

Finding Number	2014-064
CFDA Number	10.553, 10.555, 10.556, 10.558, 10.559, 14.228, 17.258, 17.259, 17.278, 20.205, 84.002, 84.010, 84.027, 84.173, 84.287, 84.367, 93.568, and 93.667
Program Name	Child Nutrition Cluster Child and Adult Care Food Program Summer Food Service Program for Children Community Development Block Grant Workforce Investment Act Cluster Highway Planning and Construction Adult Education – Basic Grants to States Title I Grants to Local Educational Agencies Special Education Cluster Twenty-First Century Community Learning Centers Improving Teacher Quality State Grants Low-Income Home Energy Assistance Social Services Block Grant
Federal Agency	Department of Agriculture Department of Housing and Urban Development Department of Labor Department of Transportation Department of Education Department of Health and Human Services
State Agency	Department of Education Department of Human Services Department of Economic and Community Development Department of Labor and Workforce Development Department of Transportation Tennessee Housing Development Agency Department of Finance and Administration
Grant/Contract No.	2013IN109945, 2014(IN&CN)109945, 2013IN109945, 2014(IN&CN)109945, 2013IN109945, 2014(IN&CN)109945, 2010IN109945, 2012IN109945, 2013IN109945, 2014IN109945, B-13-DC-47-0001, AA241201355A47, AA229631255A47, AA214231155A47CM/HSIP-9202(109), CM-174(19), CM-7900(40), CM-7900(47), CM-7900(50), CM-9109(160), CM-9400(47), CM-9400(51), CM-NH-57(60), HPP/STP-EN-198(9), HPP-1000(28), HPP-1231(3), SRTS-5500(51), SRTS-5900(21), SRTS-6800(24), SRTS-9207(17), SRTS-9309(15), SRTS-9409(154), STP-EN-11(63), STP-EN-200(33), STP-EN-2600(43), STP-EN-3900(23), STP-EN-412(10), STP-EN-6800(23), STP-EN-9100(39), STP-EN-9108(42), STP-EN-9109(138), STP-EN-9115(16), STP-EN-9303(13), STP-EN-9409(157), STP-EN-NH-40(28), STP-M-258(11), STP-M-3630(10), STP-M-3964(10), STP-M-41(20), STP-M-5431(10), STP-M-5740(10), STP-M-64(18), STP-M-73(56), STP-M-9108(37), STP-M-9109(151),

STP-M-9112(19), STP-M-9202(112), STP-M-9203(20), STP-M-9302(17), STP-M-9303(12), STP-M-9310(10), STP-M-9318(5), STP-M-9400(56), STP-M-9401(10), STP-M-9402(14), STP-M-9409(158), STP-M-9409(180), STP-M-9409(181), STP-M-9409(185), STP-M-9409(186), STP-M-9410(10), STP-M-9419(8), STP-M-99(35), STP-M-NH-177(36), TAP-M-9101(16), TIGER-M2M(1), V022A120043, V002A130043, S010A100042, S010A10042, S010A120042, S010A130042, H027A070052, H027A080052, H027A090052, H027A100052, H027A110052, H027A120052, H027A130167, H173A110095, H173A120095, H173A130095, S287C100043, S287C110043, S287C120043, S367A110040, S367A120040, S367A130040, G11B1TNLIEA, G12B1TNLIEA, G13B1TNLIEA, G14B1TNLIEA, G0901TNSOSR, G1001TNSOSR, G1101TNSOSR, G1201TNSOSR, G1301TNSOSR, G1401TNSOSR

Federal Award Year	2007 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	N/A

Six departments did not comply with Federal Funding Accountability and Transparency Act reporting requirements

Background

The United States Congress signed the Federal Funding Accountability and Transparency Act (FFATA) on September 26, 2006. According to the federal reporting website, www.fsr.gov, the intent of the legislation is to “empower every American with the ability to hold the government accountable for each spending decision” by requiring information on federal awards to be available to the public on a single, searchable website, which is www.USASpending.gov.

The State of Tennessee receives funding from many federal programs. The state passes a portion of this funding through to other entities, via legal agreements known as subawards so that these other entities perform activities that support the federal programs. FFATA requires the state to report financial information for subawards of \$25,000 or more for these programs through the FFATA Subaward Reporting System (FSRS), which is a reporting tool maintained by the federal government. The information on FSRS is then uploaded to USASpending.gov.

