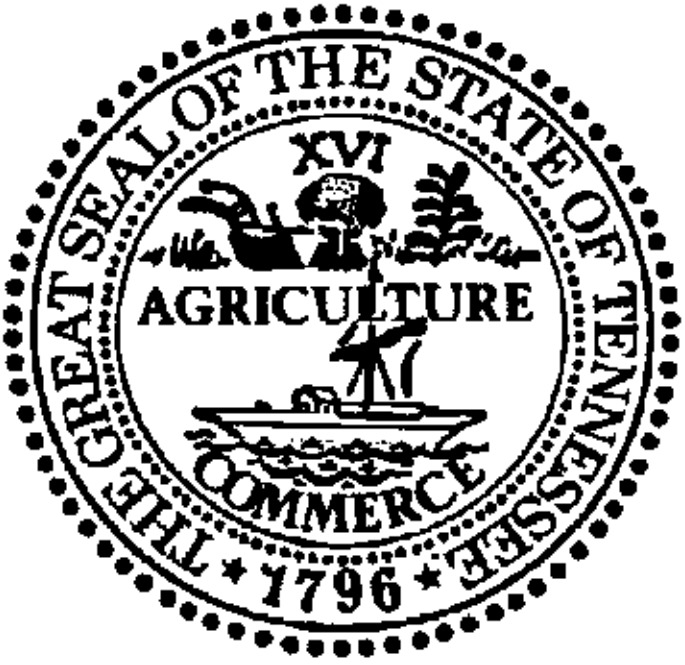
TENNESSEE

Single Audit Report
For the Year Ended June 30, 1999



Comptroller of the Treasury
Department of Audit
Division of State Audit

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

March 31, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly of Tennessee
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We are pleased to submit the sixteenth *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 1999. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996 and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This *Single Audit Report* reflects federal awards of $5.9 billion. This report includes reportable conditions and material weaknesses relating to major federal programs and those instances of noncompliance, including several that we believe constitute material noncompliance, that meet the criteria of OMB Circular A-133.

The *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 1999, has been issued under a separate cover. In accordance with *Government Auditing Standards*, we are issuing our report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. We noted reportable conditions, including three that we believe constitute material weaknesses. We noted one instance of noncompliance related to the general-purpose financial statements. The reportable conditions and instance of noncompliance arising from our audit are described in the Schedule of Findings and Questioned Costs.

We would like to express our appreciation to the Department of Finance and Administration and other state agencies, universities, and community colleges, for their assistance and cooperation in the single audit process.

Sincerely,

John G. Morgan
Comptroller of the Treasury

State of Tennessee
Single Audit Report
For the Year Ended June 30, 1999

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Selected Statistical Data

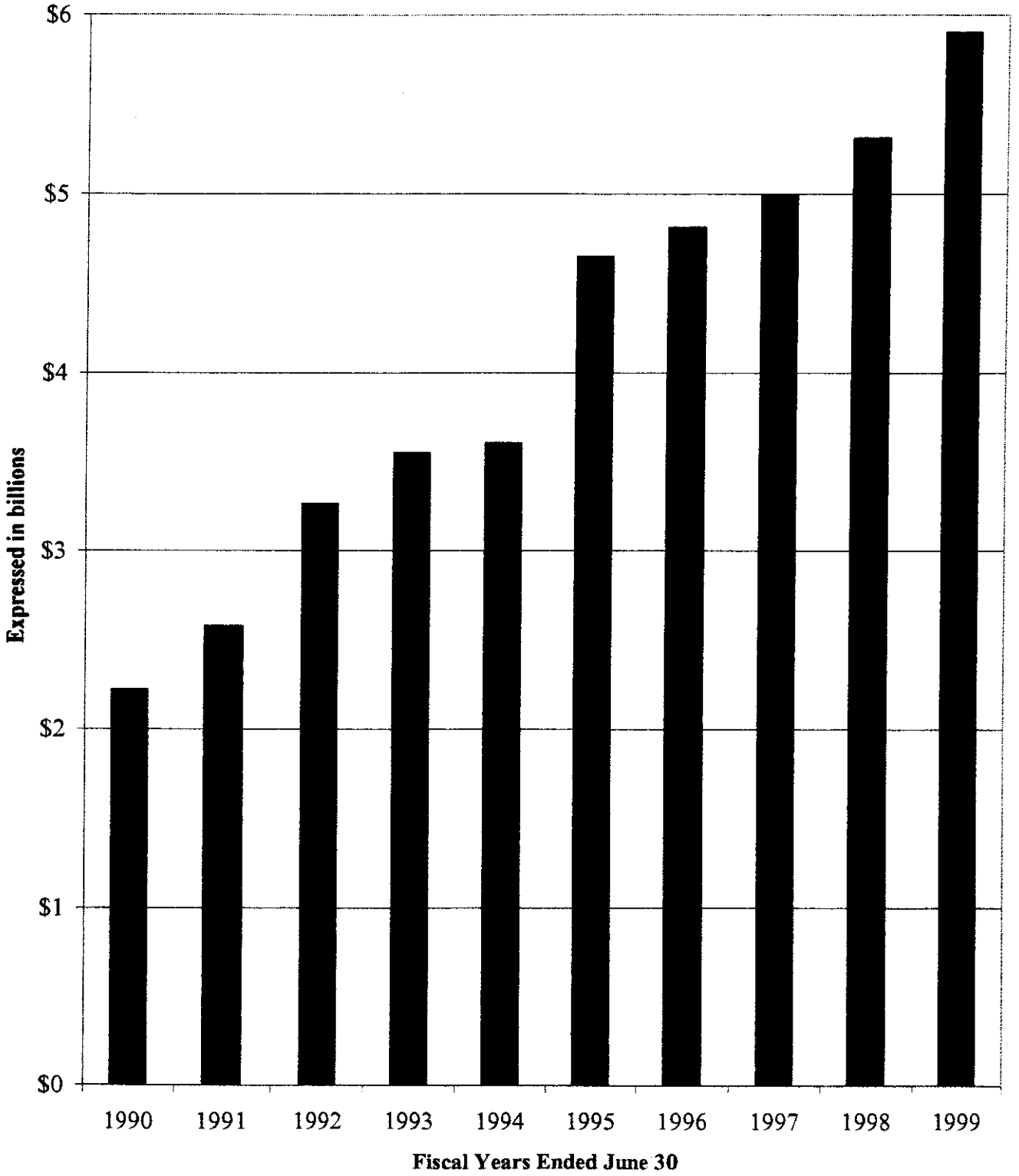
Total Federal Expenditures – Ten Year Summary

Expenditures by Awarding Agency

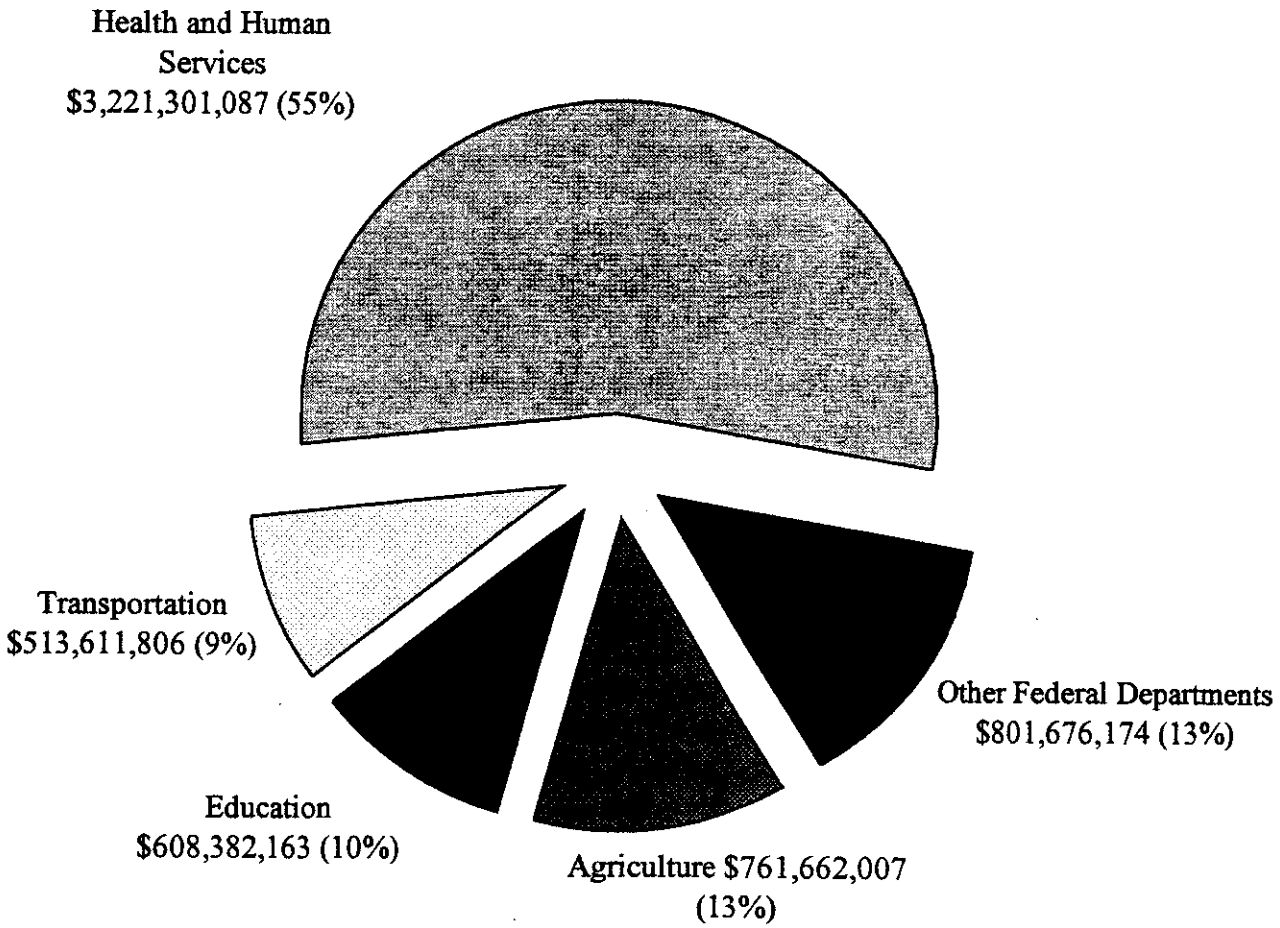
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

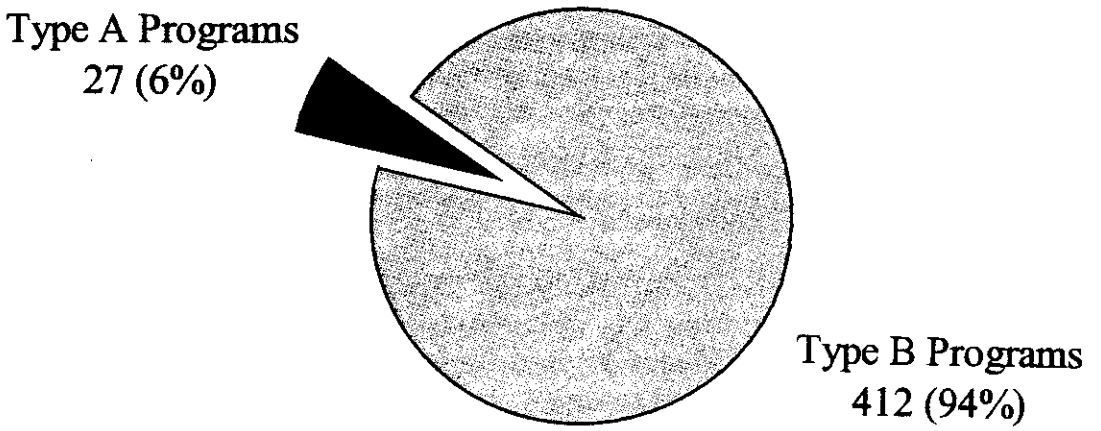
Total Federal Expenditures – Ten Year Summary



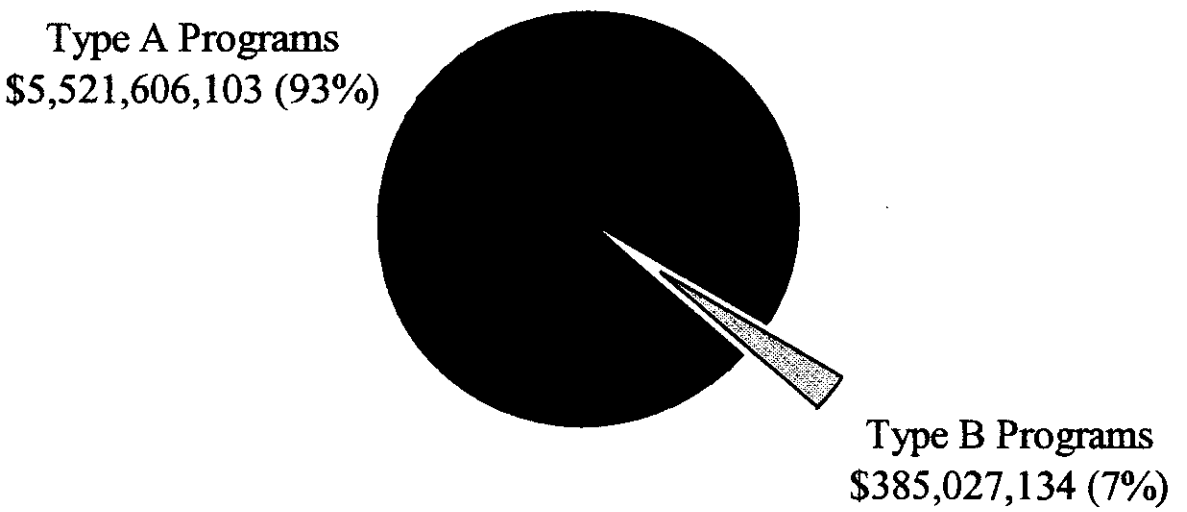
Expenditures by Awarding Agency
July 1, 1998, through June 30, 1999



Number of Type A and Type B Programs



Type A and Type B Program Expenditures



Type A programs are those federal programs with expenditures that exceed three-tenths of one percent (.003) of total federal awards expended. For the fiscal year ended June 30, 1999, the Type A program threshold for the State of Tennessee was $17,719,900. Those federal programs with expenditures below the Type A program threshold are labeled Type B programs.

Auditor's Section

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the General-Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor's Results

Section II – Financial Statement Findings

Section III – Federal Award Findings and Questioned Costs

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the General-Purpose Financial Statements Performed in Accordance With *Government Auditing Standards*

December 10, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1999, and have issued our report thereon dated December 10, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the State of Tennessee's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 99-TDH-03. We also noted certain immaterial instances of noncompliance, which we have reported to management in separate letters.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Tennessee's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-CAFR-01 through 99-CAFR-04, 99-DCS-01 through 99-DCS-05, 99-DCS-07, 99-DCS-09, 99-TDH-01 through 99-TDH-05, 99-TDH-07, 99-TDH-08, 99-TDH-13, 99-TDH-20 through 99-TDH-22, 99-TDH-24, 99-TDH-31, and 99-TDH-32.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, we would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 99-TDH-01 through 99-TDH-03 to be material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management in separate letters.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rs

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

March 17, 2000
except for the Schedule of Expenditures of Federal Awards,
as to which the date is December 10, 1999

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

Compliance

We have audited the compliance of the State of Tennessee with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The State of Tennessee's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Tennessee's management. Our responsibility is to express an opinion on the State of Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted government auditing standards, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Tennessee's compliance with those

requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Tennessee's compliance with those requirements.

As described in items 99-TDH-03 through 99-TDH-05, 99-TDH-08 through 99-TDH-10, 99-TDH-12, 99-TDH-13, 99-TDH-17, and 99-TDH-23 through 99-TDH-28, in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Activities Allowed or Unallowed, Eligibility, and Special Tests and Provisions that are applicable to its Medical Assistance Program. Furthermore, as described in item 99-DHS-01 in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Special Tests and Provisions that are applicable to its Child Support Enforcement program. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 99-DCS-01 through 99-DCS-04, 99-DCS-10, 99-TDES-01, 99-DFA-01, 99-DFA-02, 99-TDH-02, 99-TDH-06, 99-TDH-07, 99-TDH-11, 99-TDH-14 through 99-TDH-16, 99-TDH-19, 99-TDH-20, 99-TDH-30, 99-TDH-33, 99-TDH-34, 99-DHS-02, 99-DHS-03, 99-MTS-01, and 99-TSU-01.

Internal Control Over Compliance

The management of the State of Tennessee is responsible for establishi ng and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Tennessee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the State of Tennessee's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 99-

CAFR-01, 99-CAFR-02, 99-CAFR-04, 99-DCS-01 through 99-DCS-10, 99-TDES-01, 99-DFA-01, 99-DFA-02, 99-TDH-01 through 99-TDH-20, 99-TDH-22 through 99-TDH-27, 99-TDH-29 through 99-TDH-36, 99-DHS-01, 99-DHS-03, 99-MTS-01, 99-TSU-01, 99-UTK 01 through 99-UTK-03, 99-UTH-01, and 99-UTH-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 99-DCS-01 through 99-DCS-05, 99-DCS-07, 99-DCS-09, 99-DFA-01, 99-DFA-02, 99-TDH-01 through 99-TDH-11, 99-TDH-13, 99-TDH-23, 99-TDH-24, 99-TDH-31, 99-TDH-32, and 99-DHS-01 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of the State of Tennessee as of and for the year ended June 30, 1999, and have issued our report thereon dated December 10, 1999. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/rs

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1999

Section I – Summary of Auditor's Results

Financial Statements

- We issued an unqualified opinion on the general-purpose financial statements.
- We identified reportable conditions and material weaknesses in internal control.
- We noted one instance of noncompliance material to the general-purpose financial statements.

Federal Awards

- We identified reportable conditions and material weaknesses in internal control.
- We issued a qualified opinion on the state's compliance with requirements applicable to its major federal programs.
- We disclosed audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- The State of Tennessee does not qualify as a low-risk auditee under OMB Circular A-133, Section 530.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed in OMB Circular A-133, Section 520(b), was $17,719,900.

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1999
(continued)

Section I – Summary of Auditor's Results

CFDA Number	Name of Major Federal Program
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
10.558	Child and Adult Care Food Program
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance – Workers
20.106	Airport Improvement Program
20.205	Highway Planning and Construction
66.458	Capitalization Grants for State Revolving Funds
83.544	Public Assistance Grants
84.010	Title I Grants to Local Educational Agencies
84.048	Vocational Education – Basic Grants to States
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.959	Block Grants for Prevention and Treatment of Substance Abuse
-	Food Stamp Cluster
-	Child Nutrition Cluster
-	Section 8 Tenant-Based Cluster
-	Employment Services Cluster
-	JTPA Cluster
-	Special Education Cluster
-	Child Care Cluster
-	Medicaid Cluster
-	Disability Insurance/SSI Cluster
-	Student Financial Aid Cluster
-	Research and Development Cluster

Section II – Financial Statement Findings

Finding Number	99-CAFR-01
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Documentation to support access to Tennessee On-line Purchasing System was not on file

Finding

As noted in the two prior audits, proper documentation to support users' access to the Tennessee On-line Purchasing System (TOPS) was not on file at the Department of General Services. Management concurred with the prior finding and stated:

> The Purchasing division is in the process of reviewing all TOPS security request forms on file for accuracy, to make sure that access requests match what is provided in the system, and to ensure that a Purchasing division representative initials each form to document approval and completion. If access is detected on the system for which we do not have a completed security form, the user ID is inactivated until an approved completed form is received. When forms are found that do not match what is on the system or are incomplete, the individual is contacted and asked to submit a new security request form with their director's approval. Completed security request forms are being filed alphabetically by department in a secured file. We plan to have this review completed by October 30, 1999.

Because this review was not complete during the audit period, problems were still noted in the current audit with the approvals by General Services' management and inconsistencies with the access requested. Although each state department determines the access its staff needs to perform their jobs and files authorization forms for this access,

General Services' staff are responsible for ensuring that the forms are complete and access is established in TOPS. In many instances, however, access authorization forms were either not consistent with actual access or not properly approved by General Services' management. For the sixty TOPS authorization forms tested,

- Thirteen users (22%) did not have the type of access to TOPS that the department had requested on the authorization form, and

- Four users (7%) were not properly approved by General Services' management.

Failure to assign the access requested and approved allows some individuals unauthorized access to unintended parts of the system. Failure to obtain authorized approvals for user access means no authority exists for these users' access to the system.

Recommendation

The Department of General Services Purchasing Division should ensure that users are not given access to TOPS until their departments submit properly approved authorization forms. The requests should specify the type of access approved by user management and the user should be given only the type of access requested.

Management's Comment

We concur and have finished correcting the problem. Each active TOPS user's access was evaluated and checked against what we had on file. If security was detected on the system that we did not have an approved security form on, or if the security authorized in the system did not match what we had on file, a new security form was requested. All corrections and updates have been completed and are filed alphabetically, by department, in a secured file.

Finding Number	99-CAFR-02
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Improved controls over program changes in the Tennessee On-line Purchasing System are needed

Finding

As noted in the prior audit, controls over program and design changes pertaining to the Tennessee On-Line Purchasing System (TOPS) are not adequate. Management corrected the portions of the prior-year finding regarding approvals and current documentation. However, a backlog of program change requests still exists and changes are still being made directly to the TOPS database through the Order Fix program instead of using properly authorized program changes. Order Fix is a program used to make changes directly to the TOPS database to correct transactions. Management concurred with these problems in the prior audit finding and stated:

> As of the finding date, the backlog of open requests was especially large because the entire Information Systems division analysts staff as well as all the OIR Systems Development Support (SDS) programmers supporting TOPS had been totally dedicated to the Y2K conversion project. During that project which lasted over one year, all other requests, except true emergencies were put on hold to avoid having to make program changes in two places and to minimize introducing more problems that were not related to the conversion itself.
>
> Now that the Y2K changes have been implemented and the system has been converted to a relational database (DB2) on the Customer Information Computer System (CICS), it is the intention of the Purchasing and Information Systems divisions to review the outstanding problem reports, determine whether each is still a valid report, and reprioritize what is open. Some of these will have been corrected by virtue of changes made during the conversion. It should be noted that a number of existing program problems were identified during the conversion project testing and new problem reports were opened, thus increasing the backlog. The department plans to spend the months of May and June 1999 resolving these problem reports and postponing design change requests. This will allow the department to give particular attention to problems introduced

during the conversion and problems that cause data to be corrupted or erroneously updated.

Currently the most common use of the Order Fix program is to correct an order amount that does not match the total of the order lines. While a problem report has been written up on this issue and while is has been known for some time, this occurs occasionally when a user makes an order line change during the course of creating an order. However, analysts have been unable to successfully identify the series of steps the user takes to cause the normal program logic to be bypassed. By placing priority on such problem reports which cause data errors as noted above, it will be possible for the department to devote the analyst resources needed to identify and correct these problems more quickly and thus reduce the use of the Order Fix program. However, because new program changes bear the potential of introducing new data errors, there will always be a need for a utility to repair such data. Therefore, the Information Systems division will implement a tracking document to note the requests for data fixes. This document will supplement the current system output which shows date, document number and fields changed.

