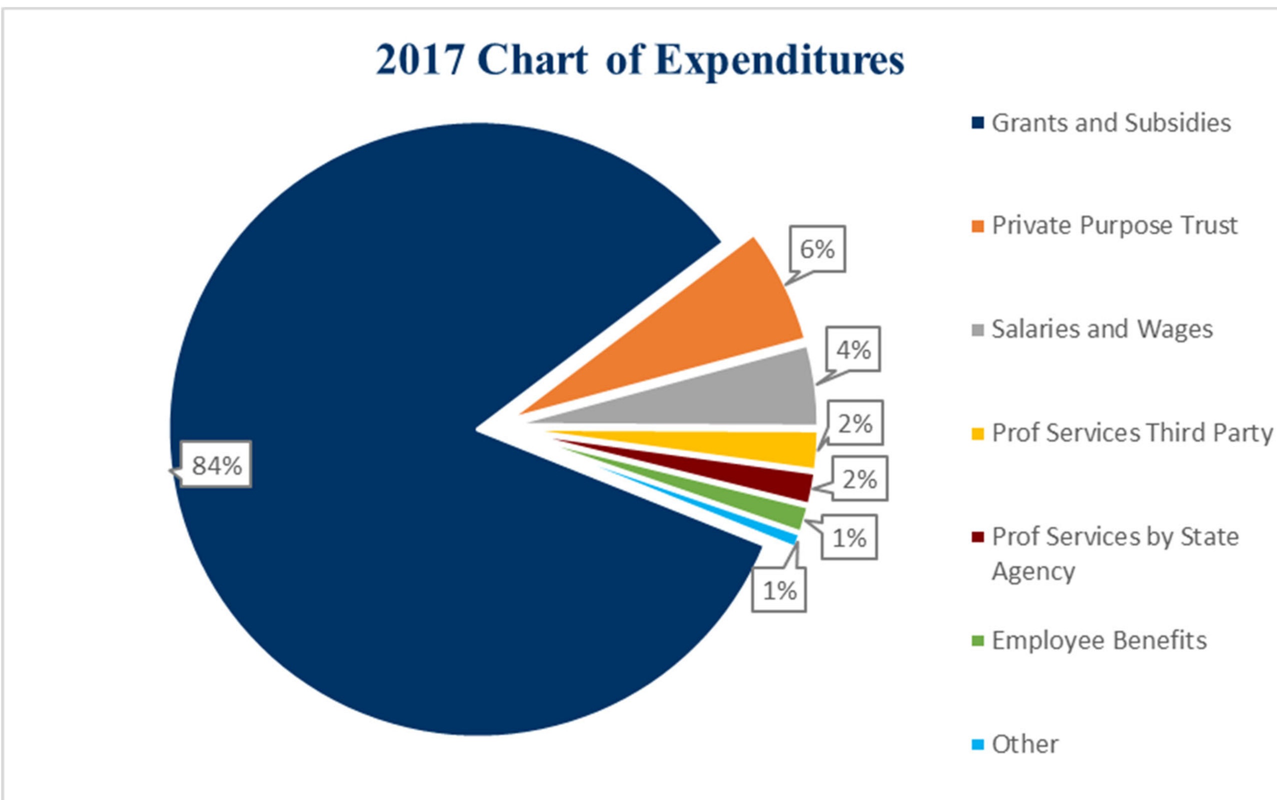
APPENDIX 5
EDISON BUSINESS UNITS

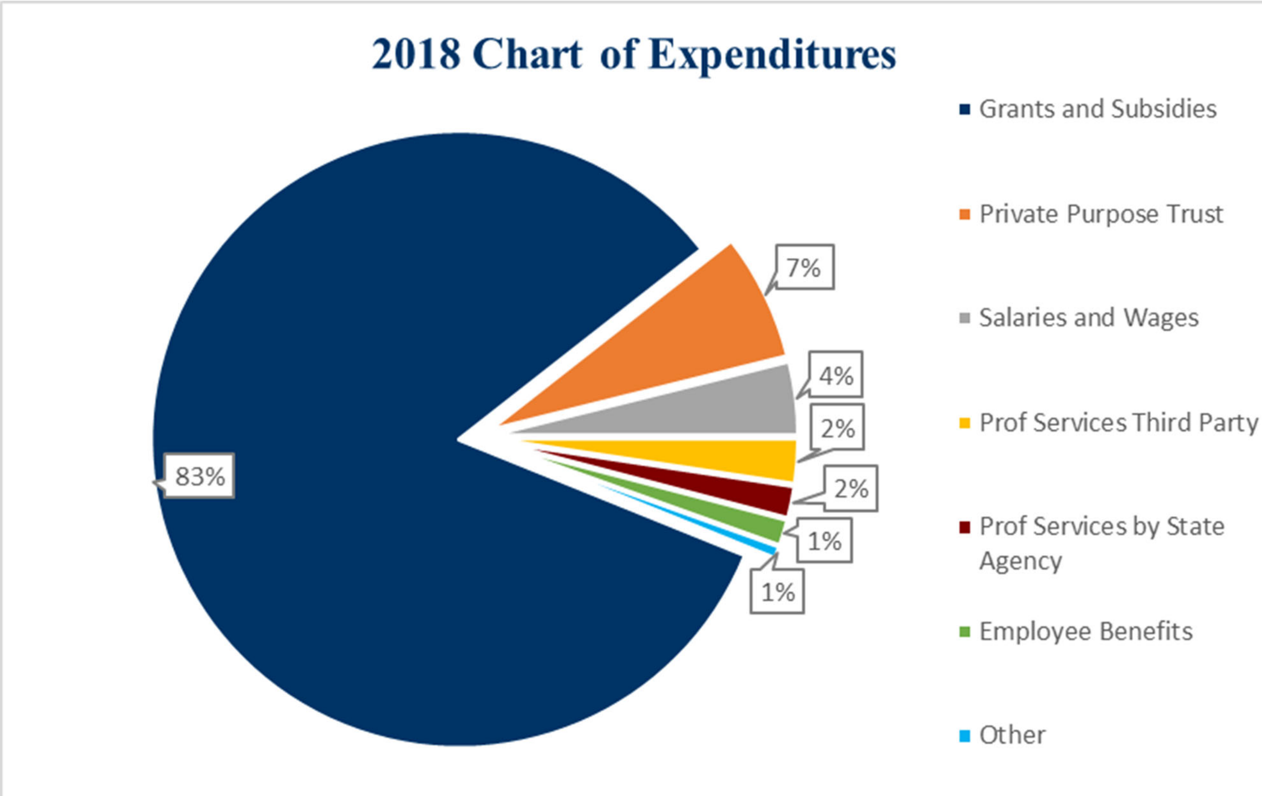
330.00	Economic and Community Development
330.01	Administrative Services
330.02	Business Development
330.04	Policy and Federal Programs
330.05	Innovation Programs
330.06	FastTrack Infrastructure and Job Training Assistance
330.07	Community and Rural Development
330.13	Tennessee Job Skills Program
330.15	Economic Development District Grants
330.17	Film and Television Incentive Fund
330.20	Headquarters Relocation Assistance
330.22	TNInvestco Tax Credits