Condition

Our review of compliance with FFATA requirements for the year ended June 30, 2014, found that six state departments³¹ did not report subaward financial information as required by FFATA. For the federal programs we audited, these state departments

- did not report subaward data in FSRS (completeness),
- did not document when they reported subaward information in FSRS (completeness),
- did not promptly report information in FSRS (timeliness), or
- incorrectly reported the Data Universal Numbering System (DUNS) number (a unique nine digit identification number that verifies the existence of a business), the subaward number, the subaward date, the subaward obligation date, and/or the amount of the subaward in FSRS (completeness).

Details are in the chart on the following page.

³¹ The six departments not reporting subaward financial information as required were the Department of Economic and Community Development (ECD); Department of Education (DOE); Department of Finance and Administration (F&A), which prepares reports for ECD and LWD (see further details in the “cause” section); Department of Human Services (DHS); Department of Labor and Workforce Development (LWD); Department of Transportation (TDOT); and Tennessee Housing Development Agency (THDA).

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
DHS	Child and Adult Care Food Program (10.558)	-	To test timeliness, we selected a nonstatistical sample of 60 items from a population of 8,116 subaward obligations (\$60,767,164), and we determined 51 of 60 subaward obligations (85%) were not reported timely.
		\$17,734,316	To test completeness, we summarized the population of 8,116 subaward obligations (\$60,767,164) by subrecipients to get a population of 307 subrecipients, and we determined that 74 of 307 subrecipient subaward obligations (24%) were not reported and 218 of 307 subrecipient subaward obligations (71%) were not reported completely.
		-	Based on our review of internal controls, we determined that the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRs.
		-	To test timeliness, we selected a nonstatistical sample of 60 items from 408 subaward obligations (\$12,283,348), and we determined 52 of 60 subaward obligations (87%) were not reported timely.
	Summer Food Service Program for Children (10.559)	\$7,003,773	To test completeness, we tested the population of 63 subrecipient subaward obligations (\$12,344,444), and we determined that 19 of 63 subrecipient subaward obligations (30%) were not reported and 34 of 63 subrecipient subaward obligations (54%) were not reported completely.
		-	Based on our review of internal controls, we determined that the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRs.
		\$176,400	To test timeliness and completeness, we tested the complete population of 19 subawards (\$11,999,999), and we determined 1 of 19 subawards (5%) was not reported to FSRs.
	Low-Income Home Energy Assistance (93.568) ³²	\$10,101,678	To test timeliness and completeness, we tested the complete population of 19 subawards (\$11,999,999), and we determined 18 of 19 subawards (95%) were reported with an incorrect subaward amount.
		-	Based on our review of internal controls, we determined that before August 2013 the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRs. After August 2013, the department implemented a review process.

Chart Continued

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
DHS	Social Services Block Grant (93.667)	\$2,339,190 \$1,415,000	To test timeliness and completeness, we tested the complete population of 17 subawards (\$3,922,000), and we determined 11 of 17 subawards (65%) were reported with an incorrect subaward amount and /or subaward number. To test timeliness and completeness, we tested the complete population of 17 subawards (\$3,922,000), and we determined that 6 of 17 subawards (35%) were not reported to FSRs. Based on our review of internal controls, we determined that before August 2013 the department did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRs. After August 2013, the department implemented a review process.
ECD/F&A	Community Development Block Grant (14.228)	- \$1,650,000 \$500,000 \$2,207,860 \$630,665	To test timeliness and completeness, we tested the complete population (\$26,700,755) of subawards, and we determined that 5 of 67 subawards (7%) were not reported due to incorrect DUNs with no supporting documentation of the error. To test timeliness and completeness, we tested the complete population (\$26,700,755) of subawards, and we determined that 1 of 67 subawards (1%) was reported under an incorrect DUN. To test timeliness and completeness, we tested the complete population (\$26,700,755) of subawards, and we determined that 5 of 67 subawards (7%) were not reported timely. To test timeliness and completeness, we tested the complete population (\$26,700,755) of subawards, and we determined that 2 of 67 subawards (3%) were reported before the award was approved. Based on our review of internal controls, we determined that ECD did not have a review process in place to ensure that the subrecipients' DUNS numbers were valid before they were provided to F&A. F&A did not maintain documentation of errors and communication of these errors to ECD staff.
LWD/F&A	Workforce Investment Act Cluster (17.258, 17.259, 17.278)	- \$29,140,693	We tested the complete population (\$45,841,535) of subawards, and we determined that 51 of 85 subawards (60%) were not reported timely. Based on our review of internal controls, we determined that F&A did not have an effective review process in place to ensure that all required subrecipients' subaward data was reported accurately and timely in FSRs. In addition, F&A and LWD had not established an effective communication process to ensure compliance with reporting, such as a reconciliation process.