Program and design changes are not being made in a timely manner by General Services' personnel. The TOPS "Tracking Open Reports By Priority" report lists all open program change requests by priority on a scale of A to E with A being the highest priority. As of July 6, 1999, the report consisted of 179 open program change requests, 60 A requests, 68 B requests, 37 C requests, 10 D requests, and 4 E requests. Several of the requests with a priority of C or lower appeared to be higher priority than indicated on the list, due to the potential effect of the problem on the financial statements and the effect on the efficiency and effectiveness of TOPS. Eighty-three of the 179 program and design change requests (46%) have remained incomplete for at least two years, with one request remaining incomplete for seven years. This backlog, caused by the emphasis on conversion, volume of requests, and time constraints, increases the risk that vital requests will not be given appropriate consideration because they are being pushed down in priority. This large number of outstanding program changes indicates that many areas in the TOPS application are not working properly. Although in many cases compensating controls exist to ensure proper recording in TOPS, the system should be designed to operate effectively.

In addition, problems that are occurring within the TOPS application are being corrected using Order Fix. Instead of using program and design changes to correct existing programming problems within the system, Office for Information Resourses (OIR) programmers are allowed access to fix the data directly in the database with Order Fix. Corrections to system data outside normal system controls should not be made as a normal course of daily business as this opens up the data to a greater risk of loss or misuse. Any system will have occasional problems that require the use of utilities but the use of Order Fix circumvents the controls that the system is designed to provide. If the

system was designed and functioning properly, use of the Order Fix would not be necessary. Making changes directly to a database instead of correcting errors through properly authorized program changes circumvents system controls.

Recommendation

The Director of Information Systems should ensure proper controls over the TOPS program and should ensure that design changes are implemented and followed. The backlog of program and design change requests should be reviewed and these requests should be completed as soon as possible. Future program and design change requests should also be completed timely on the basis of priority.

As the system problems are corrected, the use of Order Fix should be minimized and if possible, eventually eliminated. As problems arise in the future, causes of the problems should be identified quickly and TOPS should be corrected through program and design changes or other appropriate means which leave an audit trail.

Management's Comment

We concur. In response to State Audit's discussion of inappropriate use of the Order Fix program to repair data in TOPS, the resolution of this problem is an on-going effort. Because of the complexity of the TOPS system programs, daily production priorities and the long training curve associated with getting analyst staff to a productive testing level, the process of fixing and testing problems is slow and only so many problems can be addressed within a given timeframe.

In the previous year's response, we noted the majority of fixes being done were to correct accounting records which had gotten lost going to STARS, or to correct order totals when users made changes to an order line and the program did not re-calculate the total correctly. Since converting to the CICS environment at the beginning of April 1999, the problem of incomplete encumbrance transactions to STARS has disappeared. On the other hand, the incorrect order total problem has not disappeared, although its frequency has decreased. To date in FY 2000, this type fix has only been made three times compared to 16 such fixed in FY 1999. It has recently been discovered there is not still an open problem report on this issue; consequently the program logic error has not been addressed further. This will be remedied shortly.

Most recently, the order fix has been used primarily for two types of corrections: to change the agency number on existing contracts following state reorganization, and to correct a contract document type error. TOPS has had no provision for renumbering agencies once a contract is in place. Because of edits for release orders and payments which require the order requisition agency to match the contract requisition agency, it was necessary to make the contract reflect who the current "owner" was and to do so quickly so the agencies could continue to order from those contracts. Therefore, pending

a complicated design change to the system expected to take several months to program and test, the only way to handle these one-time corrections was through direct change to the data.

Similarly, the Purchasing division undertook a long overdue clean up of multi-year statewide contracts because the buyers used an improper term award code instead of the multi-year award code on TOPS. As such, the contracts were not being renewed or re-procured appropriately through the system's automatic processes. By correcting the contract document types and the underlying requisition award codes, these were brought under the controls of the system and will save the buyers countless hours manually processing the renewals or re-procurements. This was a one-time incident; the buyers now know how to establish these contracts initially so this won't be necessary in the future. Of 467 documents "fixed" since July 1, 1998, 98 fell into the category of changing the contract type, and 60 were changes in contract ownership, most due to state reorganization.

In an on-going effort to reduce the numbers of data fixes which are legitimately related to program errors, the Information Systems Division has been working closely with the Purchasing Division to raise the priority of any open problem reports related to erroneous data. Success in this endeavor can be measured by the closure of 16 problem reports since July 1, 1999 and another 15 problem reports between May 1, 1999 and June 30, 1999 after the conversion project was completed. Three of the reports closed this year have corrected data fix problems, while one of the problems closed in May addressed data fixes. Currently, there are 17 open problem reports in some stage of active resolution, three of which are related to data fixes.

IS Management continues to monitor the problem report situation to ensure there are problem reports written for any program problems causing data errors, and their resolution is given high priority. In general, the backlog of open reports is now on the decrease. Since May 1, 1999, when resources were freed up from the conversion project, 55 open requests have been closed, 31 of those since the beginning of this fiscal year. In addition, another 31 requests were re-analyzed and determined to be invalid and were cancelled. These closures have been offset by 44 requests (27 problem reports, 17 design changes) submitted since May 1, 1999. There are now 167 open design change and problem report requests, down from nearly 200 at the end of the conversion project. We anticipate with the programming help of an Informs' contract programmer and the growing mastery of the system by two Information Systems Analysts 3, this progress will continue.

Finding Number	99-CAFR-03
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

The Tennessee Insurance System has significant problems which caused TIS and STARS not to reconcile

Finding

As noted in the three prior audits, the Tennessee Insurance System (TIS) has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, the system is not producing the desired results, and changes are being made directly to the TIS database through the Application Development Facility (ADF). Because these changes are not being made to the insurance accounting on the State of Tennessee Accounting and Reporting System (STARS), TIS and STARS do not reconcile. Management responded to the prior audit finding and stated that the Division of Insurance Administration was committed to resolving the problems with TIS. Management stated that through ongoing maintenance some of the issues have been resolved or minimized. The department is to begin a major reengineering effort of the system in FY 2000. Management did reduce the number of items on the System Information Request Log; however, the reconciliation problems still exist.

The division is still using Application Development Facility (ADF), a software program, to manually adjust participants' accounts on TIS. These adjustments to participants' accounts are made directly in the TIS database rather than through transactions. The system's security must be overidden in order for an ADF change to be made. The division sends a request for the ADF change to the department's Information Systems Management (ISM) group, which in turn submits a request to the Office for Information Resources (OIR). OIR assigns one of its employees to make the ADF changes on the TIS database. As noted in the prior audits, overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The Division of Insurance Administration uses ADF as a "quick fix" to correct participant balances or errors attributable to unresolved system problems. Although division staff maintain paper documentation of the ADF changes, the system has no history or record of the changes because they simply overwrite previous information in the database. If the system had been designed and was functioning properly, use of ADF

would not be necessary. As previously noted, making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

In addition, when the TIS database is corrected using ADF, STARS is not updated concurrently. As a result, the two systems do not agree, nor can they be completely reconciled. The division has work groups working to address reengineering the information system and focusing on balancing TIS to STARS. However, the auditors noted that unreconciled amounts between the daily net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during fiscal year 1999 ranged from ($195,347.32) to $11,497.12.

Departmental memorandums state that the TIS database is correct but the accounting information on STARS is incorrect. Although STARS has been corrected to the extent possible, there can be no assurance all needed corrections have been made since not all ADF changes made to TIS were made on STARS and TIS does not maintain history records of all past transactions. We performed analytical reviews and other measures at year-end to ensure the insurance funds' financial statements presented in the state's Comprehensive Annual Financial Report were fairly stated. These additional procedures would not have been necessary had all TIS activity been properly reflected in STARS.

Recommendation

The Commissioner should require the Director of Insurance Administration to develop plans of action to ensure that all TIS system problems are corrected as soon as possible. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. Until that time, STARS should be concurrently updated as ADF changes are made to TIS. In addition, the work groups should continue to meet until all the problems causing the unreconciled amounts are resolved and TIS and STARS can be reconciled. As problems arise in the future, causes of the problems should be quickly identified and TIS should be corrected quickly through program changes or other appropriate means.

Management's Comment

We concur. The TIS Re-engineering project is scheduled to begin in February 2000. Although this project should address many of the systems problems that require ADF changes to be made, there is no assurance that all will be addressed. Therefore, a TIS Master Transaction Study has been identified for FY 2001 that is intended to analyze all uses of ADF in the support of TIS, and to identify strategies for eliminating its use. However, there will likely be errors in the entry of transactions, either in the Division of Insurance Administration or by participating agencies, which will impact the eligibility information maintained by the Tennessee Insurance System. These errors will require the

circumvention of controls and edits to address the immediate problem caused by the error. What is essential is to have the procedures in place to ensure that the changes made are addressed in both TIS and STARS, and that a request for service to correct the underlying error is submitted and program changes made accordingly.

The Division of Insurance Administration has carefully reviewed the use of ADF's to minimize their occurrence. The Division has instituted a training program for agency insurance preparers to improve the information and support they receive and has instituted reviews of the origins of ADF's to identify the system sources of these adjustments and the sources attributable to human performance. Finally, the Division has separated activities associated with the receipt and processing of ADF's to ensure adequate internal control of ADF application, justification and record retention.

Additionally, the use of ADF is not the only cause of the problem with the TIS to STARS reconciliation. There are program errors causing incorrect accounting transactions to be generated as well. That is, all records and data values in TIS may be correct, but the accounting for the activity in TIS, which is fed to STARS, is incorrect. Again, it is essential to have procedures in place to ensure that a request for service to correct the underlying error is submitted and program changes made accordingly.

Finding Number	99-CAFR-04
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

STARS program changes were not properly documented or approved by management

Finding

As noted in the prior audit, State of Tennessee Accounting and Reporting System (STARS) program changes are not properly documented and approved. Management concurred with the prior finding stating, "We will take the necessary steps to ensure that all program change requests are properly initiated and approved." However, 6 of 11 STARS program change requests made during the year ended June 30, 1999, (55%) could not be located or were not signed. Five of 11 program changes (45%) did not have the Division of Accounts authorization signature. Also, no support could be located for three program changes deleted from the STARS Task Listing.

All program changes should be initiated only upon written requests approved by management. Without a proper program change approval process, programs could be modified and changed without management's knowledge, resulting in a system that does not meet user needs and stated objectives.

Recommendation

The Director of Information Systems Management should ensure all program change requests are initiated only by written request and approved in writing before program changes are made. The documentation for program changes requested and performed should be retained to provide a paper trail and support for modification to the STARS system.

Management's Comment

We concur. We have taken the necessary steps to ensure that all program change requests are properly initiated and approved. There is a period of time between the receipt of the prior audit finding and the implementation of the corrective procedure

where exceptions still exist, as evidenced by the findings from this audit. However, effective July 1, 1999, all program change requests are properly initiated and approved. The procedure now in place requires that all program changes be initiated only upon written request from the authorized person(s), and that all program changes be implemented only upon written approval from the authorized person(s). Use of the term "written" includes a physical signature or an email from an authorized person.

Finding Number	99-TDH-31
CFDA Number	10.557
Program Name	Special Supplemental Nutrition Program for Women, Infants and Children
Federal Agency	Department of Agriculture
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

The Department of Health has no procedures to detect dual participation in the WIC and CSFP programs

Finding

The department has no procedures to ensure that dual participation between the Special Supplemental Food Program for Women, Infants, and Children (WIC) and the Commodity Supplemental Food Program (CSFP) will be detected. According to the state plan, the state will attempt to detect dual participation between local agencies by comparing information for WIC participants with that of CSFP participants. The query results are printed in the dual participation reports. However, no dual participation reports have been generated since February of 1998. Because the dual participation reports are not generated each month, participants may improperly receive benefits from both WIC and CSFP programs.

The *Code of Federal Regulations*, Title 7 Section 246.7(l)(1)(i), states that the state agency "shall be responsible for . . . the prevention and detection of dual participation within each local agency and between local agencies."

Recommendation

The Director of the Bureau of Information Resources and the Supplemental Nutrition Program Director should assign specific responsibility for implementing an effective process to detect dual participation, including the generation of dual participation reports. They should also monitor operations to ensure the process is implemented and take corrective action when problems occur.

Management's Comment

We concur. Staff within the Supplemental Nutrition Program (WIC) have worked with staff within the Bureau of Information Resources (BIR) to implement an effective process for detecting dual participation, generating reports, and follow up.

Davidson County and Shelby County successfully implemented a new CSFP module within their Patient Tracking, Billing, & Management Information System (PTBMIS) in October 1999 which will register both populations (WIC and CSFP) to the same Master Patient File. Dyer County will install the same module by March 2000. MAP South (located with Shelby County) will install the same module by July 2000. Utilizing the Master Patient File, a dual participation can easily be determined in either program within a region.

In order to determine dual participation between regions, BIR confirms that by March 2000, the CSFP caseload will be routinely uploaded to the Central Office AS400. This will allow the matching of populations of both CSFP and WIC to detect dual participation occurring across regional boundaries.

Reports will be generated quarterly in the Central Office and distributed to the regional WIC Directors for investigation. Regional WIC Directors will submit reports to Central Office within 30 days detailing results of their investigation in order to prohibit dual participation in both programs.

Finding Number	99-DCS-03
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Reportable Condition
Questioned Costs	$55,129.09

Since 1993 Children's Services has not collected overpayments; uncollected overpayments totaling at least $1,195,745.66 are due from foster care and adoption assistance parents

Finding

As noted in the five previous audits, from July 1, 1993, to June 30, 1998, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. Management concurred in part with the prior audit finding and stated,

> The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies, by county, adjustments that result in overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment.

However, as of June 1999, the department's records indicated an outstanding accounts receivable balance for these parents totaling $1,195,745.66, a decrease of only $29,388.10 (2.5%) since June 1998. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period.

When a child is removed from a foster home, the Department of Children's Services' case manager is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the case manager enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or case manager of the overpayment. However, as noted in finding 99-DCS-05, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

It is the department's policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a

receivable is established. In addition, subsequent payments to the parent are reduced up to 50% until the amount due from that individual foster parent is indicated to be zero. However, the department is not actively pursuing recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children.

When overpayments to foster parents are noted, it is the department's policy to adjust subsequent requests for federal funds in order to eliminate federal participation in the overpayment. However, the ChipFins system does not automatically reverse the original overpayment. ChipFins allocates payments and adjustments to programs based on the child's eligibility at the date of the transaction. Therefore, if the child's eligibility changes between the dates of payment and adjustment, the allocation of the adjustment will not agree to the allocation of the payment.

Because the adjustment process in the ChipFins system has attempted to remove federal participation in the overpayments, only a portion of the outstanding balance represents questioned costs owed to Title IV-E (Foster Care) as of June 30, 1999. These amounts represent the net of transactions not properly adjusted. The federal participation in these amounts is as follows: fiscal year 1997 and earlier, $38,486.52; for fiscal year 1998, $4,831.66; and for fiscal year 1999, $11,810.91.

Recommendation

In order to prevent or minimize future overpayments, it is imperative that case managers record status changes for foster children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Furthermore, the Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should take the appropriate steps to ensure collection of existing and future overpayments. These steps should include such collection efforts as collection letters, telephone calls, collection agencies, and litigation.

Management's Comment

We concur. As represented in the finding the department has attempted to adjust all federal reports so that any overpayment has been refunded to the federal government. The differences represented in the finding were correctly identified as a result of the ChipFins program's inability to make the needed adjustments based on the historical eligibility of the child at the time of the overpayment. Remittance notices are sent to every vendor with an overpayment indicated after each pay-run showing the balance due and requesting reimbursement to the department. An accounts receivable is set up prior to this notice in ChipFins. The department will continue its current efforts of collecting overpayments for accounts where no child remains in the home. The department will explore additional options for collecting these overpayments.

The department has completed the development of a ChipFins Prepayment Authorization system which will require each pay period the approval by all case managers for foster care children in their case load. Testing for this system has completed and training will begin shortly. The Prepayment Authorization system should be in full operation by the end of this fiscal year. In addition, the department is anticipating the development of a call-in phone system which will require the foster parents and adoption assistance parents to call in each pay period to enter information which will be verified and will result in the generation of their payment for the children currently in their home. This information and the information obtained from the case managers will be compared electronically for agreement. For data that does not agree, an error report will be generated. This error report will be sent to the Assistant Commissioner of Field Operations to verify the accuracy of the information. Once the information has been verified and all needed corrections have been made, a payment will be generated. It is anticipated that the use of both of these systems will virtually eliminate ChipFins overpayments.

Finding Number	99-DCS-04
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Reportable Condition
Questioned Costs	None

Controls over disbursements were still weak

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated,

> Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with [Social Services Block Grant (SSBG).].…The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment.

Problems noted during the current audit included lack of supporting documentation and insufficient approvals. Examples are:

- Lack of Supporting Documentation - The central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments. Through testwork performed for the SSBG grant, it was determined that the information in ChipFins is not always reliable or accurate (See finding 99-DCS-05). Nine of 40 expenditures tested (23%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. There was not a valid foster care contract for one of the nine payments, and for the other eight payments, the foster care contracts did not provide for the therapeutic bonus fees paid by the department. As evidenced by the above errors, documentation for payments is not always present before

payments are made. The errors noted above resulted in questioned costs of $1,297.81, or 2% of the dollar value of the sample. Based on total SSBG expenditures of over $5 million, we believe likely questioned costs associated with this condition could exceed $10,000.

- Insufficient Approval – The data in ChipFins results in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties are required to verify that services were provided to children before these payments are made. Until case managers update a change in the child's status, payments continue to be made to the parents. This results in overpayments because ChipFins often is not updated timely. As noted in finding 99-DCS-03, Children's Services has continued to overpay foster care and adoption assistance parents during the audit period. For all 40 of the SSBG expenditures tested and 49 of 60 Title IV-E expenditures tested (81.7%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

Effective internal control is essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal control includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for services that were not received.

Recommendation

In order to prevent or minimize inappropriate payments, it is imperative that case managers record status changes for children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Data in the ChipFins system should be supported by adequate documentation in the case files. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. Management should consider modifications to ChipFins that would require case managers to approve foster care and adoption assistance payments prior to payment.

Management's Comment

We concur. Management believes that the corrective actions proposed for the ChipFins overpayments will also correct the problems noted in this finding. Please see finding 99-DCS-03 for a detailed discussion of the systems that are under development and examination. The changes represented in that finding response will greatly reduce if not eliminate overpayments in the ChipFins program. Monitoring of case managers'

approval of payments based on their case load and the information they are to maintain in the records of the children should make the Prepayment Authorization program along with the soon to be developed phone-in system for foster care and adoption assistance parents a very effective method of controlling overpayments.

Finding Number	99-DCS-05
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Reportable Condition
Questioned Costs	None

Status changes for foster children are still not processed promptly

Finding

As noted in the five previous audits, which covered the period July 1, 1993, to June 30, 1998, status changes for foster children are not processed promptly, resulting in overpayments.

According to management, the Children's Plan Financial Information System (ChipFins) database should be updated by the case managers when a child's foster care placement changes. Until case managers enter these placement changes, payments are automatically made to the foster parents of record in the ChipFins database. In order to correct over/under payments, case managers must submit change-in-status adjustment forms to the central office. There is still a problem with case managers not entering status changes on ChipFins timely.

As indicated in management's comments to the prior audit finding, the department began preparing monthly reports that show the adjustment forms received and the number of changes by case manager. Starting in March 1998, the Fiscal Division started tracking the number of status changes submitted to that office from field staff. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address why the changes are not being made timely by the case managers. Internal Audit also prepares three-month trend analyses that are reported to the Director of Regional Services and the Deputy Commissioner.

Since the department started preparing, distributing, and reviewing the monthly reports, the number and dollar amount of adjustments do not indicate that management's actions have corrected the problem. Adjustment forms for the time period July 1998 through June 1999 show that 1,036 adjustments were made, totaling $422,636.78 in overpayments and $44,294.77 in underpayments. The department paid the total amount of underpayments to foster parents. However, Children's Services could not determine the amount of collections it had received for the overpayments. Had the department

properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete.

Management stated in their response to the prior finding that each case manager has the responsibility of data entry for each child entering or exiting assigned homes. Management further stated, "It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry." However, based on a review of adjustment forms, it does not appear that case managers always enter their own status changes in ChipFins. Numerous instances were noted in which reasons for adjustments were due to "keyers" not entering information provided to them by case managers accurately or timely. Case managers not entering their own information in ChipFins provides a greater opportunity for errors and untimely input to occur and not be detected.

Furthermore, this monthly report of adjustments shows when status changes were made late but does nothing to determine if status changes should have been made but were not. A review of case files by case managers' supervisors would be necessary to ensure that the case managers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure case managers enter child placement information in ChipFins timely. These procedures should include a requirement that case managers' immediate supervisors examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against case managers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur. The department has made progress in identifying problem areas concerning untimely status changes in ChipFins. Reports continue to be provided to Regional Administrators and disciplinary actions are taken when staff habitually miss cut off dates or when staff habitually fail to change the status of a child when they leave a foster home. In the case of the 1999 overpayments, nearly 10% of the total overpayments can be attributed to a single case manager. Needless to say, this case manager is no longer employed by the department. The department is committed to reducing overpayments and the number of ChipFins adjustments, as evidenced by the department's plans to develop the systems discussed below.

The department is anticipating the development of two systems, the Prepayment Authorization System and the phone-in system for foster and adoption assistance parents, which should resolve the ChipFins overpayment issue. These systems are more fully discussed in finding 99-DCS-03. Once these systems are operating in conjunction, the department will know before a payment is made that a status change was not entered timely. These new systems will allow the department to immediately identify case managers who are not entering status changes timely, as opposed to the current system, which may detect status change errors months after they have been made. This knowledge will allow the department to better determine the reasons for the untimely status changes and take appropriate action.

The Program Operations central office staff has investigated several reports of "keyers" being used in the regions. In the past, case managers gave keyers, who were not case managers, information to input into ChipFins. This practice was discontinued two years ago. The current practice is for each case manager to enter his/her own data into ChipFins. In each situation investigated, the use of "keyers" as they were defined in the past was not substantiated. When residential case managers are on annual or sick leave, or when a residential case manager position is vacant, the need for the entering of ChipFins data does not disappear. In each situation where it was alleged that a "keyer" was completing ChipFins data entry, we determined that a supervisor or other residential case manager was actually entering the data. The term "keyer" was used in these situations to denote that the normal case manager did not enter the information, but a backup staff member was responsible for completing ChipFins data entry when the assigned case manager was not available to do so. The department realizes the necessity for data to be entered into ChipFins in a timely and accurate manner regardless of who is entering the data. Management will continue to emphasize the importance of this task to all staff who have this responsibility.

The department does not currently have a mechanism in place to structure a database to account for ChipFins collections from overpayments caused by untimely status changes. To build such a database would be labor intensive since all of the individual transactions would have to be manually keyed. The fiscal division does not have the staff to perform such a labor intensive activity. The department plans to address this issue in the financial phase of TNKIDS development.

Finding Number	99-DCS-07
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Reportable Condition
Questioned Costs	None

The department does not have adequate property management controls

Finding

The department did not perform a complete inventory to ensure that all equipment was properly accounted for during the fiscal year. The department did not maintain accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. In addition, the department did not report lost or stolen equipment to the Comptroller of the Treasury, and did not have the items removed from the inventory and accounting records.

The department did not complete the physical inventory process by year-end as required by the Department of General Services. The Property of State of Tennessee (POST) guidelines require an annual physical inventory prior to the close of the fiscal year. A memo from General Services regarding inventory for fiscal year 1999 requires that an annual physical count of fixed assets and sensitive items owned by the department be completed by June 1, 1999. After June 1, 1999, General Services will generate an exception report and the department should review the exception report and prepare a final update to the inventory list by June 30, 1999. All items not accounted for will be considered lost and a list of these items must be forwarded to the Comptroller of the Treasury.