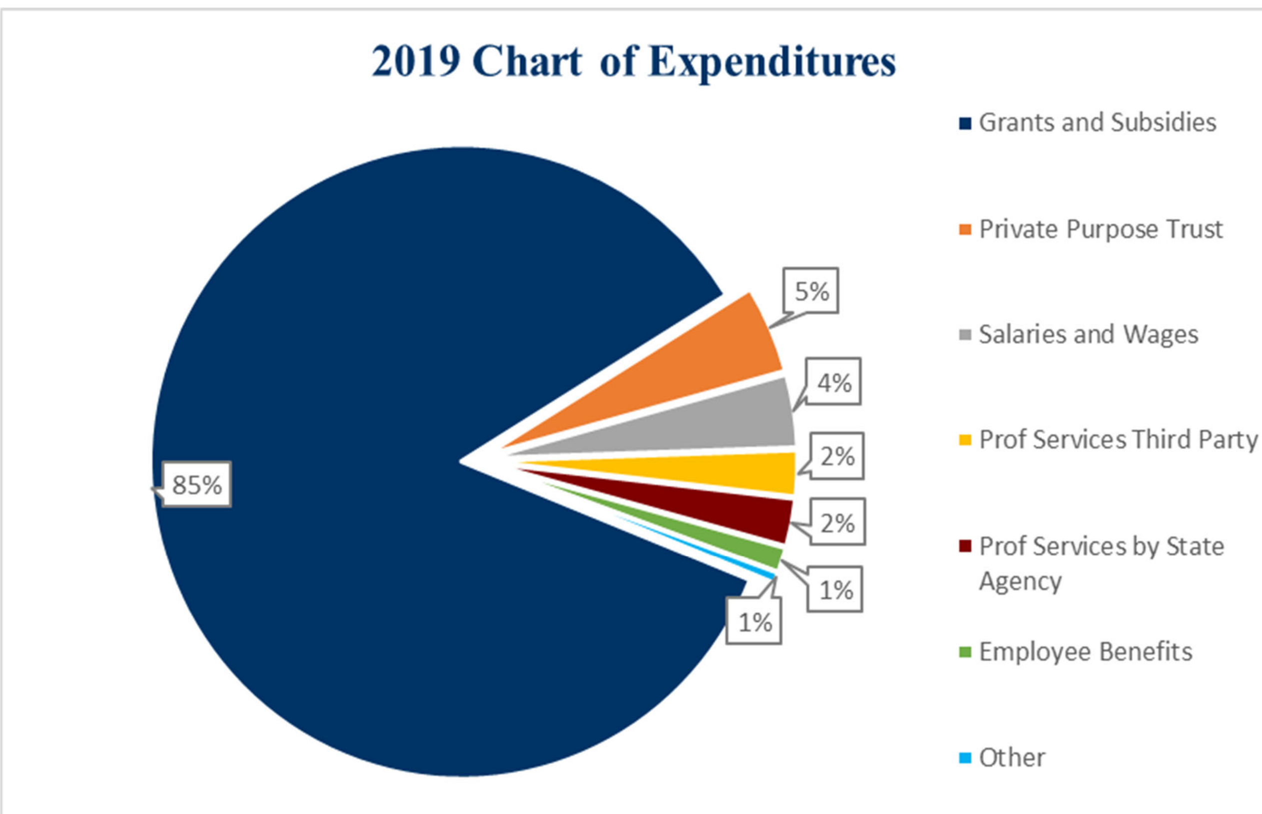
APPENDIX 6
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
FISCAL YEAR 2016 – 2019 EXPENDITURES AND REVENUES
UNAUDITED INFORMATION

Description	Fiscal Year			
Expenditures	**2016**	**2017**	**2018**	**2019**
Grants and Subsidies	$ 174,793,991	$ 145,269,889	$ 171,150,020	$ 186,334,065
Private Purpose Trust	9,585,230	10,658,279	13,751,629	9,911,749
Salaries and Wages	7,631,960	7,504,459	7,964,086	8,200,339
Professional Services Third Party	3,229,263	3,666,675	4,859,729	5,168,400
Professional Services by State Agency	3,207,867	2,973,260	3,488,788	5,363,855
Employee Benefits	2,480,320	2,470,016	2,860,915	2,833,064
Travel	536,394	744,369	927,995	670,073
Data Processing	470,585	279,001	118,764	217,943
Supplies and Materials	160,198	132,806	109,872	96,267
Training	122,081	99,821	79,977	97,064
Rentals and Insurance	140,255	59,825	46,037	63,684
Printing and Duplicating	23,811	24,349	36,020	27,159
Communications	25,765	22,793	14,771	16,956
Maintenance & Repairs	1,451	9,673	2,390	5,387
Unclassified	2,000	2,041	2,000	2,000
Motor Vehicle Operation	462	773	176	3,237
Utilities and Fuel	-	479	630	5,571
Awards and Indemnities	125,000	379	4,942	6,119
Total Expenditures	**$ 202,536,634**	**$ 173,918,886**	**$ 205,418,741**	**$ 219,022,932**
Revenues				
Other	131,592	86,812	-	80
TNInvestco Liquidity Event	3,240,760	8,366,263	7,529,743	10,042,399
Refund Prior Year Expenditures	18,608	474	193	-
Investment Income Treasury Interest	34,919	72,622	86,130	89,730
Federal Revenue	61,022,122	34,973,594	38,168,314	49,311,362
Refund Prior Year Federal Expense	70,325	-	630	12,950
Non-Government Revenue	1,604,463	4,204,249	5,977,429	4,047,975
Current Services	483,825	443,411	371,080	471,908
Interest Income	6,789,783	(410,784)	1,335,616	15,242,377
Interdepartmental	74,267			
Appropriations				
Carryforward Unencumbered Balance	259,590,877	303,788,863	342,387,133	427,330,465
Supplemental Appropriation	23,000,000	5,000,000	38,000,000	(883,800)
Carryover of Federal, Other	76,136,995	-	113,744,279	104,500,000
Revenue Expansion (Fed, Other)	11,099,831	109,553,645	-	-
Total Revenues	**$ 443,298,366**	**$ 466,150,064**	**$ 574,819,368**	**$ 610,235,320**