Chart Continued

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
LWD/F&A	Adult Education - Basic Grants to States (84.002)	\$10,470,743 \$63,566	We tested the complete population (\$10,470,743) of subawards, and we determined that 65 of 65 subawards (100%) were not reported timely. We subsequently were made aware of 2 additional subawards that were not reported. Based on our review of internal controls, we determined that F&A did not have an effective review process in place to ensure that all required subrecipients' subaward data was reported accurately and timely in FSRs. In addition, F&A and LWD had not established an effective communication process to ensure compliance with reporting, such as a reconciliation process.
	Child Nutrition Cluster (10.553, 10.555, and 10.556)	-\$513,272	To test timeliness and completeness, we selected a nonstatistical sample of 60 items (\$1,529,903) from a population of 1,330 reportable subaward obligations (\$321,117,996), and we determined 6 of 60 grants (10%) were not reported timely. Based on our review of internal controls, we determined that the department did not have a review process in place to ensure it reported all of the required subrecipients' data in FSRs.
TDOE	Twenty-First Century Community Learning Centers (84.287) Title I, Part A (84.010 and 84.389), Special Education Cluster (84.027 and 84.173), and Improving Teacher Quality State Grants (84.367)	-\$23,191,963	To test timeliness and completeness, we tested the complete population (\$23,191,963) of subrecipients, and we determined that 103 of 103 subawards (100%) were not reported. Based on our review of internal controls, we determined that the department did not have a review process in place to ensure it reported all of the required subrecipients' data in FSRs.
TDOT	Highway Planning and Construction Program (20.205)	-\$3,950,496	To test completeness, we selected a nonstatistical sample of 62 items (\$23,025,914) from a population of 174 potentially valid subawards (\$66,111,556), and we determined 15 of 62 subawards (24%) were not reported.

Chart Continued

Department	Program (CFDA No.)	Total Dollar Amount of Errors	Testwork Results by Program
TDOT	Highway Planning and Construction Program (20.205)	\$8,924,220	To test completeness, we selected a nonstatistical sample of 62 items (\$23,025,914) from a population of 174 potentially valid subawards (\$66,111,556). From the 62 items, we determined that only 47 items (\$19,035,977) were reported to FSRs and applicable for testwork. We determined that 21 of 47 subawards (45%) were reported with an incorrect subaward amount.
THDA	Low-Income Home Energy Assistance Program (93.568) ³²	\$19,035,977	To test completeness, we selected a nonstatistical sample of 62 items (\$23,025,914) from a population of 174 potentially valid subawards (\$66,111,556). From the 62 items, we determined that only 47 items (\$19,035,977) were reported to FSRs and applicable for testwork. We determined that 47 of 47 subawards (100%) were reported with an incorrect subaward and/or subaward obligation date. Based on our review of internal controls, we determined that the department had not reconciled the list of awards provided by the federal government through FSRs and award documentation. In addition, we determined that no review existed before or after submission of subawards into FSRs to ensure accuracy and completeness.
		-	See footnote 32 below.

³² During fiscal year 2014, the Low-Income Home Energy Assistance program (93.568) was administered by the Department of Human Services and the Tennessee Housing Development Agency. THDA assumed responsibility for FFATA reporting in February of 2014. Based on discussion with THDA's Controller, we determined that THDA reported subaward activities in the same manner that DHS did prior to February of 2014. Since DHS reported subaward expenditures, rather than obligations as required by FFATA, no additional audit procedures related to FFATA reporting were performed at THDA.