The department's inventory exception report as of July 21, 1999, contained over 900 items that had not been inventoried for fiscal year 1999. Analytical procedures were performed on the inventory exception report in an attempt to determine possible causes for the large number of items not located. Three locations accounted for 466 items on the exception report (Tennessee Preparatory School, 193; Central Office, Cordell Hull Building, 167; and Local Government Data Processing Center, Columbia, 106). There were 14 additional locations that had from 10 to 67 items on the exception report. Based on this review, it appeared that many locations did not perform a complete inventory for fiscal year 1999 and management did not promptly follow up on the exception report.

Because of the large number of items management did not locate at year-end in the Central Office, the auditors attempted to locate the 37 laptop computers on the

exception report whose assigned location was the Cordell Hull Building. This process produced the following results:

- Twenty-three of the laptops were located and confirmed by the auditors. These items should have been located through the regular inventory process, inventoried, and should not have been on the exception report.

- Three of the laptops were located but had the wrong location code on POST. POST records allow location information to be updated on-line; therefore, location information should have been updated immediately when equipment was moved. These items should have been inventoried, and they should not have been on the exception report.

- Eleven of the laptops could not be located by the auditors or management as of October 7, 1999. Since the department is not aware of the location of these laptops, this equipment should be reported to the Comptroller of the Treasury as lost or stolen and removed from the inventory records.

The department is not maintaining accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. The department relies on POST to keep track of all equipment, including these items. POST only provides the county and building location of equipment; therefore, additional subsidiary records are needed to account for portable items assigned to specific individuals. Administrative Services procures equipment and is responsible for maintaining inventory records on POST. Information Resources provides maintenance and supportive services for computers and peripheral equipment. In addition, they are responsible for assignment of computer equipment. Information Resources has a database of computer equipment purchased with Statewide Automated Child Welfare Information Systems (SACWIS) funds; however, this database has not been adequately updated or maintained. Three of the 37 laptop computers assigned to Information Resources Desktop Support inventory could not be located.

In addition, the auditors reviewed the database records from Information Resources to determine if an individual employee in the Department of Children's Services (DCS) was assigned more than one laptop computer or portable printer. According to the database, there were 22 individuals on the inventory report maintained by Information Resources who were assigned two or more laptop computers/printers. The auditors attempted to locate these items, as well as items not assigned which were on the exception report. The total number of laptops/printers tested in this procedure was 108. As a result of this test, there were only a few persons who actually had custody of two or more laptop computers/printers, and all of these assignments appeared proper. The location and assignment of 37 items agreed with the database. However, the following problems were noted with the subsidiary inventory records maintained by Information Resources:

- Forty-five items were located, but they were not in the custody of the person indicated on the Information Resources database. These laptops/printers had been moved and exchanged for other units. Information Resources has not updated its database on portable computer equipment.

- One item was stolen in December 1997 but was still on the database and had not been removed from POST.

- Twenty-five items were not at the assigned location and DCS personnel could not locate this equipment as of October 7, 1999; however, this equipment still remains on POST and has not been reported as lost or stolen. Two of these 25 items were included in other testwork.

The exception report contained 374 computer equipment items that were purchased with Title IV-E (SACWIS) funds. Based on the inaccuracies noted in the department's records regarding location and assignment of this equipment, the department may not be complying with federal guidelines of the program regarding its usage. In addition, SACWIS regulations govern how this equipment should be used. U.S. Department of Health and Human Services, Administration for Children and Families, Action Transmittal No. ACF-O1SM-001, page 10, section B, states:

> Equipment acquired solely to support the activities of State or contract staff administering the programs under the approved State plan under title IV-B or IV-E may be charged to title IV-E. Equipment, which is acquired to support other individuals or programs, must either be direct-charged to the other agency or program, or allocated among all appropriate funding sources, dependent upon whether the equipment is used partially for the programs under titles IV-E or IV-B.

The department does not report lost or stolen equipment to the Comptroller of the Treasury. In addition, they have not requested its removal from the POST records. The Department of General Services requires that the department submit a written request when asking that a stolen item be removed from POST. This request should include the description of the item, tag number, and serial number. In addition, a copy of the police report or security report, copy of the letter to the Comptroller of the Treasury, and a signature of the department head should accompany this request.

Notwithstanding the fact that some of the items on the exception report were subsequently located as a result of the auditors' testwork, over 20% of the items tested still were not located by management as of October 7, 1999. None of the items on the exception report were reported to the Comptroller of the Treasury as lost or stolen, or were removed from the POST records of fixed assets in the state's general fixed assets account group as of June 30, 1999. Furthermore, the department had knowledge of nine pieces of equipment that had been stolen from August 18, 1997, through December 12,

1998. These items were not reported to the Comptroller's office and requests were not made to General Services to remove them from POST.

Not maintaining adequate inventory records could result in management not detecting lost or stolen equipment timely. Since the department's inventory records were incomplete and were not updated, the department cannot provide accurate information on location and usage of equipment. Therefore, the department is unable to adequately document compliance with federal guidelines regarding the usage of federally funded equipment. In addition, not properly completing physical inventory procedures by year-end and not reporting necessary adjustments could result in the misstatement of fixed assets on the state's financial statements.

Recommendation

The property officer should follow the Department of General Services, procedures to ensure that the department performs a complete physical inventory of equipment annually. All items not accounted for during the inventory should be researched thoroughly. The inventory exception report should not be considered a list of items to locate during the next inventory cycle. Rather, the department should promptly research all items on the exception report so that necessary adjustments to the inventory and accounting records can be made at year-end. All items which are not accounted for by year-end should be considered lost or stolen and should be reported to the Comptroller of the Treasury and removed from POST records. Inventory records should also be sufficient to document compliance with program guidelines for proper usage of equipment purchased with specific program funds.

Top management should ensure that the department establishes and maintains adequate subsidiary inventory records of portable computer equipment and other portable equipment. In addition to assigning recordkeeping responsibilities, it is imperative that management establish systems and procedures which clearly assign responsibilities to each division in order to ensure the timely reporting of information necessary to properly update all inventory records. The subsidiary inventory records should identify the person who has custody of the equipment, and POST records should be promptly adjusted to reflect any changes in equipment location.

Management's Comment

We concur. The department's problems in this area were created in part by the process which was utilized in taking inventory for the state fiscal year ending 1999. During that process the various offices across the state were allowed to take their own inventory. The department is extremely decentralized with approximately 145 offices across the state. Each field office was to assign a person to complete the inventory process and submit the results to Administrative Services. Field offices across the state apparently did not put the appropriate emphasis on this process. With the change in the

Assistant Commissioner position over the Administrative Services division, this practice has been terminated. One person will have the responsibility for conducting inventory in each region. The department will then be assured that only one person will be accountable for this process in each region. These individuals will be adequately trained to collect the necessary information from all departmental equipment required to be inventoried. This will also be helpful in the department's effort to be sure all information has been received timely.

In addition, the department will shortly be conducting a campaign to verify the location of all laptops assigned to its personnel. The maintenance of subsidiary records for these items will be maintained by the Administrative Services property officer with the Information Resources division tracking any moves or reassignment of all computer equipment. A tracking sheet has been developed and the responsibility assigned for the collection of information concerning reassignment, maintenance, surplusing, installation, etc. The flow of that information to the property officer has also been clearly identified. It has also been very clearly communicated to the property officer that records on POST are to be updated in a timely manner. This process is currently being put in policy.

The location of all equipment will be determined after completing the laptop exercise noted above. At that time, the department will also collect information concerning the function of every staff member that has been assigned the equipment to check for the appropriateness of its use as required by the SACWIS grant. This process will require a sufficient amount of time to visit each region in the state in order to collect the information, check the information collected against the departments current records, and do a follow-up on any discrepancies for verification of the correct location of the equipment. After that process has been completed, Internal Audit will periodically do inventory testwork on a sample of equipment to verify that the system developed is working adequately.

In addition, with improved procedures the department will ensure that property items which cannot be located or were reported as lost, stolen or damaged are properly reported to both the Comptroller of the Treasury and the Department of General Services and removed from inventory records.

Finding Number	99-DCS-09
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Reportable Condition
Questioned Costs	None

The CORS system currently in place and the new TnKids computer system, which has not been implemented as scheduled, do not ensure data integrity and user accountability

Finding

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Client Operation and Review System (CORS), which records the profiles of children in state custody and matches these with the facilities providing care, does not ensure data integrity and user accountability. CORS contains information such as the child's placement history, family information, permanency plan, and assigned case manager; and is used to monitor the status of children and to identify those who need to be reassigned to other facilities. In addition, CORS is the largest source of information for the Children's Plan Financial Information System (ChipFins).

Management partially concurred with the prior finding and stated that the CORS system was not capable of supporting the control issues noted in the prior audit and was no longer supported by the vendor and cannot be upgraded within the CORS programming structure. Management further stated that the TnKids Data Conversion Plan required trial conversions of actual data from CORS prior to the implementation of TnKids Release 2.1 (the first phase in development of the system) in each region. The scheduled implementation date for the first phase of TnKids was March 1999. However, phase one of TnKids was not implemented until June 1999, and that was only in the Southeast Region.

Subsequent to management not meeting its initial projection and due to the CORS system not being year 2000 compliant, management prepared a TnKids Y2K Contingency Plan which projects TnKids to be in place in all regions by November of 1999. According to this plan, each region will have a central site for TnKids data entry, which will prevent individual case managers from updating information in the system. The site personnel will enter input for each region based on information supplied by case managers. Since case managers will not enter information directly and are unable to access and review data in the system for accuracy, this method provides greater opportunity for errors and untimely input to occur and not be detected.

Management's response to the prior finding also stated that this phase of TnKids would permit only authorized users to add, change, or delete client information and that it would provide a system log to record user activity and serve as an audit trail. However, our review of this phase of TnKids revealed the following weaknesses:

- The planned "restricted access" part of TnKids, which will prevent users from accessing certain sensitive records, has not been implemented. In addition, there are no plans to incorporate regional access limitations into TnKids. Without such limitations, any user with update access can change any record in the state.

- The system does not track all of the changes that are made to a given record. Rather than tracking all changes to records, the system only documents the last date and user that changed a particular record. Therefore, inappropriate information may be input to a record and a subsequent entry to that record will remove evidence as to who entered any previous information. This system control does not provide an adequate audit trail to trace all changes to a particular child's record in TnKids.

The fact that these system controls are not incorporated in the TnKids system results in a severe lack of accountability since any user with update access can add, change, or delete client information across the state without any record of the change. Because the aforementioned weaknesses existed in the CORS system and presently exist in the TnKids system, other previously noted CORS control weaknesses may exist in the TnKids system.

Our review of CORS revealed that the following weaknesses continue:

- A client's record can be created on the system multiple times because the system does not check for duplicate entries. Also, each new entry to CORS, even a duplicate entry, results in a matching new entry to ChipFins.
- Any user, including community services agency employees, could add, change, or delete information on any client.
- The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.
- Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.
- CORS does not maintain sufficient information for proper foster care semiannual reporting, as required by the federal Department of Health and Human Services. Therefore, the Department of Children's Services has chosen to take a penalty each time the report is submitted without the required data rather than spend the time and money to gather the necessary foster care data required. Because the department has decided it is not cost effective to

gather the information, the department paid a penalty on the September 1998 reports totaling approximately $82,685.00. The March 1999 report was submitted with all required information and no penalty was incurred.

- Problems noted with data integrity cause concern because data from CORS is being transferred to TnKids, the new system on which the department is relying to correct many of the department's existing problems. If the information is not accurate or in some cases nonexistent in CORS, it will not be accurate in TnKids. The department has undertaken data cleanup efforts that consisted of case managers manually comparing CORS information to the documentation maintained in the child's case file. In addition, reports were generated to search for missing information in CORS in order to add any missing data prior to conversion to TnKids. It is not determinable at this time whether these cleanup efforts will significantly reduce inaccurate data within the CORS system due to the lack of control that still allows invalid and inaccurate data to be entered into the system.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective system management controls require procedures to prevent duplication of data, to reduce the risk of incorrect or invalid data, and to require periodic password changes. In addition, these management controls require appropriate access restrictions to clients' records and an audit trail of changes to client information.

Recommendation

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new TnKids computer system has the following capabilities:

- has edits for duplicate or invalid data;
- permits only authorized users to add, change, or delete client information;
- provides a system log to record user activity and serve as an audit trail; and
- requires periodic password changes to reduce the risk of unauthorized access.

The Assistant Commissioner for Support Services should monitor the implementation of the new system to ensure that the above controls are built into the system. In the meantime, the department should continue to ensure the accuracy of information in CORS before it is transferred into the new TnKids system.

Management's Comment

We concur. The CORS system was replaced in the Southeast region in June 1999 and in all other regions by November 1999. Though it is accurate that not all case managers currently have access to TNKIDS, selected staff in each region were

extensively trained to use the system and case managers are submitting case information to those selected staff. Part of the delay in the deployment of TNKIDS to all case managers is due to management's commitment to understanding and following federal guidelines as they pertain to the SACWIS grant. Management wanted to ensure that the department's process for procurement and installation of the equipment were in compliance with federal and state laws. The department has developed a federally approved process for the procurement and installation of the new desktop computers. The computers were purchased in early January with installation beginning January 31, 2000.

When the department was planning the conversion of CORS data into TNKIDS, the department fully recognized that there were problems with the data quality in CORS. The department took three steps to minimize the risk of converting inaccurate and incomplete data into TNKIDS. First, data was converted from CORS to TNKIDS through a series of conversion activities developed by the department and reviewed and monitored by the Department of Finance and Administration's Office of Information Resources. These activities were to provide a certain level of assurance that data would be converted in a complete manner from CORS into TNKIDS. Second, in April 1999, the department created a Data Quality Unit to be housed in the division of Policy, Planning and Research. This unit was charged with the ongoing mission of assisting the regions and central office with improving and monitoring the reliability and accuracy of TNKIDS data. In order to ensure that this mission is carried out, the unit has initiated a scheduled data review process. The Data Quality Unit is working closely with Information Resources, Program Operations, and regional staff to verify and correct as needed, inaccurate, missing and duplicated data through consultation via face-to-face meetings, telephone conversations and e-mail contacts. Third, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before new records are created or information is added to an established record to minimize duplication.

The finding suggests that access to TNKIDS cases need to be more restricted by incorporating regional access limitations into the system. Because of the way the department is forced to conduct business, limiting case access regionally is not practical. Case managers and administrative staff anywhere in the state need the ability to update a case when relevant activity occurs. For example, a child protective services referral could occur in one region then the family moves to another region, the case managers in both regions would need to have the ability to access the case concurrently. In fact, the regional limitation in CORS caused many difficulties in regional operations. The TNKIDS security model was carefully reviewed and approved by field staff, the TNKIDS Project Steering Committee and the Management Advisory Committee. In order to put controls in TNKIDS that would ensure data integrity without limiting the case managers' ability to enter timely data, the department is developing an enhanced system log (i.e. audit trail) on pertinent data that will serve as a compensating control to having restricted regional access. A work group has been formed to address this issue. While it is true that restricted access, which will prevent users from accessing certain

sensitive records, has not yet been implemented, a work group has been formed to finalize the requirements for the restricted access function of TNKIDS. Implementation for this restricted access is tentatively scheduled for August 2000. Until the restricted access component for sensitive cases is implemented, these cases are not being entered into TNKIDS.

TNKIDS captures the ID of the user who created each record and the user who last changed the record along with date and time the record was changed. In addition, the case narrative section captures and displays each user who entered case notes on a given record. The department recognizes that this tracking system is not adequate and, as mentioned earlier, has formed a work group to develop a system log for pertinent data in TNKIDS.

The finding recommendation states that TNKIDS should have "edits for duplicate and invalid data." As stated above, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before records are added to minimize duplication. The finding recommendation also states that TNKIDS should require "periodic password changes to reduce the risk of unauthorized access." The feature was developed as a part of TNKIDS 2.1, but did not function properly due to a known bug in the ORACLE database. The company has provided a patch, which is scheduled to be implemented in the next TNKIDS release.

Finding Number	99-DCS-03
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Reportable Condition
Questioned Costs	None

Since 1993 Children's Services has not collected overpayments; uncollected overpayments totaling at least $1,195,745.66 are due from foster care and adoption assistance parents

Finding

As noted in the five previous audits, from July 1, 1993, to June 30, 1998, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. Management concurred in part with the prior audit finding and stated,

> The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies, by county, adjustments that result in overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment.

However, as of June 1999, the department's records indicated an outstanding accounts receivable balance for these parents totaling $1,195,745.66, a decrease of only $29,388.10 (2.5%) since June 1998. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period.

When a child is removed from a foster home, the Department of Children's Services' case manager is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the case manager enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or case manager of the overpayment. However, as noted in finding 99-DCS-05, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

It is the department's policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a

receivable is established. In addition, subsequent payments to the parent are reduced up to 50% until the amount due from that individual foster parent is indicated to be zero. However, the department is not actively pursuing recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children.

When overpayments to foster parents are noted, it is the department's policy to adjust subsequent requests for federal funds in order to eliminate federal participation in the overpayment. However, the ChipFins system does not automatically reverse the original overpayment. ChipFins allocates payments and adjustments to programs based on the child's eligibility at the date of the transaction. Therefore, if the child's eligibility changes between the dates of payment and adjustment, the allocation of the adjustment will not agree to the allocation of the payment.

Because the adjustment process in the ChipFins system has attempted to remove federal participation in the overpayments, only a portion of the outstanding balance represents questioned costs owed to Title IV-E (Foster Care) as of June 30, 1999. These amounts represent the net of transactions not properly adjusted. The federal participation in these amounts is as follows: fiscal year 1997 and earlier, $38,486.52; for fiscal year 1998, $4,831.66; and for fiscal year 1999, $11,810.91.

Recommendation

In order to prevent or minimize future overpayments, it is imperative that case managers record status changes for foster children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Furthermore, the Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should take the appropriate steps to ensure collection of existing and future overpayments. These steps should include such collection efforts as collection letters, telephone calls, collection agencies, and litigation.

Management's Comment

We concur. As represented in the finding the department has attempted to adjust all federal reports so that any overpayment has been refunded to the federal government. The differences represented in the finding were correctly identified as a result of the ChipFins program's inability to make the needed adjustments based on the historical eligibility of the child at the time of the overpayment. Remittance notices are sent to every vendor with an overpayment indicated after each pay-run showing the balance due and requesting reimbursement to the department. An accounts receivable is set up prior to this notice in ChipFins. The department will continue its current efforts of collecting overpayments for accounts where no child remains in the home. The department will explore additional options for collecting these overpayments.

The department has completed the development of a ChipFins Prepayment Authorization system which will require each pay period the approval by all case managers for foster care children in their case load. Testing for this system has completed and training will begin shortly. The Prepayment Authorization system should be in full operation by the end of this fiscal year. In addition, the department is anticipating the development of a call-in phone system which will require the foster parents and adoption assistance parents to call in each pay period to enter information which will be verified and will result in the generation of their payment for the children currently in their home. This information and the information obtained from the case managers will be compared electronically for agreement. For data that does not agree, an error report will be generated. This error report will be sent to the Assistant Commissioner of Field Operations to verify the accuracy of the information. Once the information has been verified and all needed corrections have been made, a payment will be generated. It is anticipated that the use of both of these systems will virtually eliminate ChipFins overpayments.

Finding Number	99-DCS-04
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Reportable Condition
Questioned Costs	None

Controls over disbursements were still weak

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated,

> Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with [Social Services Block Grant (SSBG).].…The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment.

Problems noted during the current audit included lack of supporting documentation and insufficient approvals. Examples are:

- Lack of Supporting Documentation - The central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments. Through testwork performed for the SSBG grant, it was determined that the information in ChipFins is not always reliable or accurate (See finding 99-DCS-05). Nine of 40 expenditures tested (23%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. There was not a valid foster care contract for one of the nine payments, and for the other eight payments, the foster care contracts did not provide for the therapeutic bonus fees paid by the department. As evidenced by the above errors, documentation for payments is not always present before

payments are made. The errors noted above resulted in questioned costs of $1,297.81, or 2% of the dollar value of the sample. Based on total SSBG expenditures of over $5 million, we believe likely questioned costs associated with this condition could exceed $10,000.

- Insufficient Approval – The data in ChipFins results in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties are required to verify that services were provided to children before these payments are made. Until case managers update a change in the child's status, payments continue to be made to the parents. This results in overpayments because ChipFins often is not updated timely. As noted in finding 99-DCS-03, Children's Services has continued to overpay foster care and adoption assistance parents during the audit period. For all 40 of the SSBG expenditures tested and 49 of 60 Title IV-E expenditures tested (81.7%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

Effective internal control is essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal control includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for services that were not received.

Recommendation

In order to prevent or minimize inappropriate payments, it is imperative that case managers record status changes for children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Data in the ChipFins system should be supported by adequate documentation in the case files. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. Management should consider modifications to ChipFins that would require case managers to approve foster care and adoption assistance payments prior to payment.

Management's Comment

We concur. Management believes that the corrective actions proposed for the ChipFins overpayments will also correct the problems noted in this finding. Please see finding 99-DCS-03 for a detailed discussion of the systems that are under development and examination. The changes represented in that finding response will greatly reduce if not eliminate overpayments in the ChipFins program. Monitoring of case managers'

approval of payments based on their case load and the information they are to maintain in the records of the children should make the Prepayment Authorization program along with the soon to be developed phone-in system for foster care and adoption assistance parents a very effective method of controlling overpayments.

Finding Number	99-DCS-05
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Reportable Condition
Questioned Costs	None

Status changes for foster children are still not processed promptly

Finding

As noted in the five previous audits, which covered the period July 1, 1993, to June 30, 1998, status changes for foster children are not processed promptly, resulting in overpayments.

According to management, the Children's Plan Financial Information System (ChipFins) database should be updated by the case managers when a child's foster care placement changes. Until case managers enter these placement changes, payments are automatically made to the foster parents of record in the ChipFins database. In order to correct over/under payments, case managers must submit change-in-status adjustment forms to the central office. There is still a problem with case managers not entering status changes on ChipFins timely.

As indicated in management's comments to the prior audit finding, the department began preparing monthly reports that show the adjustment forms received and the number of changes by case manager. Starting in March 1998, the Fiscal Division started tracking the number of status changes submitted to that office from field staff. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address why the changes are not being made timely by the case managers. Internal Audit also prepares three-month trend analyses that are reported to the Director of Regional Services and the Deputy Commissioner.

Since the department started preparing, distributing, and reviewing the monthly reports, the number and dollar amount of adjustments do not indicate that management's actions have corrected the problem. Adjustment forms for the time period July 1998 through June 1999 show that 1,036 adjustments were made, totaling $422,636.78 in overpayments and $44,294.77 in underpayments. The department paid the total amount of underpayments to foster parents. However, Children's Services could not determine the amount of collections it had received for the overpayments. Had the department

properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete.

Management stated in their response to the prior finding that each case manager has the responsibility of data entry for each child entering or exiting assigned homes. Management further stated, "It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry." However, based on a review of adjustment forms, it does not appear that case managers always enter their own status changes in ChipFins. Numerous instances were noted in which reasons for adjustments were due to "keyers" not entering information provided to them by case managers accurately or timely. Case managers not entering their own information in ChipFins provides a greater opportunity for errors and untimely input to occur and not be detected.

Furthermore, this monthly report of adjustments shows when status changes were made late but does nothing to determine if status changes should have been made but were not. A review of case files by case managers' supervisors would be necessary to ensure that the case managers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure case managers enter child placement information in ChipFins timely. These procedures should include a requirement that case managers' immediate supervisors examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against case managers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur. The department has made progress in identifying problem areas concerning untimely status changes in ChipFins. Reports continue to be provided to Regional Administrators and disciplinary actions are taken when staff habitually miss cut off dates or when staff habitually fail to change the status of a child when they leave a foster home. In the case of the 1999 overpayments, nearly 10% of the total overpayments can be attributed to a single case manager. Needless to say, this case manager is no longer employed by the department. The department is committed to reducing overpayments and the number of ChipFins adjustments, as evidenced by the department's plans to develop the systems discussed below.