2016 Chart of Expenditures
Grants and Subsidies
Private Purpose Trust
Salaries and Wages
Prof Services Third Party
Prof Services by State Agency
Employee Benefits
Other
86%
5%
4%
2%
1%
1%
1%


2017 Chart of Expenditures
Grants and Subsidies
Private Purpose Trust
Salaries and Wages
Prof Services Third Party
Prof Services by State Agency
Employee Benefits
Other
84%
6%
4%
2%
2%
1%
1%


2018 Chart of Expenditures
83%
7%
4%
2%
2%
1%
1%
Grants and Subsidies
Private Purpose Trust
Salaries and Wages
Prof Services Third Party
Prof Services by State Agency
Employee Benefits
Other


2019 Chart of Expenditures
85%
5%
4%
2%
2%
1%
1%
Grants and Subsidies
Private Purpose Trust
Salaries and Wages
Prof Services Third Party
Prof Services by State Agency
Employee Benefits
Other

APPENDIX 7

FastTrack Errors														
Item No.	Company Name	Reports Not Submitted		Late Reports		Support Did Not Match Reported Numbers		26 Week Requirement		Not Enough Detail to Determine If Jobs Included		Did Not Net	Lack of Required Information	Incorrect Time Period
		Baseline	Performance	Baseline	Performance	Baseline	Performance	Did Not Follow	Opted Out	In-State Transfers	Backfilled Positions			
1	Flextronics Logistics USA, Inc.			X	X					X				
2	Agilent Technologies, Inc.			X	X				X	X	X			X
3	Eurotranciatura USA, LLC					X	X		X	X	X			X
4	Protomet Corp			X	X		X		X		X		X	X
5	Hope Industries			X	X				X	X				
6	Warner Music, Inc.			X			X			X				
7	AtlasBX America Corp			X					X	X		X	X	
8	Minth Tennessee International, LLC								X	X	X			X
9	Ebbtide Holdings, LLC				X	X	X				X		X	X
10	Amazon.com Services, Inc.			X	X				X	X	X		X	

FastTrack Errors														
Item No.	Company Name	Reports Not Submitted		Late Reports		Support Did Not Match Reported Numbers		26 Week Requirement		Not Enough Detail to Determine If Jobs Included		Did Not Net	Lack of Required Information	Incorrect Time Period
		Baseline	Performance	Baseline	Performance	Baseline	Performance	Did Not Follow	Opted Out	In-State Transfers	Backfilled Positions			
11	Keystone Automotive Industries, Inc.			X	X				X	X			X	
12	Lowe's Home Centers, LLC				X		X		X				X	
13	Team Technologies, Inc.			X	X		X			X	X			X
14	Leclerc Foods, Tennessee LLC			X	X		X			X	X			
15	Mid-America Apartments, L.P.			X	X		X		X	X	X			
16	Tenneco Automotive Operating Company, Inc.			X	X		X		X	X	X			
17	KaTom Restaurant Supply, Inc.			X	X	X		X		X	X			X
18	Williams Food Works and Distribution, LLC				X		X		X	X	X			