Criteria

All Six Departments:

According to Title 2, Part 170, Appendix A, *Code of Federal Regulations*, an entity

- must report each obligation of \$25,000 or more in federal funds that does not include recovery funds for a subaward to an entity;
- must report each obligation of this subaward term in FSRS;
- must report no later than the end of the month following the month in which the obligation was made; and
- must report this information about each obligation based on the submission instructions posted on FSRS.

Department of Human Services:

- In addition, for the Department of Human Services, according to *75 Federal Register* 177 (Sept. 14, 2010) pp. 55667 – 55668,

. . . The guidance requires reporting of each obligation, rather than each disbursement against the amount obligated. If a recipient obligates a specific known amount for a subaward, even if it may be adjusted later, it must report the obligation when it is made. For a program like the school lunch program, however, where the initial subaward provides the subrecipient with an open-ended authorization of unspecified amount, the obligation date corresponds to the date on which the amount of the obligation is specified. Reporting is required by the end of the month following the month in which the subaward obligation was made.
- Also, according to guidance provided by the USDA, a claim for meal reimbursement establishes a subrecipient's entitlement to federal program funds, thereby establishing both the obligation for FFATA reporting and the related expenditure. Reporting is required by the end of the month following the month in which the subaward obligation was made. (2 CFR section 25.110).

Department of Economic and Community Development:

- In addition, for the Department of Economic and Community Development, according to Title 2, Part 25, Section 205,

(a) An agency may not make an award to an entity until the entity has complied with the requirements described in §25.200 to provide a valid DUNS number and maintain an active CCR registration with current information

Cause

Department of Economic and Community Development and Department of Labor and Workforce Development: Per executive order No. 13, *An Order Transferring Positions for Financial Accounting and Reporting Within Certain State Departments to the Department of Finance and Administration Regarding Centralized Accounting by the Department of Finance and Administration*, signed on June 26, 2013, the Department of Economic and Community Development (ECD) and the Department of Labor and Workforce Development (LWD) have agreements with the Department of Finance and Administration (F&A). These agreements state that all financial accounting and reporting functions of both departments will be managed and operated by F&A. Although these agreements include F&A's completion of federal reporting requirements for ECD and LWD, a certain amount of responsibility and accountability for accurate reporting remains with the respective departments. In addition, effective communication between each department and F&A is critical to ensure successful execution of these fiscal arrangements. In fact, communication between the departments is required by the F&A Fiscal Services agreement, which states,

Initially, the Department [ECD/LWD] will furnish an all-inclusive list of federal, state and other reporting requirements (including associated deadlines) considered the responsibility of the fiscal office. On an ongoing basis, the Department's program staff will continue to communicate with [F&A] fiscal office staff and Accounts regarding new or changed program planning and implementation for purposes of appropriate financial accounting and reporting considerations.

Due to the joint accountability described in the paragraph above, the cause of the conditions at ECD and LWD were attributable to some processes under the respective department's control and some processes under F&A's control. This is reflected immediately below and in the "recommendation" section of the finding.

- **Department of Economic and Community Development:** ECD did not have a review process in place to ensure that all of the required subrecipients' data that was provided to F&A was accurate and timely. Furthermore, F&A did not maintain documentation of FSRS errors and the communication of these errors to ECD staff for investigation and correction.
- **Department of Labor and Workforce Development:** While F&A implemented a FFATA reporting process during our fiscal year 2014 audit period, the process was not in place for awards to be reported in FSRS before December 19, 2013. As a result, subawards issued prior to November 2013 were not reported. Subsequently, F&A did not have an effective review process in place to ensure that all of the required subrecipients' data was reported accurately and timely in FSRS. In addition, F&A and LWD had not established an effective communication process to ensure compliance with reporting, such as a reconciliation process with the LWD program areas.

Department of Education:

The Department of Education did not have a review process in place to ensure it reported all of the required subrecipients' data in FSRS. This review process was not performed for the following federal programs: Child Nutrition Cluster; Title I, Part A; and Improving Teacher Quality State Grants. For the Special Education Cluster, a documented review of subrecipients' data in FSRS could not be provided. In addition, program management responsible for reporting the Twenty-First Century Community Learning Centers program subawards were unaware these subawards were not reported.