The department is anticipating the development of two systems, the Prepayment Authorization System and the phone-in system for foster and adoption assistance parents, which should resolve the ChipFins overpayment issue. These systems are more fully discussed in finding 99-DCS-03. Once these systems are operating in conjunction, the department will know before a payment is made that a status change was not entered timely. These new systems will allow the department to immediately identify case managers who are not entering status changes timely, as opposed to the current system, which may detect status change errors months after they have been made. This knowledge will allow the department to better determine the reasons for the untimely status changes and take appropriate action.

The Program Operations central office staff has investigated several reports of "keyers" being used in the regions. In the past, case managers gave keyers, who were not case managers, information to input into ChipFins. This practice was discontinued two years ago. The current practice is for each case manager to enter his/her own data into ChipFins. In each situation investigated, the use of "keyers" as they were defined in the past was not substantiated. When residential case managers are on annual or sick leave, or when a residential case manager position is vacant, the need for the entering of ChipFins data does not disappear. In each situation where it was alleged that a "keyer" was completing ChipFins data entry, we determined that a supervisor or other residential case manager was actually entering the data. The term "keyer" was used in these situations to denote that the normal case manager did not enter the information, but a backup staff member was responsible for completing ChipFins data entry when the assigned case manager was not available to do so. The department realizes the necessity for data to be entered into ChipFins in a timely and accurate manner regardless of who is entering the data. Management will continue to emphasize the importance of this task to all staff who have this responsibility.

The department does not currently have a mechanism in place to structure a database to account for ChipFins collections from overpayments caused by untimely status changes. To build such a database would be labor intensive since all of the individual transactions would have to be manually keyed. The fiscal division does not have the staff to perform such a labor intensive activity. The department plans to address this issue in the financial phase of TNKIDS development.

Finding Number	99-DCS-09
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Reportable Condition
Questioned Costs	None

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Finding

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The fact that these system controls are not incorporated in the TnKids system results in a severe lack of accountability since any user with update access can add, change, or delete client information across the state without any record of the change. Because the aforementioned weaknesses existed in the CORS system and presently exist in the TnKids system, other previously noted CORS control weaknesses may exist in the TnKids system.

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- A client's record can be created on the system multiple times because the system does not check for duplicate entries. Also, each new entry to CORS, even a duplicate entry, results in a matching new entry to ChipFins.

- Any user, including community services agency employees, could add, change, or delete information on any client.

- The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.

- Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.

- CORS does not maintain sufficient information for proper foster care semiannual reporting, as required by the federal Department of Health and Human Services. Therefore, the Department of Children's Services has chosen to take a penalty each time the report is submitted without the required

data rather than spend the time and money to gather the necessary foster care data required. Because the department has decided it is not cost effective to gather the information, the department paid a penalty on the September 1998 reports totaling approximately $82,685.00. The March 1999 report was submitted with all required information and no penalty was incurred.

- Problems noted with data integrity cause concern because data from CORS is being transferred to TnKids, the new system on which the department is relying to correct many of the department's existing problems. If the information is not accurate or in some cases nonexistent in CORS, it will not be accurate in TnKids. The department has undertaken data cleanup efforts that consisted of case managers manually comparing CORS information to the documentation maintained in the child's case file. In addition, reports were generated to search for missing information in CORS in order to add any missing data prior to conversion to TnKids. It is not determinable at this time whether these cleanup efforts will significantly reduce inaccurate data within the CORS system due to the lack of control that still allows invalid and inaccurate data to be entered into the system.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective system management controls require procedures to prevent duplication of data, to reduce the risk of incorrect or invalid data, and to require periodic password changes. In addition, these management controls require appropriate access restrictions to clients' records and an audit trail of changes to client information.

Recommendation

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new TnKids computer system has the following capabilities:

- has edits for duplicate or invalid data;
- permits only authorized users to add, change, or delete client information;
- provides a system log to record user activity and serve as an audit trail; and
- requires periodic password changes to reduce the risk of unauthorized access.

The Assistant Commissioner for Support Services should monitor the implementation of the new system to ensure that the above controls are built into the system. In the meantime, the department should continue to ensure the accuracy of information in CORS before it is transferred into the new TnKids system.

Management's Comment

We concur. The CORS system was replaced in the Southeast region in June 1999 and in all other regions by November 1999. Though it is accurate that not all case managers currently have access to TNKIDS, selected staff in each region were extensively trained to use the system and case managers are submitting case information to those selected staff. Part of the delay in the deployment of TNKIDS to all case managers is due to management's commitment to understanding and following federal guidelines as they pertain to the SACWIS grant. Management wanted to ensure that the department's process for procurement and installation of the equipment were in compliance with federal and state laws. The department has developed a federally approved process for the procurement and installation of the new desktop computers. The computers were purchased in early January with installation beginning January 31, 2000.

When the department was planning the conversion of CORS data into TNKIDS, the department fully recognized that there were problems with the data quality in CORS. The department took three steps to minimize the risk of converting inaccurate and incomplete data into TNKIDS. First, data was converted from CORS to TNKIDS through a series of conversion activities developed by the department and reviewed and monitored by the Department of Finance and Administration's Office of Information Resources. These activities were to provide a certain level of assurance that data would be converted in a complete manner from CORS into TNKIDS. Second, in April 1999, the department created a Data Quality Unit to be housed in the division of Policy, Planning and Research. This unit was charged with the ongoing mission of assisting the regions and central office with improving and monitoring the reliability and accuracy of TNKIDS data. In order to ensure that this mission is carried out, the unit has initiated a scheduled data review process. The Data Quality Unit is working closely with Information Resources, Program Operations, and regional staff to verify and correct as needed, inaccurate, missing and duplicated data through consultation via face-to-face meetings, telephone conversations and e-mail contacts. Third, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before new records are created or information is added to an established record to minimize duplication.

The finding suggests that access to TNKIDS cases need to be more restricted by incorporating regional access limitations into the system. Because of the way the department is forced to conduct business, limiting case access regionally is not practical. Case managers and administrative staff anywhere in the state need the ability to update a case when relevant activity occurs. For example, a child protective services referral could occur in one region then the family moves to another region, the case managers in both regions would need to have the ability to access the case concurrently. In fact, the regional limitation in CORS caused many difficulties in regional operations. The TNKIDS security model was carefully reviewed and approved by field staff, the TNKIDS Project Steering Committee and the Management Advisory Committee. In

order to put controls in TNKIDS that would ensure data integrity without limiting the case managers' ability to enter timely data, the department is developing an enhanced system log (i.e. audit trail) on pertinent data that will serve as a compensating control to having restricted regional access. A work group has been formed to address this issue. While it is true that restricted access, which will prevent users from accessing certain sensitive records, has not yet been implemented, a work group has been formed to finalize the requirements for the restricted access function of TNKIDS. Implementation for this restricted access is tentatively scheduled for August 2000. Until the restricted access component for sensitive cases is implemented, these cases are not being entered into TNKIDS.

TNKIDS captures the ID of the user who created each record and the user who last changed the record along with date and time the record was changed. In addition, the case narrative section captures and displays each user who entered case notes on a given record. The department recognizes that this tracking system is not adequate and, as mentioned earlier, has formed a work group to develop a system log for pertinent data in TNKIDS.

The finding recommendation states that TNKIDS should have "edits for duplicate and invalid data." As stated above, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before records are added to minimize duplication. The finding recommendation also states that TNKIDS should require "periodic password changes to reduce the risk of unauthorized access." The feature was developed as a part of TNKIDS 2.1, but did not function properly due to a known bug in the ORACLE database. The company has provided a patch, which is scheduled to be implemented in the next TNKIDS release.

Finding Number	99-DCS-04
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	$1,297.81

Controls over disbursements were still weak

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated,

> Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with [Social Services Block Grant (SSBG).].…The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment.

Problems noted during the current audit included lack of supporting documentation and insufficient approvals. Examples are:

- Lack of Supporting Documentation - The central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments. Through testwork performed for the SSBG grant, it was determined that the information in ChipFins is not always reliable or accurate (See finding 99-DCS-05). Nine of 40 expenditures tested (23%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. There was not a valid foster care contract for one of the nine payments, and for the other eight payments, the foster care contracts did not provide for the therapeutic bonus fees paid by the department. As evidenced

by the above errors, documentation for payments is not always present before payments are made. The errors noted above resulted in questioned costs of $1,297.81, or 2% of the dollar value of the sample. Based on total SSBG expenditures of over $5 million, we believe likely questioned costs associated with this condition could exceed $10,000.

- Insufficient Approval – The data in ChipFins results in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties are required to verify that services were provided to children before these payments are made. Until case managers update a change in the child's status, payments continue to be made to the parents. This results in overpayments because ChipFins often is not updated timely. As noted in finding 99-DCS-03, Children's Services has continued to overpay foster care and adoption assistance parents during the audit period. For all 40 of the SSBG expenditures tested and 49 of 60 Title IV-E expenditures tested (81.7%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

Effective internal control is essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal control includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for services that were not received.

Recommendation

In order to prevent or minimize inappropriate payments, it is imperative that case managers record status changes for children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Data in the ChipFins system should be supported by adequate documentation in the case files. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. Management should consider modifications to ChipFins that would require case managers to approve foster care and adoption assistance payments prior to payment.

Management's Comment

We concur. Management believes that the corrective actions proposed for the ChipFins overpayments will also correct the problems noted in this finding. Please see finding 99-DCS-03 for a detailed discussion of the systems that are under development and examination. The changes represented in that finding response will greatly reduce if

not eliminate overpayments in the ChipFins program. Monitoring of case managers' approval of payments based on their case load and the information they are to maintain in the records of the children should make the Prepayment Authorization program along with the soon to be developed phone-in system for foster care and adoption assistance parents a very effective method of controlling overpayments.

Finding Number	99-DCS-01
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Health
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

Children's Services inappropriately requested and received reimbursement from TennCare for children not eligible for TennCare services

Finding

The Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 1999.

As noted in the prior two audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. DCS's previous responses indicated this situation would be corrected by a separate contract numbering sequence to be used for detention center contracts. However, no improvement has been made.

Per *Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009, delinquent children who are placed in correctional facilities or facilities operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of juvenile and adult inmates. Children's Services is under contract with TennCare to determine the eligibility of children under its care. Children's Services has a responsibility not only to notify TennCare when these children are no longer eligible, but also to refrain from billing TennCare for services provided to ineligible children.

Using computer-assisted audit techniques, a search of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least $1,972,296.82 from July 1, 1998, to June 30, 1999, for juveniles in the youth development centers and detention centers. In addition, Children's Services did not fulfill its contractual responsibility to notify TennCare of children placed in youth development or detention centers. TennCare makes monthly capitation payments to Managed Care Organizations (MCOs) and to Behavorial Health Organizations (BHOs) to cover TennCare enrollees in these plans. Since TennCare was not aware of the ineligible

status of the children in the youth development and detention centers, TennCare incorrectly made capitation payments to the MCOs and BHOs on their behalf.

In addition to billing TennCare for ineligible youth in locked facilities as noted in previous audits, the current audit revealed that Children's Services is also billing for other categories of ineligible children. This includes children not in state custody; children in state custody but on runaway status; children in the Hometies program; individuals over the age of 21; and children under the age of three.

Children's Services inappropriately billed and received payment from TennCare for children not in state custody. TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavorial services for children not in state custody should be provided through the TennCare BHOs. Using computer-assisted audit techniques, auditors performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Client Operation and Review System (CORS). The results of the data match indicated that DCS had improperly billed TennCare $4,647,493.79 from July 1, 1998, to June 30, 1999, for services to children who were not in the state's custody. TennCare also contracts with DCS to determine the eligibility of children under its care and should, but does not, notify TennCare of the custodial status of children.

Children's Services inappropriately billed and received payment for children who are in the state's custody but are on runaway status. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $403,653.63 from July 1, 1998, to June 30, 1999, for services to children on runaway status. Since TennCare is permitted to pay only for actual treatment costs, TennCare should not be billed for services that were not provided while children were on runaway status.

Children's Services inappropriately billed and received payment from TennCare for services rendered to the Hometies program, which exists to prevent children from entering state custody. TennCare contracts with two BHOs to provide behavioral health services to its recipients. The BHOs are contractually responsible to provide all Hometies treatment. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $2,279,293.00 from July 1, 1998, to June 30, 1999, for Hometies services. The BHOs are contractually responsible to provide all services rendered to prevent children from entering state custody.

Children's Services inappropriately billed and received payment for individuals over the age of 21. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $77,347.00 from July 1, 1998, to June 30, 1999, for services

to individuals who were over the age of 21. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for Medicaid services provided to recipients in its care who are 21 years or under.

The department has inappropriately billed and received payment from TennCare for behavioral health services provided to children under the age of three. Based on discussions with TennCare's medical staff, a child cannot be mentally evaluated until the age of three. Since these children cannot be mentally evaluated, it does not seem possible that these children received these types of Medicaid services. Management at Children's Services cited the following as possible reasons this occurred:

- Children's Services billed in the child's name for services actually rendered to the infant's mother. However, this is inappropriate because TennCare has not received approval from the Health Care Financing Administration (HCFA) to allow this type of indirect billing. By allowing this type of indirect billing, it is possible the service provider was paid twice for services provided to the mother.

- Children's Services billed for infants who are medically fragile. However, the MCOs are responsible for providing all medical treatment to all TennCare enrollees.

Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $1,673,100.41 from July 1, 1998, to June 30, 1999, for services to children who were under the age of three. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for children who receive Medicaid services.

In addition, testwork at the Department of Health, Bureau of TennCare found that vendors were unable to provide documentation indicating the child received therapeutic treatment for 12 of 60 DCS billings sampled. These errors totaled $2,838.05.

Questioned costs are reported in the Department of Health's audit report and in the TennCare findings in the Tennessee Single Audit report for the year ended June 30, 1999.

Recommendation

The Commissioner should determine why Children's Services has not developed and implemented the procedures necessary to ensure that TennCare is not billed for medical expenses related to children in youth development and detention centers. The Commissioner should then see that corrective measures are immediately implemented. In addition, the Assistant Commissioner of Fiscal and Administrative Services should

implement controls immediately to prevent the department from requesting reimbursement from TennCare for children who are not in custody, in the Hometies program, over the age of 21, under the age of three, or on runaway status. Management's top priority should be to bill TennCare only for allowable services provided to eligible children. In addition, Children's Services should provide TennCare information as to children that are in youth development and detention centers in order for TennCare to cease capitation payments made on behalf of these children.

Management's Comment

We concur in part. The department did incorrectly bill and receive reimbursement from TennCare for children in locked facilities. The department has refunded to TennCare $1,279,459.49 for children in locked facilities. In addition, the department has $93,888.80 of partial (part of a month) refunds to be sent to TennCare when their system can be reconfigured to accept partial refunds. During the department's analysis of the Tenncare questioned cost of $1,972,296.82 for incarcerated youth, stated in the finding, the department determined that $598,948.53 of this amount was for children placed in residential and group homes facilities, not youth development centers and detention centers.

The department began developing a financial funding system in October 1999 which would be integrated into the TnKids system upon completion. The data available upon the completion of this project will identify children's placement status for billing purposes. This data would include, but not be limited to, children in locked facilities. This information would be utilized to insure the accuracy of billings submitted to TennCare. In addition, the department is currently developing a process which will result in the fiscal division receiving weekly reports from all Youth Development Centers operated by the department which will identify all children in the facilities until the funding project is completed. This report will be used to eliminate children in locked facilities from the monthly billings to TennCare. In addition, for approximately the last six months, the department has been sending monthly reports to TennCare so that TennCare may eliminate payments to DCS for these children.

The department will immediately terminate all billing to TennCare for youth in runaway status. A waiver request from HCFA for this status of child has been discussed with TennCare. This waiver, if granted by HCFA, would allow this population to be billed to TennCare. The department will not bill for this population unless the waiver is granted.

The department reviewed the listing provided to the auditors of children who were supposedly not in state custody. All of these children were either Child Protective Services (CPS) cases or were in the department's continuum program. When a child is removed from his/her home in an emergency, there is to be a hearing within 72 hours. Most of the courts adhere to the 72 hour requirement, but if the docket is full, the hearing may be delayed. The department has no control over when the court schedules the

hearing. In addition, the department may not receive a written order at the conclusion of the hearing. Several days may pass before a written order is received by the department. The auditors used as the basis of their finding the date of legal custody which came from the CORS database. This legal custody date represents the date of the court hearing, not the date that the child came into the department's physical custody for protective, child safety reasons. Protective custody is a legal form of physical custody pending the court hearing in which the department is ensuring the child's safety. TennCare reimburses DCS for services to children in legal and physical custody.

The department is currently reviewing coverage issues and negotiating with TennCare regarding its children served in continuum contracts so that DCS may bill TennCare for children during the entire scope of their continuum contract. This is particularly important because two outside consulting groups, Child Welfare League of America, and the DeMuro Report on TennCare Services, cite continuum contracts as important initiatives in the department and recommend that they be expanded. The continuum model follows the child to reunification or permanency. Therefore, the contractor may provide services to the child after the child transitions home. The child remains in legal custody of the department during the receipt of these services. These services fall under the scope of enhanced services, as both residential services and specialized outpatient and symptoms management. These enhanced services continue during the transition period and the BHO continues the basic benefit package.

Tennessee Code Annotated 37-3-603(a) states in part that "the department of children's services shall develop, coordinate and implement a program to provide family services to each family with a child at imminent risk of placement…" The department provides Hometies services, which are family preservation services, to families that the department reasonably expects that the services will prevent out of home placement. The department provides this service as statutorily mandated and it is funded by Title XIX as part of enhanced services to a statutorily defined group of children/families for whom children have been identified as being at imminent risk of custody. This service was designed to meet the special need of this population, unlike BHO services, designed to meet the needs of TennCare enrollees. The Hometies population is a targeted population, and under the state's Title V agreement, such services for targeted populations are appropriate for Title XIX funding. TennCare has appropriately paid these expenditures and the grant agreement is being modified to reflect this policy.

The department examined the listing of children over the age of 21 provided by the auditors. In each case, the child has been certified as having severe mental retardation and have been put into the permanent custody of the state. When a child who is mentally retarded reaches the age of 21, DCS seeks to transition them to the adult special services system in the Division of Mental Retardation (Home and Community Based Waiver services). However, in the case of these individuals, the Division of Mental Retardation did not have any resources available to serve these children. The Division of Mental Retardation currently has a waiting list for these services. The department has notified the Division of Mental Retardation of 79 individuals that need to be transitioned to adult services. Due to the high demand for adult mental retardation

services, the department has not been assured that these placements can occur, but will continue to seek solutions in conjunction with the Division of Mental Retardation. The department cannot abandon these individuals who have been in permanent custody. The department will request that TennCare include language in future contracts which would allow the department to continue serving this population if services are not available at Mental Retardation.

Children under the age of three who come into the custody of the department and in need of out of home placement are not typical of children in the general population. Children who are under the age of three primarily enter custody due to serious physical abuse, sexual abuse (including child rape), and serious neglect. These children need and receive treatment in therapeutic foster care or in residential programs focusing on physiologically fragile young children. Often these very young children are at a high risk of attachment disorder and have serious developmental and psychological delays. While children this young do not respond to and cannot benefit from cognitive verbal focused therapy, they can benefit from therapy that focuses on the following: behavioral intervention, helping the traumatized child to feel safe, developing trust in adults, learning missed key developmental skills, and addressing other needs of the traumatized child.

The finding reads in part that " based on discussions with TennCare's medical staff, a child cannot be mentally evaluated until the age of three." However, in Attachment B to the BHO Provider Risk Agreement, recommended models for children's behavioral services include family preservation, in-home crisis stabilization, day treatment, therapeutic nursery, and infant stimulation. By allowing the BHO to provide therapeutic nursery and infant stimulation, TennCare has taken the position that a child under three years of age can receive therapeutic services.

It should be noted that these models of therapeutic nursery and infant stimulation fall into the category of enhanced behavioral services under symptom management. The department is clearly entitled to receive reimbursement for enhanced behavioral services from TennCare, and TennCare has not excluded infants from this coverage. TennCare expected the department to provide these enhanced benefits, as needed, to the custody population. TennCare made no provision for these services to be provided by the BHO. These services clearly fall in the enhanced services category, which obligates DCS to provide them, and age should not exclude this coverage, particularly since such services to infants are accepted models of treatment.

Auditor's Comment

Incarcerated Youth

In October 1999, the Division of State Audit forwarded a list of incarcerated youth payments to the Department of Children's Services (Children's Services) management. Children's Services management had two months before the end of the

audit field work in December 1999, to follow up on the incarcerated youth payments to ensure all information obtained from the CORS (Client Operation Review System) was correct. In February 2000, Children's Services management stated that $598,948.53 of the incarcerated youth questioned cost was actually for children placed in residential and group home facilities, not youth development and detention centers, however, Children's Services management has not provided any documentation to support this claim.

Children not in State Custody

Children's Services management indicated that all the children identified in the custody data match were either Child Protective Services (CPS) cases or were in the Children's Services continuum program. For children in Child Protective Services, Children's Services management stated that several days might pass between the child entering physical custody and the department being granted legal custody. However, utilizing computer-assisted audit techniques, the auditors compared CORS custody dates and dates of services for children in this situation. The comparison revealed that only 2% of the amount questioned could possibly be attributed to such short delays. The majority of the cases involved months, not days, between the dates of services and the dates of custody. And, in some cases, there was no evidence the child was ever in custody.

Continuum services are similar to Hometies services except these services are provided for children leaving state custody instead of entering state custody. While the department contends that Children's Services should be allowed to bill TennCare for continuum services, auditors determined that for over 40% of the custody exceptions identified, the children had not been in custody for at least the past 3 years. Therefore, these children were not eligible for continuum services. Furthermore, all continuum services, as well as Hometies services, are covered by the BHOs and therefore Children's Services should not bill TennCare directly for such services.

Hometies

Although the *Tennessee Code Annotated* 37-3-603 (a) gives Children's Services the authority to develop, coordinate, and implement a program to provide family services to each family with a child at imminent risk of placement, it does not give Children's Services the authority to charge the TennCare program for these services. For those children who are TennCare enrollees, TennCare makes monthly capitation payments to Behavioral Health Organizations (BHOs) to provide enrollees with services covered under the agreements between TennCare and the BHOs. These agreements require the BHOs to provide all services to prevent enrolled children from entering state custody. Therefore, it should be the BHOs' responsibility to provide whatever enhanced services are necessary to prevent these children from entering state custody under their agreements with TennCare.

Case managers should seek services for children who are in Hometies, Child Protective Services, or continuum services from the BHOs as opposed to contracting with vendors to provide them. Furthermore, all of the non-state vendors that the department

contracts with to provide these services are also in the BHOs provider networks. Therefore, the department has paid the same vendors (and billed TennCare) for services that the BHOs should have provided (and paid for) under their agreements with TennCare. Children's Services must ensure the case managers properly use the BHOs as opposed to incurring additional expenses by paying for these covered services and billing TennCare.

Children Under Three Years of Age

Children's Services management indicated children who are under the age of three receive treatment in therapeutic foster care or in residential programs focusing on physiologically fragile young children. However, management of the Children's Services' providers stated that children at this age receive only medical treatment not physiological treatment. In addition, Children's Services' management provided the auditors with case notes for some of the children under three that were listed in the CORS database. These case notes indicated that these children received only immunizations and physical examinations; services that are covered by the Managed Care Organizations (MCOs). These children are TennCare enrollees, and, as such, TennCare makes monthly capitation payments to MCOs to provide enrollees with services covered under the agreements between TennCare and the MCOs. Children's Services must ensure the case managers properly use the MCOs to provide medical treatment as opposed to incurring additional expenses by paying providers for these covered services and billing TennCare.