FastTrack Errors														
Item No.	Company Name	Reports Not Submitted		Late Reports		Support Did Not Match Reported Numbers		26 Week Requirement		Not Enough Detail to Determine If Jobs Included		Did Not Net	Lack of Required Information	Incorrect Time Period
		Baseline	Performance	Baseline	Performance	Baseline	Performance	Did Not Follow	Opted Out	In-State Transfers	Backfilled Positions			
19	Town of Ashland City and A.O. Smith Corporation			X	X					X	X		X	
20	ABB Inc.			X	X	X								
21	Adient US LLC			X		X			X	X	X			
22	Granges[12]				X				X	X	X			
23	City of Lexington / Bravo			X						X	X		X	
24	Jones Plastic			X	X				X	X	X			
25	Sedgwick			X	X		X		X	X	X			
26	Faist Light Metals LLC			X	X		X			X	X		X	
27	Stanley Black and Decker							X		X	X			
28	Miyake Forging				X	X	X		X	X	X			
29	Homeland Vinyl				X				X	X	X		X	
30	Service Master								X	X	X			

[12] Granges (Item 22 and Item 49) are the same company that has received two separate economic development contracts, which were approved by the State Funding Board on November 11, 2017.

FastTrack Errors														
Item No.	Company Name	Reports Not Submitted		Late Reports		Support Did Not Match Reported Numbers		26 Week Requirement		Not Enough Detail to Determine If Jobs Included		Did Not Net	Lack of Required Information	Incorrect Time Period
		Baseline	Performance	Baseline	Performance	Baseline	Performance	Did Not Follow	Opted Out	In-State Transfers	Backfilled Positions			
31	Kilgore Flares								X	X	X		X	
32	MTD				X	X				X	X			
33	Phillips Holdings			X					X	X	X		X	
34	The Wise Company		X	X										
35	Green Applications			X	X									
36	BMT Manufacturing	X	X											
37	Schneider Electric				X				X	X	X			
38	Portobello America Inc.								X					
39	England, Inc.			X	X					X	X		X	
40	AGC Flat Glass North American, Inc.			X						X	X	X		X
41	Oshkosh Manufacturing, LLC			X	X				X	X	X			
42	Tyson Farms (Union)				X	X	X			X	X	X	X	

FastTrack Errors														
Item No.	Company Name	Reports Not Submitted		Late Reports		Support Did Not Match Reported Numbers		26 Week Requirement		Not Enough Detail to Determine If Jobs Included		Did Not Net	Lack of Required Information	Incorrect Time Period
		Baseline	Performance	Baseline	Performance	Baseline	Performance	Did Not Follow	Opted Out	In-State Transfers	Backfilled Positions			
43	Tri-Matic Spring, Inc.			X					X	X	X			
44	Alliance Bernstein L.P.							X		X	X			
45	Craig Manufacturing								X	X	X			
46	Old Hickory Smokehouse Holdings, LLC			X	X	X	X			X	X	X	X	X
47	Caymas Boats			X					X	X	X			
48	Denso Manufacturing Athens Tennessee, Inc.	X	X											
49	Granges Americas Inc.				X	X			X	X	X			
50	Horman, LLC			X					X		X			
51	CKE Restaurants			X	X				X	X	X			
52	Excel Boat Company			X				X		X	X			

FastTrack Errors														
Item No.	Company Name	Reports Not Submitted		Late Reports		Support Did Not Match Reported Numbers		26 Week Requirement		Not Enough Detail to Determine If Jobs Included		Did Not Net	Lack of Required Information	Incorrect Time Period
		Baseline	Performance	Baseline	Performance	Baseline	Performance	Did Not Follow	Opted Out	In-State Transfers	Backfilled Positions			
53	Olympus America Inc.[13]			X	X					X	X			
	Gyrus ACMI, Inc.													
54	Huber Engineered Woods, LLC				X	X	X		X	X	X			
55	Colorobbia USA Inc.							X		X	X			
56	Campbell Arms Manufacturing		X											
57	Dal-Tile Tennessee LLC						X							
	Total	**2**	**4**	**33**	**33**	**11**	**17**	**5**	**31**	**45**	**43**	**4**	**15**	**9**

[13] Olympus America, Inc. and Gyrus ACMI, Inc. are affiliates; therefore they report separately, but the reports are taken in aggregate.