Department of Human Services:

For the Social Services Block Grant Program and the Low Income Home Energy Assistance Program, Department of Human Services (DHS) management believed the Transparency Act language was vague; therefore, management instructed staff to report based on the payments toward obligations rather than the obligations as a whole. For the Child and Adult Care Food Program and the Summer Food Service Program, DHS did not have a review process in place to ensure that all subaward data was complete and accurate before it was entered into FSRS.

Department of Transportation:

We identified two primary causes for the deficiencies identified.

- The Tennessee Department of Transportation (TDOT) had not reconciled the list of awards provided by the federal government through FSRS and award documentation in the department's program areas in order to ensure all subawards were reported.
- During fiscal year 2014, no review existed before or after submission of subawards into FSRS to ensure accuracy and completeness. On September 8, 2014 (following the end of our audit period), however, TDOT transferred the FFATA reporting responsibilities for the Highway Planning and Construction program from the Consultant Design Office to the Local Programs Development Office. Upon this transfer, TDOT put a control in place which would require an employee to review subaward information before another employee submitted this information into FSRS.

Tennessee Housing Development Agency:

During fiscal year 2014, the Low-Income Home Energy Assistance program (93.568) was administered by the Department of Human Service and the Tennessee Housing Development Agency. THDA assumed responsibility for FFATA reporting in February of 2014. Based on discussion with THDA's Controller, we determined that THDA reported subaward activities in the same manner that DHS did prior to February of 2014. Since DHS reported subaward expenditures, rather than obligations as required by FFATA, no additional audit procedures related to FFATA reporting were performed at THDA.

Effect

All Six Departments:

Noncompliance with the FFATA reporting requirements results in a lack of accountability and transparency to the public.

Department of Economic and Community Development and Department of Labor and Workforce Development:

When the communications outlined in the agreements transferring the management and operations of financial accounting and reporting to F&A are not adequate, the risk of reporting errors increases.

Recommendation

Department of Economic and Community Development:

The Commissioner of ECD should ensure that appropriate ECD staff members review subrecipient data for accuracy and completeness before submitting it to F&A for reporting in FSRS.

Department of Education, Department of Finance and Administration, Department of Human Services, Department of Transportation, and Tennessee Housing Development Agency:

The Commissioners of the Department of Education, F&A, DHS, , TDOT, and Tennessee Housing Development Agency should ensure that the appropriate staff members understand the FFATA reporting requirements and report applicable subawards in accordance with those reporting requirements, such as the requirement that subawards be reported no later than the end of the month following the month in which the subaward was granted and under the correct DUNS number. The Commissioners should also ensure that appropriate staff members are assigned to review the reports submitted, via FSRS, to ensure that all applicable subawards are reported timely and accurately. These reviews should be documented and conducted by someone other than the staff member who initially reports the subaward information in FSRS. In addition, we recommend, specifically for TDOT, that in order to ensure all subawards are reported, TDOT management or designated personnel create an independent list of subawards and reconcile this list to the one provided by the federal government through FSRS.

It should be noted that for the Commissioner of F&A, the recommendations above apply to the FFATA reports staff prepare on behalf of the departments F&A has assumed financial accounting and reporting functions for, such as the ECD and LWD. Also, we recommend that F&A maintain documentation of FSRS errors and communication of these errors to ECD staff for investigation and correction.

Department of Labor and Workforce Development:

The Commissioner of LWD should ensure an effective communication process is established between LWD program staff and F&A fiscal staff in order to ensure compliance with FFATA reporting requirements.

Managements' Comments

Department of Economic and Community Development:

We concur that ECD did not have an additional review process in place to ensure that the subrecipients' DUNS numbers were valid before they were provided to the Fiscal Services personnel provided under contract with F&A. As previously stated in the audit report, ECD contracted with F&A to take over the management and operation of all ECD's financial accounting and reporting functions. Employees were transitioned from ECD to F&A but retained most of their former job duties. The validation of DUNS numbers was one of those functions. An F&A employee now has access to various federal reporting applications that ECD's Program staff do not have. One of these applications is the FSRS system used for FFATA reporting. The FSRS system alerts the user when the DUNS number does not match their records. The IRS and DLA may also perform subsequent reviews when DUNS numbers fail to match. The F&A employee did not communicate these alerts to ECD management although ample opportunities are provided weekly, monthly and quarterly.