Finding Number	99-DCS-02
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Health
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Because Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program

Finding

As noted in the prior audit, the Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. Children's Services purchases goods and services (such as room and board, treatment, and education) for eligible children. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs.

In 1991-92, a cost analysis study of all the treatment facilities providing services to Children's Services was performed by an independent contractor. As a result of this study, a percentage rate, which supposedly represented the treatment portion of the service, was determined for each individual facility. According to management of the department, they questioned the validity of the cost study but decided to use these percentages to bill TennCare for the treatment portion. If a treatment facility was not included in the 1991-92 cost study, the department arbitrarily set a rate of 50% for the treatment portion of service. However, the percentage rates being used may not accurately reflect the portion of the total charge that is related to treatment. In performing the testwork on the billing procedures, we found that the department is not following its own arbitrary guidelines. In five of the ten billings tested (50%), the department had charged TennCare a larger percentage of the total amount paid to the provider than set by the department's guidelines. The department could not substantiate the rates being used. In many instances, the department was billing TennCare 90% to 100% of the total amount paid to the provider. However, the amount paid to the provider included room and board and education costs that should not be billed to TennCare.

Management concurred in part with the prior finding and stated,

> The department is . . . currently working on another cost and time study to develop more equitable and less complicated rates based on the recommendations made by the Comptroller's office. The new cost and time study (a similar study was performed in 1992) has been developed to mitigate the issues resulting from the first study and to address other inconsistencies.

It appears that the department has developed a new cost and time study; however, the department has yet to implement the study and bill TennCare based on the new rates.

Without a reliable system in place to identify medical treatment and room and board costs, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program.

Recommendation

As stated in the prior audit, management should become familiar with TennCare guidelines addressing the issue of allowable treatment costs. The department needs to implement a system for billing TennCare that includes a standard rate based on the level of care being provided. The rate should fairly represent the actual treatment portion of the care allowable according to TennCare regulations. The recently developed cost and time study should be reviewed with TennCare officials and the resulting rates should be implemented upon approval by both parties.

Management's Comment

We concur. For almost a year, the Department of Children's Services has been collecting information from vendors providing treatment services which are billed to TennCare. This information would allow the department to develop treatment rates that would be based on time and cost studies as well as audited financial information provided by the vendors. The information collected from the vendors was required to be reconciled to the audited financial statements submitted. This process of collecting the required information from vendors has taken significantly longer than planned. Five deadlines were set and passed with some vendors still not having submitted the required information to allow the department to develop more accurate rates for reimbursement. Additional deadlines were allowed in an effort to prevent the necessity of locating new treatment facilities for which new contracts would have to be developed and the relocation of many children to the new facilities. When the fifth deadline was set, the Commissioner and Deputy Commissioner personally called the vendors that had not complied to date and informed them that if compliance was not met by this deadline admissions would be frozen to the facility with the next alternative being cancellation of

their contract. Admissions were frozen for short periods for several vendors; however, compliance has still not been met by one vendor whose admissions remain frozen. DCS staff worked closely with TennCare in reviewing the process used to collect the information and the methodology for establishing the new rates. Now that the required information has been received, TennCare will submit the methodology and results to HCFA for approval. If approved by HCFA, the methodology will become the basis for establishing treatment rates not only for existing programs, but also new programs. The rates are to be applied back to July 1, 1999 (for fiscal year 2000). A cost settlement will be done with TennCare upon the final determination of the rates for each level of care provided by DCS.

Finding Number	99-TDH-01
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness
Questioned Costs	None

Top management must address the TennCare program's numerous and serious administrative and programmatic deficiencies

Finding

Most of the findings in this department are the result of TennCare's numerous administrative and programmatic deficiencies. The March 1999 Performance Audit report also describes many of the program's weaknesses. Well-publicized events concerning the ability of the program to continue in its present form that occurred subsequent to the end of the audit period, June 30, 1999, have contributed to the perception that the program is in crisis.

As required by the Single Audit Act and OMB Circular A-133, the auditors are responsible for reporting on the department's internal control and management's compliance with laws and regulations material to the program. Top management is responsible for establishing an effective control environment, which is the foundation for all other components of internal control: risk assessment, control activities, information and communication, and monitoring. Under generally accepted auditing standards, control environment factors include assignment of authority and responsibility; commitment to competence; integrity and ethical values; management's philosophy and operating style; and organization structure.

Our evaluation of the control environment and the other components of internal control revealed several overall, structural deficiencies that have caused or exacerbated many of the program's problems. These deficiencies are discussed below.

TennCare Lacks Stable Leadership

The TennCare program has continued to lack stable leadership. Since the beginning of the program in January 1994, and through December 1999, the program has had four directors and two acting directors. In addition, during the same time there has been significant turnover in the top positions of the program's various divisions, including the Division of Operations, the Division of Budget and Finance, the Division of Quality Improvement, the Division of Policy and Intergovernmental Relations, and the Division of Contract Development and Compliance.

Inadequate System and Staff Resources

As discussed further in finding 99-TDH-02, the TennCare program does not have an adequate information system. Currently the program is dependent upon a large and complex computer system, the TennCare Management Information System (TCMIS), that is outdated and inflexible.

According to management, the TennCare program is understaffed. During fieldwork the auditors noted various efforts to recruit and hire new employees. Another concern is that because of the complexity of the TennCare program (including the laws and regulations that govern the program), long-time employees at the TennCare Bureau possess invaluable knowledge and experience that is difficult to replace when employees retire or leave for other reasons. For this reason, TennCare needs to focus on plans for retaining key directors, managers, and staff.

The auditors also noted what appears to be a dramatic imbalance in the allocation of staff resources, which appears to reflect top management's priorities as well as the distribution of work. Although the Division of Programs is responsible for numerous programmatic functions, including the provision of special services to children and seriously mentally ill individuals, this division consists only of a director and one other person. In contrast, as of April 1999, there were 39 positions in the Division of Information Services (I/S Division). While it is possible that all of the I/S positions are necessary, it appears that the Division of Programs may lack the resources it needs to adequately perform its duties and responsibilities.

Assignment of Responsibility Concerns

In certain areas of the program, the auditors believe that the assignment of authority and responsibility could be improved. In several areas, the I/S Division is responsible for performing numerous functions beyond the scope of data processing and systems support. This is a concern in terms of which division is most suited or capable of performing the required functions and workload distribution. Because of the numerous and varied responsibilities currently assigned to the I/S Division, management of this division is overburdened and thus less able to focus on system maintenance, development, and support.

For example, as discussed in finding 99-TDH-20, currently the I/S Division is responsible for the premium billing and collection process. Typically the fiscal division-accounting department is responsible for these functions. And as described in finding 99-TDH-03, currently the I/S Division is responsible for eligibility functions within the TennCare Bureau, e.g., maintaining a complex eligibility and enrollment database. It might be more appropriate if the TennCare Division of Operations or a newly created and independent Eligibility and Enrollment Unit were responsible for this very important function.

The I/S Division also is responsible for "capturing, maintaining, and reporting encounter data," which is patient data submitted by the managed care organizations and behavioral health organizations. This function may reside more appropriately in the

Division of Quality Improvement, which is responsible for gathering and analyzing program statistics.

Last, when obtaining information on the rules and regulations for Medicare cross-over claims, the auditors learned that no one has been assigned the responsibility for 1) being knowledgeable about the rules and regulations for these types of claims or 2) ensuring that these claims are being paid correctly. See finding 99-TDH-16 for more information about the processing and payment of these claims.

The appropriate assignment of responsibility is critical to ensure that all areas of the program are managed effectively and efficiently. Responsibilities should be assigned with regard to training and expertise; proper segregation of duties; and the workload. In addition, policy and program administration management should be the driving force of the TennCare program, not the computer system or the individuals responsible for the system.

Inadequate Written Operating Policies and Procedures

Despite its size and complexity, TennCare does not have adequate written operating policies and procedures. The previous TennCare Director had discussed hiring a consultant to document the program's operating policies and procedures; however, this did not occur.

Inadequate Monitoring

The Bureau of TennCare does not have an on-site internal audit unit and the Office of Audit and Investigations does not monitor the internal operations of the Bureau. A strong and sizable internal audit presence is critically important given the nature, size, and complexity of the program, and the number of internal control problems that exist.

In addition, in its August 9-12, 1999, site visit report, the Federal Health Care Financing Administration stated:

> Although we have brought this to the attention of State officials on multiple occasions, we found that Tennessee has not developed a comprehensive plan for monitoring the TennCare program. Tennessee does have some activities in place for monitoring; however, Tennessee needs a plan that incorporates these activities and any other activities that the State may develop for long-term monitoring for the life of the project (i.e., TennCare). This plan should incorporate the monitoring of the TennCare Partners program.

Recommendation

For the TennCare program to improve and succeed over the long term, the Commissioner and the Acting TennCare Director and his staff must address the problems within and external to the program's administrative structure.

Hiring a new TennCare Director should continue to be one of the Commissioner's top priorities. He or she should also develop a plan to address the program's other personnel requirements. The plan might include cross training, employee development, emphasizing employee career-paths, staff reassignment, workload redistribution, and ways to retain key managers and staff. In addition, the Director should continue to pursue acquisition/development of a new TennCare information system.

The Director should ensure that the assignment of authority and responsibility in all areas is adequate and appropriate. He or she should consider implementing the changes discussed in the finding concerning responsibility for billing and collecting premiums; eligibility and enrollment; capturing, maintaining, and reporting encounter data; and administering Medicare cross-over claims more effectively. In addition, the Director should consider if there are other areas where similar changes should be made.

The Director should ensure that written and comprehensive operating policies and procedures are developed for all areas of the TennCare program. The policies and procedures should be clearly communicated to all program employees, and responsibility for updating the policies and procedures, as well as distributing the updates, should be assigned to the appropriate staff.

Finally, the Director should develop and implement the comprehensive monitoring plan requested by the grantor. He or she should use the internal auditors to review and monitor the internal operations of the program, particularly the program's extensive and complex automated processes. The internal auditors also could be used to help to implement the monitoring plan or ensure that the plan is being implemented properly by others.

Management's Comment

We concur. While we do concur with the finding recommendation, we do not concur with the implications made by the auditors that the current or the previous management has not addressed the program problems. In previous and in current audit findings, we have addressed the many changes that have either been made for program improvement or have been made due to redirection or enhancement to the program. We all seem to agree that this is a very complex program but we must have cooperation and support, both internally and externally, for the program to continue to succeed. We do acknowledge those areas of concern mentioned in this finding. Management is determined to provide the direction and implement the procedures to stabilize the TennCare Program and ensure the continuity of health care services to the eligible TennCare population. In addition to the major priorities of ensuring the integrity of the program, ensuring consistency in the process of the program with written policies and procedures and ensuring the existence of an emergency plan should a managed care organization fail, the following additional actions have now occurred or are in process: 1) A new Director of Operations has been hired, 2) Enhancements to the

eligibility/reverification process are being implemented, 3) An RFP is in process to review current and future system needs, 4) Continuing to search for new director, as well as other critical vacancies in the Program, 5) New Medical Director and a Quality Improvement Director have been hired, 6) In the process of filling 95 new positions that were authorized by the legislature for FY2000.

Finding Number	99-TDH-02
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness
Questioned Costs	$15,416.52

TennCare Management Information System lacks the necessary flexibility and internal controls

Finding

As noted in the prior audit, management of the Bureau of TennCare has not adequately addressed critical information system internal control issues. In addition, the TennCare Management Information System (TCMIS) lacks the flexibility it needs to ensure that the State of Tennessee can continue to run the state's $4 billion federal/state health care reform program effectively and efficiently. Management concurred in part with the prior finding; however, problems continue.

Because of the system's complexity, frequent modifications of the system, and because this system was developed in the 1970s for processing Medicaid claims, TennCare staff and Electronic Data Services (EDS) (the contractor hired to operate and maintain the TCMIS) primarily focus on the critical demands of processing payments to the managed care organizations, behavioral health organizations, and the state's nursing homes rather than developing and enhancing internal controls of the system. This has contributed to a number of other findings in this report. These findings indicate that the TennCare bureau

- has not ensured adequate system security controls related to access were in place during the entire audit period (finding 99-TDH-17);
- has not made payments to certain providers in accordance with the rules (finding 99-TDH-16);
- has not strengthened system controls for Medicare cross-over claims (finding 99-TDH-16);
- made capitation payments for individuals who were not eligible for TennCare (findings 99-TDH-14 and 99-TDH-15);
- did not adjust nursing home claims timely (finding 99-TDH-30);

- incorrectly made payments to the Department of Children's Services for services that should have been provided by behavioral health organizations (finding 99-TDH-04);

- made payments to the Department of Children's Services for individuals over 21 years old (finding 99-TDH-04); and

- made payments to the Department of Children's Services for behavioral health services provided to children under three years of age (finding 99-TDH-04).

In addition to the findings noted in this report, audit testwork also revealed several immaterial weaknesses:

Capitation payments made for dates of services occurring before individuals were born

Computer-assisted audit techniques (CAATs) revealed that TennCare overpaid $18,166.60 in capitation payments for individuals with dates of services occurring before individuals were born. This situation occurred because the system controls do not prevent payments for dates of services occurring prior to date of birth. According to a Division of Information Services Manager, these erroneous payments may occur because TennCare has designed the system so that coverage to individuals will not be denied simply because an incorrect date of birth is loaded on an individual's history screen. Exception reports are produced and worked; however, corrections and recoveries are not always made timely. Federal questioned costs totaled $11,473.57. An additional $6,693.03 of state matching funds was related to the federal questioned costs.

Incorrect Capitation Payments

CAATs revealed that the TennCare system incorrectly calculated payments for the following situations:

- The system calculated and underpaid the MCOs $135.94 based on a rate for individuals that are ages 1-13; however, the two individuals were both over 20 years old based upon dates of birth loaded in the system.
- The system used the applicable female rate for two payments for individuals that were male and overpaid by approximately $346.44. Federal questioned costs totaled $218.80. An additional $127.64 of state matching funds was related to the federal questioned costs.
- The system used the applicable male rate for nine payments for individuals that were female and underpaid the MCOs by $535.47.
- For 21 capitation payments during year ended June 30, 1999, TennCare deducted a total of $305.67 incorrectly for local government and charity. Local government and charity has not been a part of the capitation payment process since year ended June 30, 1995. This situation occurred because payment logic had been hard-coded into the system and was not removed when local government and charity costs ceased to be a part of the capitation payment calculation.

Incorrect information used to calculate payments

TennCare overpaid MCOs $5,896.60 for individuals based on a date of birth predating 1880 on the recipient eligibility history file screen. However, the date of birth on the original application screen was often 100 years different than the original application screen. In many of the cases, TennCare paid the rate for over 65 years old when in fact the individual was younger than 65 years old per the original application screen. Federal questioned costs totaled $3,724.15. An additional $2,172.45 of state matching funds was related to the federal questioned costs. The situation apparently occurred because the recipient eligibility history file screen was updated with the incorrect information. However, with appropriate system controls, such as flags for birth years predating 1880, management could have discovered and corrected this problem.

Recommendation

The TennCare Bureau should address internal control issues and pursue the acquisition of a system designed for the managed care environment. Until a new system is acquired, the Bureau should continue to strengthen the systems controls to prevent erroneous payments.

Management's Comment

We concur. We agree with the recommendation that the Bureau should pursue the acquisition of a system designed for the managed care environment. The Division of Information Services is currently drafting an Advanced Planning Document (APD) to HCFA requesting enhanced FFP for securing consulting services to assist TennCare in the analysis, definition, design and potential implementation of a new system for TennCare. However, prior to redesign or replacement of the current system, we must have a written business process established. The TennCare Bureau is coordinating strategic business planning effort for the future needs of TennCare. The components of the strategic business plan will be used as the basis for defining a system which will be both flexible as well as functional in maintaining a large and complex system for maintaining managed care.

We also agree that we should continue to strengthen, where possible, the system controls to prevent erroneous payments. The TennCare system has procedures in place to help identify ineligible payments, such as incarcerated youth, deaths, and incarcerated adults. However, the TennCare system must rely on other billing agencies to provide inputs into the system for both payments made to billing agencies and for edit data that determines TennCare eligibility. When this information is updated within the TCMIS, attempts are made to validate the data. Because payments are dependent on this outside information received from the other state agencies and the TCMIS reacts accordingly, internal controls can not eliminate some of the erroneous payments addressed in this

finding. Examples include DCS files for payments for children in state custody. Incarcerated youth should not be billed to the TennCare Program. TennCare must rely on DCS data or rely on DCS not to bill for incarcerated youth that are not eligible for the TennCare Program. TennCare must also rely on the Department of Corrections to provide data for those adult inmates that are not eligible for the program. TennCare relies on the Department of Health to provide death records for terminations due to death. Once these data files from other state agencies have been processed, the TennCare system also must follow carefully established procedures for terminating enrollees from the program. In order to prevent the inappropriate termination of an individual, even with data received from these state agencies, other matches must be identified that affirm the accuracy of the termination. When the matches required by the TCMIS system do not occur, a Suspect Report is produced and someone must research the variances before the actual termination can occur. The audit finding also references using Computer-assisted audit techniques (CAATs) to identify capitation payments that have been incorrectly made. Although we may be able to use these CAATs for monitoring our payment process, we would not be able to use these techniques to restrict payments. We will continue to pursue the instances that have been presented in the findings for possible weaknesses in the systems calculation, but TennCare cannot react to outside sources (CAATs) for termination without significant validation of the data.

Auditor's Comment

Management at the Bureau of TennCare is responsible for all expenditures incurred by the Bureau. Management cannot shift this responsibility to others. Instead, management should work with other departments and coordinate efforts to ensure compliance with federal requirements. If necessary, the Director of TennCare should seek assistance from the Administration.

Finding Number	99-TDH-03
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Material Noncompliance
Questioned Costs	$7,854.19

Internal control over TennCare eligibility is not adequate

Finding

The four prior audits of the Bureau of TennCare noted that in many cases, the eligibility of TennCare participants who are classified as uninsured or uninsurable had not been verified. Management concurred with the prior audit finding, stating that face-to-face enrollment and reverification projects would be implemented to confirm eligibility information onsite. However, verification procedures for initial enrollment and for reverification were still not performed adequately, consistently, or timely. In addition, the Bureau of TennCare does not have a written policies and procedures manual governing enrollment verification and reverification procedures for uninsured and uninsurable enrollees. Furthermore, the Bureau of TennCare has not assigned responsibility for the entire eligibility function to one unit or individual.

For the uninsured and uninsurable population, which makes up approximately 35% of all TennCare enrollees, responsibility for eligibility determination is divided between the county health offices in the Department of Health and the Division of Information Services in the Bureau of TennCare. Because the main purpose of the Division of Information Services is to develop and maintain the TennCare Management Information System, which supports the TennCare program, this division may not be able to effectively and efficiently develop or maintain enrollment procedures.

Furthermore, TennCare does not have a written policies and procedures manual to ensure that TennCare recipients are appropriately and consistently determined to be eligible for TennCare. The county health offices, the Regional Mental Health Institutes, the TennCare Hotline, and the Division of Information Services in the Bureau of TennCare all have the responsibility of determining eligibility for the uninsured and uninsurable population. The different divisions have not been provided with a uniform written policies and procedures manual that would help to ensure appropriate and consistent eligibility criteria.

TennCare's reverification project began in June 1998 and established face-to-face interviews for eligibility updates of enrollees. This project was intended to reverify the eligibility of one-twelfth (1/12) of the entire uninsured and uninsurable population each

month. TennCare also relied heavily on updates to the TennCare Management Information System (TCMIS) for reverifying eligibility through data matches and information received from various sources. According to waiver requirements (Special Term and Condition #24), the State must continue to assure that its eligibility determinations are accurate. These reverification procedures, however, did not adequately ensure all TennCare participants were eligible.

Testwork revealed that 115 of 121 (95%) uninsured and uninsurable participants had not had their eligibility information verified or reverified within a year of the date of service. Thirty-two of the 121 (26%) files tested were added to the program within a year of the date of service, which required initial verification of the information on the application. Initial verification includes verifying the applicant's income, social security number, and access to insurance. Of the 32 files requiring initial verification, 27 (84%) had not been verified properly. TennCare could not provide documentation that the enrollees' income and access to health insurance indicated on the application was verified.

The remaining 89 were enrollees who were in the program for more than one year and required reverification of the enrollees' information. Reverification includes obtaining current information about the enrollees' income and access to insurance. For 88 of the 89 (99%), the enrollee's eligibility information had not been reverified within a year prior to the date of service. Further testwork revealed that 25 of the 88 were reverified subsequent to the date of service and subsequent to the year ended June 30, 1999. The remaining 64 enrollees had not been reverified (as of November 10, 1999) according to the TennCare system. The total amount of capitation improperly paid for the errors noted above was $12,435.88 out of a total of $12,789.96 tested. Federal questioned costs totaled $7,854.19. An additional $4,581.69 of state matching funds was related to the federal questioned costs. We believe likely questioned costs would exceed $10,000.

Furthermore, using computer-assisted audit techniques to search the TennCare Management Information System (TCMIS), auditors found 115 TennCare participants had "pseudo social security numbers," e.g., numbers that began with 8 or had all zeros in one field. According to TennCare personnel, some applicants who do not have their social security cards and/or newborns who have not yet been issued social security numbers are assigned these "pseudo" numbers. Management stated in response to the prior finding that TennCare strives to provide needed care to children as soon as possible and that the reverification project would help ensure that valid numbers are obtained after enrollment.

Testwork revealed that 68 of 115 individuals (59%) found with "pseudo" social security numbers had not had a correct social security number entered on TCMIS, although they were enrolled more than a year earlier. Some of these TennCare participants had been enrolled in the Medicaid program as early as 1980. Also, while it is not always possible to obtain social security information for newborns (0-3 months),

auditors noted that several individuals with pseudo social security numbers were over one year old.

According to the *Code of Federal Regulations*, Title 42, Part 435, Section 910, the state agency must require, as a condition of eligibility, that those requesting services (including children) provide social security numbers. Additionally, Section 3(g) of the Code states that the agency "must verify the social security number of each applicant and recipient with the Social Security Administration, as prescribed by the Commissioner, to ensure that each social security number furnished was issued to that individual, and to determine whether any others were issued."

Adequate verification procedures are needed to ensure that only those eligible are enrolled in TennCare. According to *Office of Management and Budget Circular A-133*, payments are only allowed for individuals who are eligible for the TennCare/Medicaid program. For the year ended June 30, 1999, the Bureau paid capitation payments totaling approximately $1,873,069,128 to MCOs and $343,959,092 to BHOs for TennCare enrollees, which includes approximate capitation payments for the uninsured and uninsurable population of $654,075,739 and $120,110,515, respectively.

Annual reverification is also necessary to obtain current, accurate information about family size, income, Tennessee residency, and access to other insurance. This information is needed to determine whether participants previously considered eligible have become ineligible because of changes in their family or personal circumstances. Also, this information is used to determine the correct premium and deductible amounts paid by participants.

Recommendation

The Director of TennCare should promptly develop and implement adequate uniform procedures to ensure that the eligibility status of all TennCare recipients is determined properly, consistently, and timely. Bureau Management should consider establishing a unit to oversee the eligibility function. The Director should also develop a written policies and procedures manual and ensure that all divisions involved in the enrollment process of the uninsured and uninsurable population are provided with the manual to ensure eligibility criteria is applied to the TennCare recipients consistently and accurately.

Management's Comment

We concur. The reverification process that began in June of 1998 has resulted in the reverification of 145,006 enrollees as of January 2000. This represents approximately 28% percent of the current TennCare non-Medicaid population and is consistent with the audit finding of 24 out of 88 cases reverified subsequent to the date of service and subsequent to the year ended June 30. Another approximately 28% are enrollees who

have not been in the program for one year. The current reverification process is a process that is verifying enrollees that are past due (enrolled for >12 1months) for the annual reverification. In order to facilitate the completion of past due cases and move to the desired annual reverification, the Bureau of TennCare appointed a reverification task force. The task force was appointed in January 2000 in order to identify deficiencies, improve the reverification process and to address previous audit finding. The task force is lead by an outside consultant has been given the authority to make necessary changes and ensure appropriate systems are in place to address this repeat audit finding. The task force includes individuals from all government departments involved in enrollee eligibility verification, including Department of Human Services, Department of Mental Health and Mental Retardation, Department of Health Services and Bureau of TennCare. The goals of the task force are: 1) Initiate the process for reverification on each case/enrollee in the non-Medicaid population. 2) Terminate enrollees that are no longer eligible. 3) Build credibility in the reverification process. 4) Identify and develop procedures to include cases that are currently excluded from reverification. 5) Identify and develop procedures to deal with cases that remain indefinitely in various stages of the process. 6) Improve enrollee education concerning TennCare. 7) Ensure accuracy of enrollee information. 8) Develop tracking and audit mechanisms to ensure efficacy of the reverification process. 9) Document policies and procedures related to reverification of non-Medicaid enrollees. The task force has initiated changes that allowed inclusion of 600 cases in the February 2000 reverification selection that had not previously completed the process. In addition the task force is testing an electronic database to expedite locating forwarding addresses for enrollees. The intent of the task force is to include in the March 2000 selection the bulk of the remaining past due reverifications. Reports addressing findings and results realized from the task force directives are given directly to top management.

Finding Number	99-TDH-04
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	$6,506,178.60

Because communication between TennCare and Children's Services has been inadequate, TennCare incorrectly reimbursed the Department of Children's Services over $9 million for services covered by the Behavioral Health Organizations, services that were unallowable, services inadequately documented, or services not performed

Finding

TennCare has paid the Department of Children's Services (Children's Services) for services that were outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 1999. In accordance with its agreement with TennCare, Children's Services contracts separately with various practitioners and entities (service providers) to provide Medicaid services not covered by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) that are also under contract with TennCare. Children's Services pays these service providers for Medicaid services (enhanced behavioral health services) and non-Medicaid services (housing, meals, and education) directly. Children's Services then should bill TennCare for the reimbursement of only the Medicaid services. During the year ended June 30, 1999, TennCare paid approximately $103 million in fee-for-service reimbursement claims to Children's Services.

TennCare has not adequately defined and communicated the specific Medicaid/TennCare services it is requesting from Children's Services. In addition, TennCare has not communicated the specific laws and regulations that Children's Services must follow. Testwork revealed the following deficiencies:

Payments for Incarcerated Youth

As noted in the prior two audits, TennCare has not identified incarcerated youth enrolled in the program, and has paid for the health care costs of youth in the state's youth development centers and detention centers. Under federal regulations (*Code of Federal Regulations*, Title 42, Section 435, Subsections 1008 and 1009), the state, not the federal government, is responsible for the health care costs of juvenile and adult inmates. Management concurred with the prior finding, stating that the TennCare staff had met with Children's Services on this subject and would utilize the monitoring agreement with the Department of Finance and Administration (F&A) to examine internal controls over

this area. In addition, management stated that TennCare would pursue implementing computer-assisted monitoring techniques similar to the ones used by the auditors for detecting incarcerated youth. Although TennCare's management contracted with F&A to examine this area, TennCare still does not have adequate controls and procedures in place to prevent these types of payments (see finding 99-TDH-07).

Using computer-assisted audit techniques (CAATs), a search by the auditors of TennCare's paid claims records revealed that TennCare made payments totaling $2,871,075.03 for the year ended June 30, 1999, for juveniles in the youth development centers and detention centers. Of this amount, $656,519.26 was paid to MCOs, $242,258.95 was paid to BHOs, and $1,972,296.82, to Children's Services. Federal questioned costs totaled $1,660,294.52. An additional $968,521.56 of state matching funds was related to the federal questioned costs.

BHOs are not to be reimbursed for costs associated with incarcerated youth. The total payments to the two BHOs are based on a predetermined budget for mental health services approved by the Health Care Financing Administration (HCFA). These payments are allocated between the BHOs based on the number of eligible clients. Eligibility includes not being incarcerated. When a BHO has included ineligible clients in its population of TennCare eligible clients, the portion of the money budgeted for that BHO should be reduced to that extent and awarded to the other BHO. The total amount paid to the BHOs is not affected. Thus, the total amount paid to the BHOs is not a questioned cost in this audit.

Although the total amount paid to the BHOs is not affected, future funding might be affected. When ineligible individuals are included in the population, the population is skewed and could affect assumptions made when determining the amount of the global budget paid to the BHOs in the future.

The payments to the MCOs were monthly capitation payments—payments to managed care organizations to cover TennCare enrollees in their plans. Since the bureau was not aware of the ineligible status of the children in the youth development and detention centers, TennCare incorrectly made capitation payments to the MCOs on their behalf.

Payments for children on runaway status

TennCare has paid for enhanced behavioral health services for children who are in the state's custody but are on runaway status. No services were performed for these children because they have run away from the service providers. According to the *Office of Management and Budget (OMB) Circular A-133*, to be allowable, Medicaid costs for services must be for an allowable service that was actually provided. *Code of Federal Regulations*, Title 42, Part 1003, Section 102, prohibits billing for services not rendered.

It is the responsibility of Children's Services to notify TennCare when children run away from service providers. Testwork revealed Children's Services does not notify TennCare when children are on runaway status. Children's Services' provider policy

manual allows service providers to bill Children's Services for up to 10 days for children on runaway status, but Children's Services cannot bill TennCare for those days. Since the Bureau has no routine procedures, such as data matching, to check for such an eventuality, it was unaware Children's Services was reimbursed for treatment costs that were not incurred by the service providers.

Using CAATs, auditors performed a data match comparing TennCare's payment data to runaway records from Children's Services Client Operation and Review System (CORS). Management at Children's Services has indicated the CORS records are not reliable; however, as of December 10, 1999, Children's Services has not provided the auditors with evidence that would indicate the runaway records were incorrect. The results of the data match indicated that TennCare had improperly paid $403,653.63 for year ended June 30, 1999, to Children's Services for children on runaway status. Federal questioned costs totaled $254,937.54. An additional $148,716.09 of state matching funds was related to the federal questioned costs.

Payments for individuals over 21

TennCare does not have procedures to identify the TennCare eligible individuals who have reached the age of 22, and therefore cannot stop payments to Children's Services for Medicaid services provided to these individuals who are older than 21 years. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for Medicaid services provided to recipients in its care who are 21 years or under.

TennCare contracts with Children's Services to determine the eligibility of children under its care and should notify TennCare when an individual is older than 21 years. However, Children's Services does not notify TennCare when a individual reaches the age of 22. Since the Bureau has no routine procedures to check for such an eventuality, it was unaware Children's Services billed for recipients who were older than 21 years. When the recipient is over 21 years of age, the recipient may receive TennCare services through the MCOs, BHOs, or other departments, but not through Children's Services.

Using CAATs, a search by the auditors of TennCare's paid claims records revealed that TennCare improperly paid a total of $77,347.37 for the year ended June 30, 1999, for individuals over 21. Federal questioned cost totaled $48,850.67. An additional $28,496.70 of state matching funds was related to the federal questioned costs.

TennCare paid Children's Services for services covered by the BHOs

When TennCare began (January 1, 1994), TennCare contracted with Children's Services to provide all behavioral treatment for children in state custody or at risk of state custody. On July 1, 1996, TennCare contracted with the BHOs to provide some behavioral health treatment for children in state custody or at risk of state custody. However, the TennCare waiver was not amended to define the responsibilities of Children's Services.

TennCare contracts with the BHOs to provide the basic and enhanced behavioral health services for children not in state custody as well as basic behavioral health services for children in state custody. In addition, TennCare has contracted with the BHOs to provide all services to prevent children from entering state custody (Hometies) for children at risk of state custody. All behavioral services for children not in state custody should be provided through the TennCare BHOs. Enhanced behavioral health services for children in state custody should be provided by Children's Services. Since TennCare does not have procedures to identify services covered by the BHOs for children in state custody or at risk of state custody, TennCare has paid both the BHOs and Children's Services for the following services:

- TennCare has made payments to Children's Services for enhanced behavioral health services for children not in state custody. Using CAATs, auditors performed a data match comparing payment data on the Bureau of TennCare's system to custody records from Children's Services CORS system. The results of the data match indicated that TennCare had improperly paid $4,647,493.79 for the year ended June 30, 1999, for children who were not in the state's custody. Management at Children's Services indicated that the CORS system was not reliable and that the children could possibly be in the state's custody. As of December 10, 1999, Children's Services had not provided the auditors with evidence that would support the custodial status of the children in question. A portion of these improper amounts (see below for further discussion) was paid for services to prevent children from entering state custody, also known as the Hometies Program in Children's Services, which is covered by the BHOs. Federal questioned costs, excluding $1,411,028.51, which is included in the Hometies amount questioned below, totaled $2,044,070.56. An additional $1,192,394.72 of state matching funds was related to the federal questioned costs.

- TennCare has made payments to Children's Services for Hometies services provided to children at risk of state custody. TennCare improperly paid Children's Services $2,279,293.00 for the year ended June 30, 1999, for services covered by the BHOs. Federal questioned costs totaled $1,439,544.48. An additional $839,748.52 of state matching funds was related to the federal questioned costs.

<u>Payments for services provided to children under three years</u>

TennCare has paid Children's Services for behavioral health services provided to children under three years old. Based on discussion with TennCare's medical staff, a child cannot be mentally evaluated until the age of three. Since very young children cannot be mentally evaluated, it does not seem reasonable that these children received these types of Medicaid services. Management at Children's Services cited the following as possible reasons this occurred:

- Children's Services billed in the child's name for services actually rendered to the childs mother. However, this is inappropriate because TennCare has not received approval from HCFA to allow this type of indirect billing. By allowing this type of indirect billing, it is possible the service provider was paid twice for services provided to the mother.

- Children's Services billed for children under age three who are medically fragile. However, the MCOs are responsible for providing all medical treatment to these TennCare enrollees.

Using CAATs, a search by the auditors of TennCare's paid claims records revealed that TennCare improperly paid a total of $1,673,100.41 for the year ended June 30, 1999, for children under three. Federal questioned costs totaled $1,056,688.39. An additional $616,412.02 of state matching funds was related to the federal questioned costs.

Payments to Children's Services for claims that were not adequately supported

For 12 of 60 claims tested (20%), TennCare inappropriately reimbursed Children's Services for billings when there was inadequate evidence that the child received the service. *OMB Circular A-87* requires all costs to be adequately documented.

A total of $2,838.05 was paid for these services. Federal questioned costs totaled $1,792.44. An additional $1,045.61 of state matching funds was related to the federal questioned costs. We believe that likely federal questioned costs associated with this condition could exceed $10,000.

Our review of the files associated with custody, runaways, incarcerated youth, individuals over 21, vendor billings, children under three, and children in the Hometies program, revealed that there was some duplication of questioned costs. We estimate the amount of duplicated questioned costs to be $250,000.

In total, $9,644,994.56 was improperly paid to Children's Services, $656,519.26 to the MCOs, and $242,258.95 to the BHOs. As discussed earlier, the amounts paid to the BHOs will not be questioned. A total of $6,506,178.60 of federal questioned costs is associated with the conditions discussed in this finding. An additional $3,795,335.22 of state matching funds was related to the federal questioned costs.

Recommendation

The Director of TennCare should ensure computer-assisted monitoring techniques are developed by the Bureau to prevent or detect payments for incarcerated youth, children on runaway status, individuals over 21, services covered by the BHOs, and children under three. The Director of TennCare should ensure Children's Services bills only for recipients who receive services and are eligible to receive services. Management should also consider whether any action is necessary regarding the monthly allocation of

funds between the BHOs. An accurate population of eligible BHO clients should be determined for purposes of future monitoring. In addition, the Director of TennCare should ensure Children's Services is immediately notified of all relevant laws and regulations. Also, the Director of TennCare should ensure Children's Services is appropriately notified of which services the BHOs are responsible for and which services would fall to Children's Services. The Director of TennCare should also ensure TennCare's management communicates effectively with Children's Services to ensure timely resolution of the numerous problems noted.

Management's Comment

We concur. TennCare will review the services provided by the BHOs in relation to those services provided by DCS and will work with DCS to ensure their knowledge of those services that can be billed to TennCare and those that must be billed to the BHOs. TennCare will continue to work with DCS to determine the cause and resolution necessary to resolve problems addressed with this program. TennCare will address monitoring techniques that may be available to help detect or prevent unauthorized payments for children in state custody or at risk of coming to state custody.

Finding Number	99-TDH-05
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare should ensure the Department of Children's Services payment rates are reasonable and have been approved by the Health Care Financing Administration

Finding

As noted in a previous audit finding, with which management concurred, TennCare has not ensured the Department of Children's Services (Children's Services) has established federally approved Medicaid treatment rates for services provided for children in state custody. TennCare has relied on Children's Services to determine the Medicaid treatment rates paid to the Medicaid service providers for children in the state's custody. Children's Services pays the Medicaid service providers for all Medicaid (treatment) and non-Medicaid services (housing, meals, and education) directly, then bills TennCare for the reimbursement of Medicaid services.

Management of Children's Services could not provide information as to how the treatment portion of services was determined. Management of Children's Services concurred in part with the previous finding in their report and stated they would perform a study to address the problem. Although a study has been performed, Children's Services has not implemented the new rates as of December 10, 1999. Without an understandable methodology to determine the true treatment costs incurred by the Medicaid service providers, Children's Services may be over- or underbilling TennCare for costs associated with the treatment. In addition, TennCare may be reimbursing Children's Services for non-Medicaid services. Because actual treatment costs could not be determined and differentiated from unallowable costs, auditors could not determine the amounts of possible overbillings and unallowable costs paid by the federal government. Since management at Children's Services could not explain the current methodology, it is unlikely the current rates meet Medicaid principles.

Recommendation

The Director of TennCare should ensure that Children's Services implements a federally approved methodology that is in compliance with Medicaid principles for treatment costs associated with children in state custody. If the Director of TennCare cannot persuade Children's Services to comply, the Director of TennCare should seek the

assistance of the Commissioner of Finance and Administration in seeking Children's Services' compliance with federal regulations.

Management's Comment

We concur. The Bureau of TennCare is working with DCS in getting a revised federally approved payment methodology for children's therapeutic intervention services that is in compliance with Medicaid principles and Medicaid/Title V Agreement relative to children in state custody.

Auditor's Comment

The Medicaid/Title V agreement referenced above is not relevant to the current program because it was not updated to reflect the changes in the state Medicaid plan and the expanded services for children in state custody under the current TennCare waiver. In addition, neither TennCare nor Children's Services perform Title V services.

Finding Number	99-TDH-07
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare has not adequately monitored TennCare-related activities at the Department of Children's Services

Finding

As noted in the prior two audits, TennCare has not adequately monitored the Department of Children's Services (Children's Services). Management concurred with the finding and contracted with the Department of Finance and Administration (F&A) to monitor several aspects of Children's Services' operations for the year ended June 30, 1999. Although TennCare recognized the need for a strong monitoring effort and has contracted with F&A to provide this service, the monitoring effort still needs improvement. In addition, TennCare did not inform F&A of all compliance issues, regulations, and guidelines that should be monitored.

In accordance with the agreement between Children's Services and TennCare, Children's Services contracts separately with various practitioners and service providers to provide health care benefits not provided by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) under contract with TennCare. Children's Services pays these providers and bills TennCare for reimbursement. For the year ended June 30, 1999, TennCare paid approximately $103 million to Children's Services in fee-for-service reimbursement claims.

TennCare's monitoring through a memorandum of understanding (MOU) F&A includes efforts to ensure:

- Only services allowable under the grant are billed.
- The amounts billed are correct and allowable.
- The expenditures are valid and properly supported.
- Only eligible, licensed, or certified providers are providing the services.

F&A reviewed only one out of twelve months for allowability of payments. One month of testing does not provide reasonable assurance that all services billed TennCare

were allowable. In addition, F&A did not follow the MOU's requirements related to monitoring of the following critical areas:

- F&A did not test the accuracy of Children's Services billing rates (finding 99-TDH-05).

- F&A did not test the eligibility determinations to ensure that only eligible individuals are enrolled in TennCare.

- F&A did not determine if procedures existed to identify incarcerated youth. Claims associated with incarcerated youth cannot be billed to TennCare.

- F&A did not test the providers to ensure all provider enrollment qualifications were met.

- Based on numerous discussions with F&A monitoring staff, it was apparent that F&A was not aware of all possible unallowable costs associated with Children's Services' claims including runaway days, payments for non-custodial children, and services that were covered by the behavioral health organization (BHOs) for children in state custody (finding 99-TDH-04).

Recommendation

The Director of TennCare should ensure F&A properly performs its responsibilities under the monitoring agreement. TennCare should consider all critical areas of compliance, especially related to Children's Services' billings for ineligible services or children. These areas and the applicable compliance requirements should be appropriately included in the monitoring agreement with the Department of Finance and Administration.

Management's Comment

We concur. The Bureau of TennCare has enhanced the scope of services required in the monitoring plan with the Department of Finance & Administration for the current fiscal year. We will work with F&A monitoring staff to ensure their knowledge of allowable and unallowable services.

Finding Number	99-TDH-08
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare has delegated authority to the Division of Mental Retardation Services in the Department of Finance and Administration to determine eligibility for and to have administrative discretion over the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled

Finding

TennCare has delegated authority for eligibility determinations and authority to exercise administrative discretion for the Medicaid Home and Community Based Services (HCBS) Waiver to the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration. As provided under Section 1902(a)(5) of the Social Security Act, the Department of Health (including the TennCare Bureau) is the state's designated single state agency for the Medicaid program. The *Code of Federal Regulations*, (CFR) Title 42, Part 431, Section 10, requires the single state Medicaid agency to determine eligibility for the disabled. However, the TennCare Bureau has allowed DMR to determine the eligibility of recipients under the HCBS waiver. The eligibility function performed by DMR includes all approval functions for those recipients deemed eligible.

The CFR, Title 42, Part 431, Section 10, states that in order for an agency to qualify as the Medicaid agency the following must exist:

> (1) The agency must not delegate, to other than its own officials, authority to (i) Exercise administrative discretion in the administration or supervision of the plan, or (ii) Issue policies, rules, and regulations on program matters.
>
> (2) The authority of the agency must not be impaired if any of its rules, regulations, or decisions are subject to review, clearance, or similar action by other offices or agencies of the state.
>
> (3) If other State or local agencies or offices perform services for the Medicaid agency, they must not have the authority to change or disapprove any administrative decision of that agency, or otherwise substitute their judgment for that of the Medicaid agency with respect to

the application of policies, rules, and regulations issued by the Medicaid agency.

Testwork revealed that TennCare has not maintained its authority over the HCBS waiver. For example, TennCare has not issued specific policies and procedures for the waiver program, and has allowed DMR to develop procedures for the program without TennCare's oversight and supervision. Furthermore, DMR developed policies without regard to Medicaid rules.

In addition, TennCare's monitoring of the program has not been adequate to provide sufficient supervision of the program. See finding 99-TDH-09 for information concerning monitoring. Also, DMR has developed a payment methodology that appears to contradict specific requirements of a Health Care Financing Administration (HCFA) Transmittal letter stating leave days are not allowable under the Medicaid program for home and community based services. See finding 99-TDH-11 for further information concerning this payment methodology. DMR's current payment methodology results in TennCare ultimately paying for services under the waiver that exceed actual costs of the services provided, which is unallowable under *Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*.

Without adequate authority, supervision, and effective monitoring of the HCBS waiver, TennCare cannot ensure that all applicable federal regulations are met, and that appropriate costs are passed on to the federal grantor.

Recommendation

The Director of TennCare should establish TennCare's authority over the waiver program and not permit DMR administrative discretion over the waiver. The Director of TennCare should develop policies and procedures, and appropriate rules for the waiver. If eligibility determinations are to continue under DMR, then TennCare should perform the approval function for eligibility. Adequate monitoring of the waiver should be performed by TennCare to allow adequate supervision of administrative functions performed by DMR for the waiver.

Management's Comment

We partially concur. We continue to disagree with the audit report's interpretation of Medicaid requirements as stated below. TennCare hasn't improperly delegated authority to the Division of Mental Retardation Services (DMRS). TennCare has appropriate interagency agreements with DMRS under which DMRS performs specified functions for TennCare. Although DMR has policies and procedures in place for the HCBS Waiver, we do recognize that improvements and updates are necessary and that TennCare should have an approval role in the process. We also recognize that TennCare needs to strengthen its own policies, procedures and rules relative to this

waiver. TennCare fully recognizes its responsibility to supervise and monitor the waiver program. We agree that our monitoring efforts must be improved and will review the current process for necessary changes. We do not concur relative to the delegation of eligibility determination to DMRS. DMRS makes no Medicaid financial eligibility determinations, which is performed by the Department of Human Services. DMRS does perform pre-admission clinical evaluations for DMRS waiver clients but we feel HCFA allows this and will confirm our understanding.

Auditor's Comment

TennCare has delegated authority to DMR. The requirements set forth for the single state Medicaid agency in the *Code of Federal Regulations (CFR)* are very specific. The single state Medicaid agency may not delegate administrative discretion or allow others to issue policies, rules, and regulations on program matters. TennCare has allowed DMR to issue policies and procedures concerning the HCBS waiver program without TennCare approval. In allowing DMR to create its own policies and procedures without TennCare approval, TennCare is not in compliance with *CFR*, Title 42, Part 431, Section 10, requirements. In addition, DMR substituted their own judgment in devising a claims payment system not in compliance with federal requirements.

TennCare concurred with a finding concerning TennCare's inadequate monitoring of the program. Monitoring of DMR would have allowed TennCare to adequately supervise DMR's administration of the HCBS waiver.

Furthermore, the single state Medicaid agency is responsible for eligibility determinations in the Medicaid program; however, the state agency responsible for SSI determination under the CFR may also make Medicaid financial eligibility determinations. The Department of Human Services is the state agency responsible for Medicaid financial eligibility determinations in the state of Tennessee. Entry into areas of the Medicaid program requiring medical determination to receive specific Medicaid services for disability would still require determination of the single state Medicaid agency.

The HCBS waiver has eligibility requirements for medical necessity beyond those of the regular Medicaid program. As well as meeting standard Medicaid requirements, the recipient must be mentally retarded and developmentally disabled. *CFR*, Title 42, Part 431, Section 10, requirements specifically state the types of agencies that can determine disability. DMR is not one of the types of agencies listed.

TennCare's Long Term Care unit determines eligibility for all other long term care services offered under the State Medicaid plan. The other long term care services include services for home and community based waivers for elder and disabled care, skilled nursing and intermediate care services for the elderly and disabled, and intermediate care services for the mentally retarded and developmentally disabled. These other long term care options require eligibility determinations beyond Medicaid

eligibility to obtain Medicaid long term care services. Clearly all eligibility determinations for the long term care services should remain with the TennCare program, as the single state Medicaid agency, to remain in compliance with the provisions of *CFR*, Title 42, Part 431, Section 10 concerning determination of disability.