We consider the risk of reporting errors relatively small since 443 of our 457 grantees of CDBG funds (96%) are Tennessee counties and municipalities whose DUNS numbers may not have changed for decades.

In accordance with the contract requirements for managing reporting functions, ECD's management and staff remain in continuous communication with the F&A personnel that operate ECD's Fiscal Services section. ECD provides F&A's personnel with a comprehensive list of State and Federal reports as required and furnishes reminders in the form of monthly emails stating which State and Federal reports will be due. The reports direct the individuals responsible for each report to notify ECD's management and internal audit of any errors or delays.

Our shortcoming appears to have been a disconnect between ECD's program staff and F&A personnel related to pre-verification of DUNS numbers. We are instituting a process for program staff to verify the DUNS numbers during the grant application process. This will resolve the timing issue referred to in your reference to CFR Title 2, Part 25, Section 200.

Department of Education:

We concur. Staff persons who have been assigned to perform FFATA reporting have been informed of FFATA reporting requirements. For each program area, a second person has been designated to review data submitted to ensure it is timely and accurate.

Department of Finance and Administration:

We concur. The Department of Finance and Administration (F&A) will continue to work with the Department of Economic and Community Development to ensure that subawards are reported accurately and timely in the FSRS system. F&A staff will maintain documentation of errors encountered during the reporting process and timely communicate these errors to the Department of Economic and Community Development staff.

We concur. The Department of Finance and Administration (F&A) fiscal staff is currently in compliance with FFATA reporting requirements and has implemented a monthly reconciliation process to ensure all required sub-recipient data has been reported in FSRS. F&A fiscal staff will assist LWD program staff and management in developing a reconciliation of program data to FSRS.

Department of Human Services:

We concur in part.

In November 2013, after an extensive study of the FFATA Act by the Department, the Department and State Audit agreed that the reporting requirements were to report sub-recipient payment at the \$25,000 interval. This is the reporting process the Department adopted at that time for all programs (SSBG, CSBG, CACFP and SFSP) that required FFATA reporting. It should be noted that the Department has not changed its reporting process since this time. This issue was not identified as a finding in 2013.

The Department agrees that in some instances, reporting was not timely. The Department does not agree that all instances identified by State Audit were not reported timely. In some instances the payments to sub-recipients did not exceed the \$25,000 threshold to be reported. Moving forward, the Department will take necessary corrective measures with employees who do not follow the process.

The Department does not agree that we did not report accurately. In the instances identified in the report as not being reported accurately, the Department reported the payment made to the sub-recipient as agreed to with State Audit.

It should be noted that gaining a comprehensive understanding of the FFATA requirement, which was initially signed into law in 2006, has been an ongoing challenge for states and federal entities. The Federal Office of Management and Budget (OMB) provides oversight of FFATA. There have been multiple iterations of the act since its inception in 2006 with the most recent being the 3rd phase of the Act. The 3rd phase started March 2011 and required the reporting of subcontracts under federally awarded contracts and orders valued greater than or equal to \$25,000. The multiple iterations at the federal level have contributed to the difficulty with compliance and interpretation across the country. State Audit also agreed with the challenges with the interpretation of the act.

Aside from the challenges noted above, we agree there are opportunities to improve the reporting process. The Department will review the reporting requirements and the process already in place

to help ensure accuracy and timeliness.

Auditor's Comment

As noted in the finding above, the department has not reported in accordance with FFATA requirements.

Department of Labor and Workforce Development:

We concur. Where applicable, we will work with the Department of Finance and Administration to ensure proper financial reporting.

Department of Transportation:

We concur. The Finance Office of the Department of Transportation assumed responsibility on September 8, 2014 for compiling the list of subawards each month and of notifying program areas of subawards to be reported in FSRS. The Finance Office will follow up with program areas to ensure subawards are reported as required by FFATA.

Tennessee Housing Development Agency:

We concur with the condition as stated in Footnote 32. THDA will begin to report FFATA based on subaward obligations as required.