Finding Number	99-TDH-13
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	$27,328.00

TennCare has not ensured an adequate process is in place for approval and review of services for the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver

Finding

TennCare has not ensured the Division of Mental Retardation Services (DMR) appropriately reviews and authorizes allowable services for recipients of the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver (HCBS waiver). In addition, DMR does not adequately document the review and approval of services on the Individual Service Plan (ISP).

Section 13 of the HCBS waiver states services under the waiver will be furnished pursuant to a approved plan of care. Documentation of approval of plan of care services is performed on the ISP based on appendix E of the HCBS waiver document. DMR's *Operation Manual for Community Providers*, chapter two, requires ISPs to be authorized before entry into DMR's Community Service Tracking System as approved. In addition, *Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*, states costs must be documented.

Auditors tested a sample of claims totaling $42,311. Testwork revealed that for 31 of 33 claims tested (93.9%), the ISPs were not signed and dated by anyone authorizing and approving services under the HCBS waiver. Discussion with auditee personnel concerning these ISPs revealed that they were not reviewed. The auditor could not determine the services were properly authorized. Federal questioned costs totaled $27,328. An additional $13,980 of state matching funds was related to the federal questioned costs. The total claims paid by TennCare for the year ended June 30, 1999, was $82,278,890.

Without approved plans of care, Medicaid providers of HCBS waiver services may be paid for unallowable services.

Recommendation

The Director of TennCare should ensure that DMR adequately documents approval of services under the HCBS waiver and reviews approvals for allowability. The approval and review should be appropriately documented on the ISP. The Director should ensure TennCare monitors this process for compliance.

Management's Comment

We concur. Although the ISP (Individual Service Plan) was not signed as stated in the finding, there was a signed individual cost plan that is prepared as a direct result of the ISP. The current service authorization process will be reviewed by TennCare staff and if determined appropriate, an amendment to the HCBS Waiver will be submitted to HCFA to clarify the process that will be used to provide documentation of services authorized and approved for waiver participants. During the required annual state assessment, the TennCare monitor will review for the proper signatures.

Finding Number	99-TDH-20
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare needs to improve policies and procedures for accounts receivable

Finding

As noted in the prior audit, TennCare has not established adequate overall policies and procedures for accounts receivable. Management concurred and stated it would begin the process of developing policies and procedures for monitoring, collecting, and recording in the State of Tennessee Accounting and Reporting System (STARS), and writing off TennCare's accounts receivable.

Testwork revealed that TennCare's management is still in the process of developing written policies and procedures for recording all accounts receivable in STARS and for monitoring, collecting, and writing off accounts receivable. TennCare's receivables consist mainly of cost settlements, drug rebates, and enrollee premiums. Management considers many of these receivables to be uncollectible. The total uncollectible amount for the three categories is approximately $31 million. Since TennCare does not have policies and procedures for attempting to collect or writing off the uncollectible balances, the uncollectible balances continue to increase.

Testwork also revealed several discrepancies in the controls over enrollee premiums receivable. Premiums are collected from enrollees who are classified as uninsured and uninsurable. These enrollees are required to pay premiums in order to receive health services under the program. TennCare is responsible for maintaining the enrollee's premium account and for determining the applicable monthly premium amount based on an enrollee's income and family size.

Testwork revealed that TennCare was not properly verifying and reverifying eligibility for the purpose of cost sharing (premiums) (see finding 99-TDH-03 for more information). Therefore, proper premiums may not be charged to enrollees.

In addition, TennCare did not comply with the *Rules of the Department of Finance and Administration*, Division of Accounts, Chapter 0620-1-9, for writing off accounts receivable. According to this policy and procedure, "any write-off of any account of one thousand dollars or greater or accounts aggregating five thousand dollars ($5,000) or more must have the prior written approval of the Commissioner of Finance

and Administration and the Comptroller of the Treasury." For the year ended June 30, 1999, in response to a court case, TennCare wrote off approximately $34.8 million of outstanding premiums without proper approval. In addition, management could not provide written approvals by their own agency officials as is required by the policy.

Furthermore, testwork revealed inadequate controls to ensure the accuracy of premium reporting. The TennCare Bureau prepares a cumulative premium report each month to track the total premiums billed to enrollees, the total amount remitted by enrollees, the total amount due from enrollees, and the total premium statements mailed to enrollees for each month. Management uses this report to develop premium estimates for financial reporting purposes. Our review of this cumulative report revealed several inconsistencies that jeopardize the reliability of this report. The report provided to the auditors during this audit period contained differences from the report used in the prior audit. For example, the amount of premiums billed for the month of January 1994 was different on the two reports. Although the amount should not have changed, the report auditors received in 1999 showed January 1994 billings as $485,645.03 and the 1998 report showed January 1994 billings as $487,046.29. In addition, the column that summarizes total due from enrollees reported balances when in fact these receivable balances had been written off by management. Management could not provide any explanation for the inconsistencies but stated that the discrepancies resulted from computer programming errors. As a result, auditors could not rely on the reports as evidence of TennCare's controls over premium reporting or for developing premium estimates.

The Division of Budget and Finance prepares deposit slips and records the deposits in STARS for the enrollee premiums collected. However, responsibility for the premium billing and collection process has been assigned to the Division of Information Services. It may be more appropriate if the Division of Budget and Finance is given responsibility for billing, and collecting enrollee premiums. This would place the billing and collection duties in a more logical location and allow the Division of Information Services to focus on Information Services functions.

Recommendation

The Director of TennCare should ensure that policies and procedures for overall accounts receivable functions are completed and implemented. Furthermore, the Director of TennCare should strengthen controls over premiums for the uninsured and uninsurable enrollees. Controls should include accurate premium reporting and proper write-off of uncollectible premium receivables. In addition, the TennCare Director should consider assigning responsibility for controls over premiums entirely to the Division of Budget and Finance.

Management's Comment

We concur. Policies and procedures are being developed to include monitoring, collecting writing off and recording in STARS the TennCare accounts receivable, which includes premium collections. TennCare staff will work with other state agencies to document the establishment of accounts receivable at year end. TennCare will review the current controls and procedures relative to premium collections and determine if the responsibility should be in the Division of Budget and Finance.

Finding Number	99-TDH-21
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Policies and procedures for accrued liabilities need improvement

Finding

As noted in the prior audit, TennCare's policies and procedures for accrued liabilities were not adequate. Due to these inadequacies, numerous deficiencies in TennCare's accrued liabilities records were noted. Management concurred with the prior finding and stated it would begin the process of developing policies and procedures. As of December 1999, management stated that these policies and procedures were still being developed. However, management could not provide a draft of the policies and procedures.

As part of the state's year end financial closing procedures, management determines, and then records in the State of Tennessee Accounting and Reporting System (STARS), the accrued liabilities for the TennCare program. For the year ended June 30, 1999, the total amount of TennCare's accrued liabilities recorded in STARS was $380,296,563.24. However, after testwork was completed, it appeared that management had overstated the accrued liabilities by $94,505,924.98. Testwork revealed the following:

- Management recorded a $50 million liability for a special payment to hospitals and a $30 million liability to Xantus at June 30, 1999. However, neither of these items were a liability of TennCare at June 30, 1999. Management made an adjustment for $80,000,000 to the general fund.

- Management obtained and recorded estimated accrued liability amounts from the Department of Children's Services, the Department of Mental Health and Mental Retardation (DMHMR), and the Medicaid/TennCare Section of the Comptroller's Office. However, management did not obtain and review sufficient supporting documentation for the amounts recorded, nor did it get assurance from these departments that the liability balances were accurate. For example, TennCare's Fiscal Director could not provide support for the TennCare-related accrued liabilities for DMHMRs; therefore, the auditor had to obtain the information from the Fiscal Director at DMHMR. As a result of

the audit testwork, many discrepancies were noted and adjustments to the accrued liabilities for DMHMR were proposed.

- Medicaid provider cost settlement receivables and payables were improperly netted by category in STARS. For example, all hospital receivables were netted with all hospital payables, instead of by individual hospital. In addition, all total net amounts, by category, also were netted together. For example, all hospital receivables/payables were netted with all nursing home receivables/payables.

Proper accounting policies and procedures ensure that the financial information used for decision-making and state and federal reporting is accurate.

Recommendation

The Director of TennCare should ensure the Fiscal Director obtains accurate and sufficiently detailed supporting documentation for amounts which will be recorded in STARS. In addition, the Fiscal Director should ensure liabilities accrued by his office are carefully prepared and reviewed.

The Fiscal Director also should ensure that receivables and payables (liabilities) are accounted for separately and consistently. Amounts should be netted on an individual provider or account basis only, if deemed necessary.

Management's Comment

We concur. Policies and procedures are being developed to ensure accrued liabilities are adequately documented before recording in STARS. TennCare staff will work with other state agencies to document the establishment of accrued liabilities at yearend and will net accounts receivables and accrued liabilities only when deemed necessary.

Finding Number	99-TDH-22
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Controls over checks should be strengthened

Finding

The TennCare Bureau needs to improve controls over manual and system checks. For the year ended June 30, 1999, these checks totaled over $3.6 billion.

Electronic Data Systems (EDS), the fiscal agent, is responsible for preparing the checks. However, EDS has not established adequate controls over checks. In addition, existing controls are not adequately documented in the fiscal agent's policies and procedures. The following deficiencies were noted:

- Manual and system check stock is kept in a locked room. Procedures require two EDS employees to be present when retrieving the check stock. For the manual checks, this is to be documented by both employees signing the manual check log before obtaining the key to the room to retrieve check stock. For 3 of 53 times (5.7%) that manual checks were drawn, the manual check log was only signed by one individual. Prior to May 1999, the fiscal agent did not maintain a system check log to ensure all system checks were accounted for properly. In addition, EDS does not record receipt of blank system checks for accountability.

- Physical security over the manual and system check stock is compromised because the room key and the key logs are not kept together. Thus, the keys could be obtained without anyone signing the log.

- The rubber stamp used to sign manual checks, signature plates used to sign system checks, and completed checks are kept in a locked box located in a locked room along with partially completed checks. Before obtaining any one or more of these items, two individuals from EDS should sign the key log. For 153 of 595 times (25.7%) the key was used, the log was signed by only one individual.

- Although EDS began system check logs in May 1999, systems check logs were not reconciled to the TennCare Management Information System (TCMIS) to ensure all checks were accounted for properly.

- EDS does not reconcile between the manual check log to checks that are completed to ensure all checks were accounted for.

These weaknesses in the controls over checks could permit an individual to gain access to checks without detection. In addition, these weaknesses in controls could permit an individual to control the whole check process and issue a check for unauthorized purposes.

The only compensating control used was a reconciliation of checks issued and cleared each month. This reconciliation involves records from the Department of the Treasury (Treasury), the Department of Finance and Administration's Division of Accounts, and TennCare. This reconciliation ensures that TennCare's and Treasury's records of checks issued and cleared correspond to State of Tennessee Accounting and Reporting System (STARS). However, this control is not entirely effective because reconciliations were not always completed in a timely manner. For example, the December 1998, January 1999, February 1999, March 1999, and April 1999 Treasury ARP reconciliations were not given to TennCare until June 1999.

Effective internal controls require that no one person have the ability to control the entire check-issuance process and that reconciliations of accounting records to bank activity are timely.

Recommendation

The Director of TennCare should ensure the fiscal agent has adequate controls over access to manual and system checks. In addition, each month the Department of the Treasury, the Division of Accounts, and TennCare should promptly reconcile checks issued and cleared with Account Reconciliation Package (ARP), STARS, and TCMIS records. Check logs should be reconciled to checks issued to ensure accountability. In addition, manual check logs should always be used to record the receipt and issuance of manual checks.

Management's Comment

We concur. The reconciliation process between STARS, TCMIS and Treasury is now current. We continue to monitor the Fiscal Agent to insure adequate segregation of duties and have taken action to notify EDS management of the weakness.

Finding Number	99-TDH-24
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	$1,633,332.00

Internal control over provider eligibility and enrollment was not adequate to ensure compliance with Medicaid provider regulations

Finding

The TennCare program did not have adequate internal control for provider eligibility and enrollment to ensure compliance with Medicaid provider regulations. As noted in the prior audit, TennCare did not reverify licensure for Medicare cross-over providers or monitor the enrollment of Medicaid providers by the Department of Children's Services (Children's Services). Management concurred with the finding and stated that, "An aggressive approach for verification and reverification is a key element of the Bureau's strategic plan." However, no procedures were developed to reverify licensure.

In addition, management stated they had arranged for the Department of Finance and Administration (F&A) to assist in monitoring provider enrollment at Children's Services. However, F&A did not monitor Children's Services' provider eligibility and enrollment procedures. According to the Director of Financial Systems Consulting Group at F&A, the monitoring staff performed fiscal monitoring procedures at Children's Services during the last four months of the fiscal year. At that time, F&A verified that a sample of providers had a current license; however, this verification was not documented.

TennCare also had the following other internal control weakness and noncompliance issues:

- TennCare had no provider eligibility and enrollment policies and procedures manual;

- the licensure status of managed care organization (MCO) and behavioral health organization (BHO) providers was not reverified after the providers were enrolled;

- TennCare's contracts with Children's Services and the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration

did not require these departments to comply with Medicaid provider rules and regulations, and as a result, Children's Services and DMR did not comply;

- TennCare did not monitor the enrollment of Medicaid providers at DMR;
- DMR did not reverify the licensure of individual providers;
- provider agreements did not comply with all applicable federal requirements;
- not all providers had a provider agreement, as required; and
- a DMR provider was not licensed for over 10 months.

Compliance with applicable rules and regulations, as well as a system of internal control to ensure that compliance, are necessary to ensure that the providers participating in the TennCare program are qualified and that they meet all eligibility requirements.

Responsibility for TennCare provider eligibility and enrollment is divided among the Provider Enrollment Unit in the Division of Operations, Bureau of TennCare; the Division of Resource Management in Children's Services; and the East, Middle, and West Tennessee regional offices in DMR. The Provider Enrollment Unit is responsible for enrolling MCO and BHO providers; Medicare cross-over individual and group providers (providers whose claims are partially paid by both Medicare and Medicaid/TennCare); and long-term care facilities.

Children's Services is responsible for the eligibility of the providers it pays to provide Medicaid-covered services to eligible children. DMR is responsible for the eligibility of the providers it pays to provide services under the Home and Community Based Services Wavier for the Mentally Retarded (HCBS- MR waiver) program. (DMR is responsible for the daily operations of this Medicaid program. See finding 99-TDH-08.) TennCare reimburses Children's Services and DMR for payments to these providers.

No Policies and Procedures Manual

The TennCare Provider Enrollment Unit does not have a policies and procedures manual. The Provider Enrollment Unit supervisor stated that she had been working on a draft copy since January 1999. The lack of written, comprehensive provider eligibility and enrollment policies and procedures increases the risk that errors or inconsistencies may occur in this area.

Provider Licensure Not Reverified

The Provider Enrollment Unit and DMR enroll providers licensed by the Division of Health Related Boards in the Department of Health. Although the Division of Health Related Boards does not notify the Provider Enrollment Unit and DMR when a provider's license is suspended or terminated, the Division of Health Related Boards has

two systems, one on the Internet and an automated telephone system, so that the current status of a provider's license can be verified. During the year ended June 30, 1999, neither the Provider Enrollment Unit nor DMR used either system to reverify licensure.

The Provider Enrollment Unit, DMR, and Children's Services also enroll providers licensed or certified by the Board for Licensing Health Care Facilities (Health Care Facilities) in the Department of Health. Health Care Facilities notified the Provider Enrollment Unit when a provider's certification was suspended or terminated; however, Health Care Facilities did not notify Children's Services or DMR when a provider's license was suspended or terminated. Although these departments were not notified, Children's Services took the initiative to reverify licensure, but DMR did not.

The departmental *Rules for the Bureau of TennCare*, section 1200-13-12-.08, "Providers," state that participation in the TennCare/Medicaid program is limited to providers that "maintain Tennessee, or the State in which they practice, medical licenses and/or certifications as required by their practice, or licensure by the Tennessee Department of Mental Health and Mental Retardation."

Children's Services and DMR Did Not Always Comply with Medicaid Provider Rules and Regulations.

The contracts between TennCare and Children's Services and DMR do not state, as they should, that these departments are required to follow Medicaid federal and state provider rules and regulations. In addition, TennCare did not monitor the enrollment of Medicaid providers at Children's Services and DMR. As a result, Children's Services and DMR did not always comply with Medicaid provider rules and regulations. For example, Children's Services and DMR did not comply with *Code of Federal Regulations* (CFR), Title 42, Part 431, Section 107, "Required Provider Agreement." (This regulation is discussed further in the next section of this finding.)

Provider Agreements Not Adequate

Except for its agreements with long-term care facilities, TennCare's provider agreements did not comply with federal requirements. The Tennessee Medicaid state plan says, "With respect to agreements between the Medicaid agency and each provider furnishing services under the plan the requirements of 42 CFR 431.107 are met." This regulation states,

> A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to: (1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients; (2) On request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit any information maintained under (1) and any information regarding payments claimed by the provider for furnishing services under the plan; (3) Comply with the disclosure requirements specified in part 455, subpart B.

The agreement for individual cross-over, MCO, and BHO providers did not meet the criteria in (1), (2), and (3). The agreement for group cross-over providers did not meet the criteria in (1) and (2). However, it met the criteria in (3): 42 CFR 455, subpart B, "Disclosure of Information by Providers and Fiscal Agents," which requires providers to disclose ownership and control information and information on a provider's owners and other persons convicted of criminal offenses against Medicare or Medicaid.

The Medicare program, which is administered by the federal government, enrolls cross-over providers before the Provider Enrollment Unit enrolls them in Medicaid/TennCare. According to the manager of the Provider Enrollment Unit, Medicare providers must also meet the requirements of 42 CFR 431.107, and Medicaid/TennCare has relied on Medicare's enrollment procedures since the beginning of the Medicaid program. Auditors requested that management provide documentation from the grantor that would indicate it was permissible for TennCare to rely on Medicare in this area; however, no documentation was provided. In addition, the auditors did not find any references in the CFR or Tennessee Medicaid State Plan that indicated that reliance on Medicare is permitted.

Not All Providers Had an Agreement

The auditors tested a sample of payments to long-term care facility providers to determine if TennCare had a provider agreement on file for the dates of services for which each payment was made. TennCare issues a new provider agreement to long-term care providers after the Board for Licensing Health Care Facilities recertifies them annually. As mentioned above, the State Plan and CFR Title 42, Part 431, Section 107, require that providers have a provider agreement. TennCare paid a total of $951,724,634.88 to long-term care facilities for the year ended June 30, 1999.

Auditors tested 245 payments totaling $695,683. Testwork revealed that for 6 of 245 tested (3%) totaling $21,106, there was no provider agreement on file for the dates of service tested. Federal questioned costs totaled $13,330. An additional $7,776 of state matching funds was related to the federal question costs.

Unlicensed DMR Provider

During testwork, the auditors noted that an HCBS-MR waiver program provider was not licensed from February 1, 1998, through November 11, 1998. In March 1998, the Middle Tennessee Licensure Office in the Department of Mental Health and Mental Retardation notified DMR that the provider no longer was licensed after licensure inspectors discovered that the provider had moved to a new location earlier in the year. This was discovered when the inspectors attempted to perform the provider's annual relicensing inspection. According to licensure regulations, a facility loses its license upon relocation, and the provider did not meet all licensure requirements at its new location until November.

However, according to TennCare's records, during the year ended June 30, 1999, it reimbursed DMR $2,565,019 for services this provider performed between May 1, 1998, and November 11, 1998. As a result, $1,620,002 of federal costs will be

questioned. An additional $945,017 of state matching funds is related to these questioned costs.

Recommendation

The Director of TennCare should ensure that adequate internal control exists for determining and maintaining provider eligibility. Management and staff should comply with all Medicaid federal and state provider rules and regulations. The Medicaid/TennCare provider eligibility and enrollment policies and procedures manual should be finalized and distributed to all parties involved in this function. The Director should ensure that procedures are implemented to reverify licensure and to prevent future payments to non-licensed providers.

All Medicaid/TennCare providers should have a provider agreement and otherwise be properly enrolled before they are allowed to participate in the program. The provider agreements should be revised to comply with the State Plan and the *Code of Federal Regulations*. Management should also consider obtaining permission from the grantor to change the State Plan to allow reliance on Medicare for cross-over provider agreements.

In addition, Children's Services and DMR should comply with all Medicaid federal and state provider rules and regulations. The Director should ensure that these departments are informed of their responsibilities for compliance, and the Director of the Division of Finance and Budget should add these requirements to the contracts with these departments. The Director should ensure that knowledgeable staff monitors the enrollment of Medicaid providers at Children's Services and DMR.

Management's Comment

We concur in part. The Bureau has taken the position and continues to take the position that our reliance on Medicare's licensure verification for crossover providers is sufficient. However, we do randomly reverify the licensure of providers. Staffing limitations prohibit the reverification of licensure of all providers. While there may be some potential for a provider's license to be revoked or suspended during the period after which Medicare has verified the provider's license and the provider is enrolled in as a cross over provider, we are not aware of an instance in which this has occurred. HCFA has also reviewed our provider agreements in the past and has not found them to be problematic. For certain types of providers, the provider application serves as an "agreement".

The MCOs and BHOs have extensive credentialling procedures, which include verification of licensure. When the Bureau "enrolls" a MCO or BHO provider who does not bill for crossover payments, the provider's number is not activated.

With respect to DCS, the agency itself is the Medicaid provider, rather than its individual contractors. DCS contracts with residential providers for a comprehensive array of services to children in its custody. These services include room and board, social services, educational services, and other kinds of services other than medical care. These agencies are licensed and monitored by DCS, and they are paid a single daily rate, which includes the treatment and the non-treatment portions of their services. The treatment portion is calculated according to a cost allocation plan approved by HCFA and is billed to TennCare by DCS. Treatment services must be delivered according to requirements outlined in the Medicaid/Title V agreement.

We will work to develop, finalize, and distribute a written provider eligibility and enrollment policies and procedures manual.

Auditor's Comment

In the previous audit report management stated,

> We concur. We will examine the procedures for enrollment verification and develop remedies for the deficiencies noted. An aggressive approach for verification and reverification is a key element of the Bureau's strategic plan. We have arranged for the Department of Finance and Administration to assist us in monitoring several aspects of the Department of Children's Services and will include provider enrollment in that review.

In addition, management has stated that, currently, provider eligibility is not a priority. While it is necessary and reasonable that management set priorities for the program, these priorities do not affect the auditor's responsibility to examine controls and determine compliance with laws, regulations, contracts, and agreements, and to report instances of noncompliance, questioned costs, and weaknesses in internal control.

As noted in the finding, TennCare is responsible for ensuring that the providers that participate in the Medicaid/TennCare program (*i.e.*, the providers that are paid for providing services to Medicaid/TennCare recipients) are properly licensed or certified, as required. The *U.S. Office of Management and Budget A-133 Compliance Supplement* specifically requires the auditors to review and test controls and compliance in the area of "Provider Eligibility" (see section/page 4-93.778-16).

During the audit, the auditor discussed with management, at length, the TennCare provider enrollment unit's policies and procedures. We agree that reliance on Medicare may be acceptable for initial enrollment of cross-over providers. However, it would appear that controls could be strengthened and information received more quickly if TennCare's provider enrollment unit received notice of suspended licenses of providers from the Department of Health's Division of Health Related Boards. This way, rather

than having to systematically reverify the licensure status of every provider, the provider enrollment unit could rely on updates received.