Finding Number	2014-065
CFDA Number	10.558, 10.559, 17.258, 17.259, 17.278, 20.509, and 93.600
Program Name	Child and Adult Care Food Program Summer Food Service Program for Children Workforce Investment Act Cluster Formula Grants for Rural Areas Head Start Program
Federal Agency	Department of Agriculture Department of Labor Department of Transportation Department of Health and Human Services
State Agency	Department of Human Services Department of Labor and Workforce Development Department of Transportation
Grant/Contract No.	2013IN109945, 2014IN109945, AA-21423-11-55-A-47, AA-22963-12-55-A-47, AA-24120-13-55-A-47, TN-18-X032, and 04CH0804/48
Federal Award Year	2011 through 2014
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	\$78,564
Repeat Finding	N/A

Grant funds were used for unallowable real property acquisition, resulting in federal questioned costs of \$78,564

Condition

During our review of subrecipient monitoring for the Workforce Investment Act cluster of programs, we found that Southwest Tennessee Human Resource Agency (SWHRA)³³ used funds from multiple federal grant programs to pay for the acquisition of its central office building. Although numerous state agencies contract with SWHRA to provide services through various federal grant programs, none of them identified that SWHRA’s expenditures included principal and interest payments on the promissory note for its building purchase, resulting in federal questioned costs of \$78,564³⁴ for fiscal year 2014.

A summary of the costs charged to the federal grant programs, involving expenditures to acquire the office building, is included in the following table.

³³ Southwest Tennessee Human Resource Agency operates under the authority of Title 13, Chapter 26, *Tennessee Code Annotated*, which provides a regional system to deliver human resource programs to the state’s counties and cities.

³⁴ OMB Circular A-133, “Audits of States, Local Governments and Non Profit Organizations,” requires us to report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. The federal questioned costs of \$78,564 presented here are for those programs where questioned costs exceed \$10,000. Although the questioned costs for the Summer Food Service Program for Children are less than \$10,000 in this finding, additional questioned costs are noted in 2014-029.

Table
Southwest Human Resource Agency
Costs for Central Office Building Purchase
Charged to Federal Grant Programs
For the Year Ended June 30, 2014

Federal Awarding Agency	State Awarding Agency (if applicable)	CFDA Number	Federal Program Name	Amount
U.S. Department of Labor and Workforce Development	Tennessee Department of Labor and Workforce Development	17.258, 17.259, and 17.278	Workforce Investment Act Cluster	\$46,772
U.S. Department of Transportation	Tennessee Department of Transportation Southwest Tennessee Development District	20.509	Formula Grants for Rural Areas	10,330
U.S. Department of Agriculture	Tennessee Department of Human Services	10.559	Summer Food Service Program for Children	149
U.S. Department of Health and Human Services	N/A; funds received directly from the federal awarding agency.	93.600	Head Start Program	21,313*
U.S. Department of Agriculture	Tennessee Department of Human Services	10.558	Child and Adult Care Food Program	
			Total:	\$78,564

* SWHRA charged \$21,313 of building-related expenditures to activities funded by both the Head Start Program and the Child and Adult Care Food Program. Since the information provided by SWHRA did not include sufficient detail to determine how the expenditures were charged to the individual federal programs, the total building-related expenditures charged to the related activity codes are listed as questioned costs.

Criteria

Title 2, *Code of Federal Regulations*, Part 225, Attachment B, Section 15.b, states that capital expenditures for buildings are unallowable for state and local governments carrying out federal awards, except when they are approved in advance by the awarding agencies. Additional federal requirements state that building purchases are specifically prohibited for the Summer Food Service Program for Children³⁵ and the Workforce Investment Act program cluster³⁶.

Cause

The executive director for SWHRA stated that agency management intended to use grant funds from federal programs to service the debt when they decided to purchase the building in 2011 instead of continuing to rent it. In our discussions with him, he indicated that he was unaware

³⁵ Food and Nutrition Service Instruction 796-4, Rev. 4.

³⁶ 20 CFR 667.260.

that this was an unallowable use of grant funds. According to the executive director, no prior approval was sought from the federal or state agencies that awarded SWHRA the grant funds.

SWHRA continued to classify the payments for the central office as rent expenses in its accounting system after it purchased the building. The various state agencies contracting with SWHRA did not verify that these expenditures were presented accurately, nor did they note that the Schedule of Expenditures by Program included in SWHRA's independent auditor's report listed principal retirement and interest for the debt under the heading of "Capital Outlays."

Effect

When federal funds are used for the purchase of capital assets such as buildings, the federal awarding agencies have financial interests in these assets. OMB Circular A-133, "Audits of States, Local Governments and Non Profit Organizations," requires us to report known or likely questioned costs greater than \$10,000 for major programs. The known questioned costs for several of the major programs listed in the table above exceed this threshold.

Recommendation

The commissioners of the Human Services, Labor and Workforce Development, and Transportation departments should ensure that the awarding federal agencies are notified of their interests in SWHRA's central office building and, if necessary, that they are reimbursed for all unallowable costs. The managements of these agencies should also take the necessary steps to ensure that subrecipients are aware of the allowable uses of grant funds and that these subrecipients' expenditures and independent audit reports are properly reviewed.

Managements' Comments

Department of Human Services

We concur in part.

The Department concurs with the Summer Food Service Program (SFSP) finding totaling \$149 and will start the recoupment process for the questioned costs. The Department does not agree with the \$21,313 in questioned costs. The Department needs clarification from State Audit on the dollar amount that is considered unallowable in Table 1 labeled U.S. Department of Health and Human Services and Tennessee Department of Human Services. In the finding, as written by State Audit, funds from the Head Start Program and The Child and Adult Care Food Program (CACFP) have been combined, totaling \$21,313. The Department does not have a fiduciary relationship with nor does it grant funds from the Head Start Program, as it is administered by the U.S. Department of Health and Human Services.

As noted in Title 2, *Code of Federal Regulations*, Part 225, Attachment B, Section 15.b, capital expenditures for buildings are unallowable for state and local governments carrying out federal awards, except when they are approved in advance by the awarding agencies for the CACFP program. Once the CACFP unallowed amount in Table 1 is determined, the Department will

work with the subrecipient and the USDA to verify that advanced approval for capital expenditures was not obtained. The Department will then work with the USDA on the corrective action to be performed (i.e., notifying them of their interest in the subrecipient's central office building and/or ensuring the USDA is reimbursed for all unallowable costs).

During external program fiscal reviews, Department staff review agency expenditures for accuracy and review independent auditor's reports for program and fiscal findings and internal controls weaknesses that may warrant special attention. For FY 2014, a fiscal audit of the CACFP was not included in the audit plan for the agency noted in this finding. For context, these programs involve oversight for more than 3,000 entities across the state. The Department is not required to monitor all entities annually. Frequency of monitoring is based on risk. However, entities are required to be monitored at a minimum of every three years. The Department is planning a CACFP fiscal review for this agency in FY 2015 and will ensure the subrecipient is aware of allowable uses for grant funds.

Department of Labor and Workforce Development

We concur in part.

Beginning in the early 1990s, SWHRA leased their central office building from the City of Henderson. The lease payment was allocated to the applicable programs, based on occupied square footage and in accordance with their federally approved cost allocation plan. Since the lease amount increased over time, the SWHRA board inquired with the City of Henderson and approved to purchase the building. In calendar year 2010 SWHRA secured a loan and purchased the building being used as their central office. The current amount being allocated is still being allocated based on occupied square footage and is slightly less than the allocated amount immediately prior to being purchased.

We understand that SWHRA did not obtain federal approval for allocating portions of the mortgage payment to the applicable programs. Since occupancy charges are allowable under federal regulations, we will assist SWHRA to obtain federal approval for an appropriate occupancy rate and applicable allocation method from their federal cognizant agency. Depending upon the difference in amounts between the actual allocated amount and the federally approved allocated amount; questioned costs will be handled in accordance with federal guidance.

Department of Transportation

We concur. SWHRA will repay TDOT for unallowable debt payments that were improperly characterized as rent and TDOT will return the funds to the Federal Transit Administration. The DMTR will provide all subrecipients with guidance on when debt payments associated with the acquisition of real property are allowable. DMTR will also review the tenure status of all subrecipients to ensure that real property ownership information has been properly reported.