With regard to provider agreements, during audit fieldwork the auditor was not informed that the Health Care Financing Administration (HCFA) had reviewed the provider agreements and had "not found them to be problematic." During fieldwork the auditors compared the provider agreements currently in use to the requirements stated in Title 42 of the *Code of Federal Regulations* (CFR) and, as noted in the finding, several instances of noncompliance were noted. It is the auditor's understanding that any form of provider agreement (application, contract, etc.) should meet all of the requirements stated in the federal regulations.

On numerous occasions during fieldwork the auditors asked management for any documentation that would exempt providers of Medicaid services enrolled by the Department of Children's Services (Children's Services) and the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration from being considered Medicaid providers. No such documentation was provided. We believe the entities providing the direct services for treatment are Medicaid providers and should be enrolled as providers under Medicaid regulations. Since Medicaid/TennCare funds are used to reimburse Children's Services and DMR for Medicaid-covered services provided to Medicaid-eligible recipients, Children's Services and DMR providers should be subject to the Medicaid provider requirements? like the providers enrolled by TennCare's provider enrollment unit. Also, because of the decentralized nature of provider enrollment it is important for TennCare to adequately monitor Medicaid provider eligibility and enrollment procedures at Children's Services and DMR.

In regard to the MCO and BHO providers, according to the supervisor of the provider enrollment unit, providers that wish to provide TennCare services through an MCO or BHO must first be determined eligible and enrolled by the TennCare provider enrollment unit. The provider enrollment unit follows its standard eligibility and enrollment procedures for these providers. After a provider has been determined eligible and has been enrolled at TennCare, the provider then may enter into an agreement with an MCO or BHO.

In addition to these matters, management did not address the following items discussed in the finding:

- not all providers had a provider agreement, as required, which resulted in federal questioned costs;

- an unlicensed provider was paid over $2.5 million resulting in questioned costs of over $1.6 million; and

- the auditor's various concerns pertaining to Medicaid providers used by DMR for the Medicaid Home and Community Based Services Waiver Program for the Mentally Retarded and Developmentally Disabled.

Finding Number	99-TDH-32
CFDA Number	93.959
Program Name	Substance Abuse Prevention and Treatment Block Grant
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

The department's accounting for SAPT grant expenditures is not adequate

Finding

The department's accounting for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) expenditures is not adequate. The department has not established specific cost centers in the State of Tennessee Accounting and Reporting System (STARS) for classification of expenditures for HIV services and treatment services for pregnant women and women with dependent children (women). Without these specific cost centers for HIV and for women, the required expenditure levels cannot be traced to STARS.

The United States Code (USC) and Code of Federal Regulations (CFR) require that certain expenditure levels or percentages be maintained, in relation to the SAPT grant. The USC states that the grant must be expended for HIV services, not to exceed 5% of the grant. The CFR states that the state must have a level of expenditures at least equal to the amount expended in 1994 for treatment services for pregnant women and women with dependent children. Since the expenditure amounts cannot be traced to STARS and adequate supporting documentation could not be observed, the department has not fully complied with the grant regulations.

Recommendation

The director of Alcohol and Drug Abuse Services should designate cost centers in STARS to allow tracking of expenditures for all the required level of effort categories.

Management's Comment

We concur. Between June 28, 1999 and July 2, 1999, a review was conducted by an independent contractor on behalf of the Federal Center for Substance Abuse Treatment's, Substance Abuse and Mental Health Services Administration. This review identified that the Department should establish specific cost centers in the State of Tennessee Accounting and Reporting System (STARS) for classification of expenditures

for both HIV services and treatment services for pregnant women and women with dependent children. The Department has established a separate cost center for the classification of SAPT expenditures for the HIV program. However at this time, the expenditures for the treatment of pregnant women and women with dependent children cannot be identified as such. Therefore, establishment of a cost center would not currently be beneficial. As a result, technical assistance has been requested from the Center from Substance Abuse Treatment to assist the Department in determining compliance with the SAPT Block Grant expenditure requirements for services to pregnant women and women with dependent children. The Department will strive to establish an appropriate accounting methodology to ensure compliance with all SAPT Block Grant requirements.

Section III – Federal Award Findings and Questioned Costs

Finding Number	99-CAFR-01
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Documentation to support access to Tennessee On-line Purchasing System was not on file

Finding

As noted in the two prior audits, proper documentation to support users' access to the Tennessee On-line Purchasing System (TOPS) was not on file at the Department of General Services. Management concurred with the prior finding and stated:

> The Purchasing division is in the process of reviewing all TOPS security request forms on file for accuracy, to make sure that access requests match what is provided in the system, and to ensure that a Purchasing division representative initials each form to document approval and completion. If access is detected on the system for which we do not have a completed security form, the user ID is inactivated until an approved completed form is received. When forms are found that do not match what is on the system or are incomplete, the individual is contacted and asked to submit a new security request form with their director's approval. Completed security request forms are being filed alphabetically by department in a secured file. We plan to have this review completed by October 30, 1999.

Because this review was not complete during the audit period, problems were still noted in the current audit with the approvals by General Services' management and inconsistencies with the access requested. Although each state department determines the access its staff needs to perform their jobs and files authorization forms for this access,

General Services' staff are responsible for ensuring that the forms are complete and access is established in TOPS. In many instances, however, access authorization forms were either not consistent with actual access or not properly approved by General Services' management. For the sixty TOPS authorization forms tested,

- Thirteen users (22%) did not have the type of access to TOPS that the department had requested on the authorization form, and

- Four users (7%) were not properly approved by General Services' management.

Failure to assign the access requested and approved allows some individuals unauthorized access to unintended parts of the system. Failure to obtain authorized approvals for user access means no authority exists for these users' access to the system.

Recommendation

The Department of General Services Purchasing Division should ensure that users are not given access to TOPS until their departments submit properly approved authorization forms. The requests should specify the type of access approved by user management and the user should be given only the type of access requested.

Management's Comment

We concur and have finished correcting the problem. Each active TOPS user's access was evaluated and checked against what we had on file. If security was detected on the system that we did not have an approved security form on, or if the security authorized in the system did not match what we had on file, a new security form was requested. All corrections and updates have been completed and are filed alphabetically, by department, in a secured file.

Finding Number	99-CAFR-02
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of General Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Improved controls over program changes in the Tennessee On-line Purchasing System are needed

Finding

As noted in the prior audit, controls over program and design changes pertaining to the Tennessee On-Line Purchasing System (TOPS) are not adequate. Management corrected the portions of the prior-year finding regarding approvals and current documentation. However, a backlog of program change requests still exists and changes are still being made directly to the TOPS database through the Order Fix program instead of using properly authorized program changes. Order Fix is a program used to make changes directly to the TOPS database to correct transactions. Management concurred with these problems in the prior audit finding and stated:

> As of the finding date, the backlog of open requests was especially large because the entire Information Systems division analysts staff as well as all the OIR Systems Development Support (SDS) programmers supporting TOPS had been totally dedicated to the Y2K conversion project. During that project which lasted over one year, all other requests, except true emergencies were put on hold to avoid having to make program changes in two places and to minimize introducing more problems that were not related to the conversion itself.
>
> Now that the Y2K changes have been implemented and the system has been converted to a relational database (DB2) on the Customer Information Computer System (CICS), it is the intention of the Purchasing and Information Systems divisions to review the outstanding problem reports, determine whether each is still a valid report, and reprioritize what is open. Some of these will have been corrected by virtue of changes made during the conversion. It should be noted that a number of existing program problems were identified during the conversion project testing and new problem reports were opened, thus increasing the backlog. The department plans to spend the months of May and June 1999 resolving these problem reports and postponing design change requests. This will allow the department to give particular attention to problems introduced

during the conversion and problems that cause data to be corrupted or erroneously updated.

Currently the most common use of the Order Fix program is to correct an order amount that does not match the total of the order lines. While a problem report has been written up on this issue and while is has been known for some time, this occurs occasionally when a user makes an order line change during the course of creating an order. However, analysts have been unable to successfully identify the series of steps the user takes to cause the normal program logic to be bypassed. By placing priority on such problem reports which cause data errors as noted above, it will be possible for the department to devote the analyst resources needed to identify and correct these problems more quickly and thus reduce the use of the Order Fix program. However, because new program changes bear the potential of introducing new data errors, there will always be a need for a utility to repair such data. Therefore, the Information Systems division will implement a tracking document to note the requests for data fixes. This document will supplement the current system output which shows date, document number and fields changed.

Program and design changes are not being made in a timely manner by General Services' personnel. The TOPS "Tracking Open Reports By Priority" report lists all open program change requests by priority on a scale of A to E with A being the highest priority. As of July 6, 1999, the report consisted of 179 open program change requests, 60 A requests, 68 B requests, 37 C requests, 10 D requests, and 4 E requests. Several of the requests with a priority of C or lower appeared to be higher priority than indicated on the list, due to the potential effect of the problem on the financial statements and the effect on the efficiency and effectiveness of TOPS. Eighty-three of the 179 program and design change requests (46%) have remained incomplete for at least two years, with one request remaining incomplete for seven years. This backlog, caused by the emphasis on conversion, volume of requests, and time constraints, increases the risk that vital requests will not be given appropriate consideration because they are being pushed down in priority. This large number of outstanding program changes indicates that many areas in the TOPS application are not working properly. Although in many cases compensating controls exist to ensure proper recording in TOPS, the system should be designed to operate effectively.

In addition, problems that are occurring within the TOPS application are being corrected using Order Fix. Instead of using program and design changes to correct existing programming problems within the system, Office for Information Resources (OIR) programmers are allowed access to fix the data directly in the database with Order Fix. Corrections to system data outside normal system controls should not be made as a normal course of daily business as this opens up the data to a greater risk of loss or misuse. Any system will have occasional problems that require the use of utilities but the use of Order Fix circumvents the controls that the system is designed to provide. If the system was designed and functioning properly, use of the Order Fix would not be

necessary. Making changes directly to a database instead of correcting errors through properly authorized program changes circumvents system controls.

Recommendation

The Director of Information Systems should ensure proper controls over the TOPS program and should ensure that design changes are implemented and followed. The backlog of program and design change requests should be reviewed and these requests should be completed as soon as possible. Future program and design change requests should also be completed timely on the basis of priority.

As the system problems are corrected, the use of Order Fix should be minimized and if possible, eventually eliminated. As problems arise in the future, causes of the problems should be identified quickly and TOPS should be corrected through program and design changes or other appropriate means which leave an audit trail.

Management's Comment

We concur. In response to State Audit's discussion of inappropriate use of the Order Fix program to repair data in TOPS, the resolution of this problem is an on-going effort. Because of the complexity of the TOPS system programs, daily production priorities and the long training curve associated with getting analyst staff to a productive testing level, the process of fixing and testing problems is slow and only so many problems can be addressed within a given timeframe.

In the previous year's response, we noted the majority of fixes being done were to correct accounting records which had gotten lost going to STARS, or to correct order totals when users made changes to an order line and the program did not re-calculate the total correctly. Since converting to the CICS environment at the beginning of April 1999, the problem of incomplete encumbrance transactions to STARS has disappeared. On the other hand, the incorrect order total problem has not disappeared, although its frequency has decreased. To date in FY 2000, this type fix has only been made three times compared to 16 such fixed in FY 1999. It has recently been discovered there is not still an open problem report on this issue; consequently the program logic error has not been addressed further. This will be remedied shortly.

Most recently, the order fix has been used primarily for two types of corrections: to change the agency number on existing contracts following state reorganization, and to correct a contract document type error. TOPS has had no provision for renumbering agencies once a contract is in place. Because of edits for release orders and payments which require the order requisition agency to match the contract requisition agency, it was necessary to make the contract reflect who the current "owner" was and to do so quickly so the agencies could continue to order from those contracts. Therefore, pending a complicated design change to the system expected to take several months to program

and test, the only way to handle these one-time corrections was through direct change to the data.

Similarly, the Purchasing division undertook a long overdue clean up of multi-year statewide contracts because the buyers used an improper term award code instead of the multi-year award code on TOPS. As such, the contracts were not being renewed or re-procured appropriately through the system's automatic processes. By correcting the contract document types and the underlying requisition award codes, these were brought under the controls of the system and will save the buyers countless hours manually processing the renewals or re-procurements. This was a one-time incident; the buyers now know how to establish these contracts initially so this won't be necessary in the future. Of 467 documents "fixed" since July 1, 1998, 98 fell into the category of changing the contract type, and 60 were changes in contract ownership, most due to state reorganization.

In an on-going effort to reduce the numbers of data fixes which are legitimately related to program errors, the Information Systems Division has been working closely with the Purchasing Division to raise the priority of any open problem reports related to erroneous data. Success in this endeavor can be measured by the closure of 16 problem reports since July 1, 1999 and another 15 problem reports between May 1, 1999 and June 30, 1999 after the conversion project was completed. Three of the reports closed this year have corrected data fix problems, while one of the problems closed in May addressed data fixes. Currently, there are 17 open problem reports in some stage of active resolution, three of which are related to data fixes.

IS Management continues to monitor the problem report situation to ensure there are problem reports written for any program problems causing data errors, and their resolution is given high priority. In general, the backlog of open reports is now on the decrease. Since May 1, 1999, when resources were freed up from the conversion project, 55 open requests have been closed, 31 of those since the beginning of this fiscal year. In addition, another 31 requests were re-analyzed and determined to be invalid and were cancelled. These closures have been offset by 44 requests (27 problem reports, 17 design changes) submitted since May 1, 1999. There are now 167 open design change and problem report requests, down from nearly 200 at the end of the conversion project. We anticipate with the programming help of an Informs' contract programmer and the growing mastery of the system by two Information Systems Analysts 3, this progress will continue.

Finding Number	99-CAFR-04
CFDA Number	Various
Program Name	Various
Federal Agency	Various
State Agency	Department of Finance and Administration
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

STARS program changes were not properly documented or approved by management

Finding

As noted in the prior audit, State of Tennessee Accounting and Reporting System (STARS) program changes are not properly documented and approved. Management concurred with the prior finding stating, "We will take the necessary steps to ensure that all program change requests are properly initiated and approved." However, 6 of 11 STARS program change requests made during the year ended June 30, 1999, (55%) could not be located or were not signed. Five of 11 program changes (45%) did not have the Division of Accounts authorization signature. Also, no support could be located for three program changes deleted from the STARS Task Listing.

All program changes should be initiated only upon written requests approved by management. Without a proper program change approval process, programs could be modified and changed without management's knowledge, resulting in a system that does not meet user needs and stated objectives.

Recommendation

The Director of Information Systems Management should ensure all program change requests are initiated only by written request and approved in writing before program changes are made. The documentation for program changes requested and performed should be retained to provide a paper trail and support for modification to the STARS system.

Management's Comment

We concur. We have taken the necessary steps to ensure that all program change requests are properly initiated and approved. There is a period of time between the receipt of the prior audit finding and the implementation of the corrective procedure where exceptions still exist, as evidenced by the findings from this audit. However,

effective July 1, 1999, all program change requests are properly initiated and approved. The procedure now in place requires that all program changes be initiated only upon written request from the authorized person(s), and that all program changes be implemented only upon written approval from the authorized person(s). Use of the term "written" includes a physical signature or an email from an authorized person.

Finding Number	99-TDH-31
CFDA Number	10.557
Program Name	Special Supplemental Nutrition Program for Women, Infants and Children
Federal Agency	Department of Agriculture
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Material Weakness
Questioned Costs	None

The Department of Health has no procedures to detect dual participation in the WIC and CSFP programs

Finding

The department has no procedures to ensure that dual participation between the Special Supplemental Food Program for Women, Infants, and Children (WIC) and the Commodity Supplemental Food Program (CSFP) will be detected. According to the state plan, the state will attempt to detect dual participation between local agencies by comparing information for WIC participants with that of CSFP participants. The query results are printed in the dual participation reports. However, no dual participation reports have been generated since February of 1998. Because the dual participation reports are not generated each month, participants may improperly receive benefits from both WIC and CSFP programs.

The *Code of Federal Regulations*, Title 7 Section 246.7(l)(1)(i), states that the state agency "shall be responsible for . . . the prevention and detection of dual participation within each local agency and between local agencies."

Recommendation

The Director of the Bureau of Information Resources and the Supplemental Nutrition Program Director should assign specific responsibility for implementing an effective process to detect dual participation, including the generation of dual participation reports. They should also monitor operations to ensure the process is implemented and take corrective action when problems occur.

Management's Comment

We concur. Staff within the Supplemental Nutrition Program (WIC) have worked with staff within the Bureau of Information Resources (BIR) to implement an effective process for detecting dual participation, generating reports, and follow up.

Davidson County and Shelby County successfully implemented a new CSFP module within their Patient Tracking, Billing, & Management Information System (PTBMIS) in October 1999 which will register both populations (WIC and CSFP) to the same Master Patient File. Dyer County will install the same module by March 2000. MAP South (located with Shelby County) will install the same module by July 2000. Utilizing the Master Patient File, a dual participation can easily be determined in either program within a region.

In order to determine dual participation between regions, BIR confirms that by March 2000, the CSFP caseload will be routinely uploaded to the Central Office AS400. This will allow the matching of populations of both CSFP and WIC to detect dual participation occurring across regional boundaries.

Reports will be generated quarterly in the Central Office and distributed to the regional WIC Directors for investigation. Regional WIC Directors will submit reports to Central Office within 30 days detailing results of their investigation in order to prohibit dual participation in both programs.

Finding Number	99-TDH-33
CFDA Number	10.557
Program Name	Special Supplemental Nutrition Program for Women, Infants and Children
Federal Agency	Department of Agriculture
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Reportable Condition, Subrecipient Monitoring
Questioned Costs	None

Monitoring of subrecipients' audit reports is not adequate

Finding

As noted in the seven prior audits, the Department of Health does not adequately monitor subrecipients' audit reports. Management concurred with the prior findings and made improvements. Follow-up testwork on the prior finding revealed that 23 previously outstanding subrecipients' audit reports were filed with the department during the audit period, while 4 audit reports were still outstanding as of June 30, 1999. Reports were received from three months to over three years late.

Although improvements had been made, testwork for the current audit period revealed that there were still problems. The department still does not ensure that subrecipients' audit reports are obtained within nine months of the subrecipient's fiscal year end, as required by *Office of Management and Budget Circular A-133*. Testwork on 54 subrecipients' audit reports initially due during the audit period revealed the following:

- Twenty-six subrecipients' audit reports were not filed within the nine-month deadline but were received by June 30, 1999. Sixteen of these reports were received within 30 days of the due date. The remaining ten reports were from one to seven months late.

- Ten audit reports had not been received as of June 30, 1999. These reports were three months late as of June 30, 1999.

In addition, the department did not meet federal requirements in the following instances:

- For 26 of 29 subrecipient audit findings (90%), the department could not provide evidence that a management decision had been issued. A management decision is the evaluation by the awarding agency of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary. Two of the management decisions

observed did not state whether or not the finding was sustained, the reasons for the decision, any description of an appeal process, and the audit finding reference number. The one remaining management decision was not issued within six months of receiving the subrecipient's audit report.

- Eight of 60 subrecipients (13%) did not have the Schedule of Findings and Questioned Costs in their submitted audit reports. These required schedules were not subsequently requested by the department. According to *OMB Circular A-133*, the three required components include a summary of the auditor's results, findings relating to the financial statements, and findings and questioned costs for federal awards.

- No actions were taken against subrecipients not obtaining an audit in accordance with *OMB Circular A-133*.

OMB Circular A-133 states that it is the pass-through entity's (Department of Health's) responsibility to "issue a management decision on audit findings within six months of receipt of the subrecipient's audit report." The management decision shall include "the expected auditee action to repay disallowed costs." The circular requires that the management decision "shall clearly state whether or not the audit finding is sustained, the reasons for the decision, . . . any appeal process," and the audit finding reference numbers.

OMB Circular A-133 also states that "the auditor's report(s) shall . . . include . . . a schedule of findings and questioned costs." Furthermore, it states that "in cases of continued inability or unwillingness to have an audit conducted in accordance with this part, . . . pass-through entities shall take appropriate action using sanctions such as . . . withholding a percentage of Federal awards until the audit is completed satisfactorily" or "suspending Federal awards until the audit is conducted."

Furthermore, the department did not meet other state requirements in the following instances:

- The Office of Audit and Investigations does not request copies of audit reports from county governments who are audited by the Comptroller of the Treasury. The county governments are considered to be subrecipients, requiring audits under *OMB Circular A-133*.

- One of 60 subrecipients did not have a Schedule of Expenditures of Federal Awards in its submitted audit report and the schedule was not requested.

It is the responsibility of the audited entity to provide the Department of Health with the audits. The standard audit clause states that "copies of such audits shall be provided to the State Granting Department." The standard audit clause also states that "any such audit shall be performed in accordance with . . . the Audit Manual for Governmental Units and Recipients of Granting Department." The Audit Manual for

Governmental Units and Recipients of Grant Funds requires the Schedule of Expenditures of Federal Awards and State Financial Assistance to be included in the audit report. However, it is ultimately the department's responsibility to track its grants and ensure compliance with applicable requirements.

The department cannot comply with applicable laws and regulations if it does not adequately monitor subrecipients' audit reports.

Recommendation

The department should ensure that subrecipients' required audit reports are received no later than nine months following their fiscal year end, the management decision resolving questioned costs is issued within six months of the receipt of the audit report, and the required schedules are contained in the audit reports. The Commissioner should take appropriate action using such sanctions as withholding a percentage of funding from any subrecipient when the required audit is not conducted or the audit report is not submitted to the department timely.

Management's Comment

We concur. Previously, the Comptroller's Office along with several state agencies recognized the tracking and timely receipt of subrecipient audit reports as well as the monitoring of questioned and disallowed cost were a problem for all departments. It was determined a new system of tracking and a central collection point for audit reports was needed in order for this process to improve or work more appropriately. The Department can only request audits but can not ensure the reports are received by a certain time. The only recourse being the withholding of reimbursement due the subrecipient or termination of the contract which in either case could hinder health service delivery to the citizens of the state.

The Department will continue to work with the Comptroller's Office and Department of Finance and Administration to develop a new tracking system and a central collection point for audit reports. Until such occurs, the Department will more aggressively pursue the receipt of audit reports within the required time frames and attempt to ensure all required supporting documentation is provided. Further, the Department will put more emphasis on reviewing questioned and disallowed cost and follow-up with timely management decisions and corrective action plans as warranted and necessary.

Finding Number	99-TDH-35
CFDA Number	10.557
Program Name	Special Supplemental Nutrition Program for Women, Infants and Children
Federal Agency	Department of Agriculture
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

The department did not record correct grant-funding information in the state's property records

Finding

The department does not always record correct grant information (grant number and percentage of federal funds) into POST, the state's property and equipment-tracking system, for some equipment items purchased with federal funds. Testwork revealed the correct information was not entered for 7 of 57 federally funded equipment purchases. The 7 equipment items were 100% federally funded, but POST incorrectly listed the items as state funded. Incorrect funding information resulted because requesting employees did not record accurate information on the purchase request, and the property officer did not record accurate information on the purchase order.

In addition, 1 of 57 federally funded equipment purchases tested was not included on the department's property listing. Typically such errors would be discovered during the monthly reconciliation of STARS to POST. However, the property officer does not retain supporting documentation to indicate that these reconciliations were performed.

The department must be able to distinguish between state and federal property. The U.S. Department of Health and Human Services' "Public Health Service (PHS) Grants Policy Statement" states that, in certain cases, grantees should report income earned from the sale of equipment purchased with grant funds on the Federal Financial Status Report: "PHS has the right to require transfer of the equipment including title, to the Federal Government or to an eligible third party" (pages 8-14). If the equipment is damaged beyond repair, lost, or stolen, the recipient may be accountable to PHS for "an amount equal to the Federal share of the original equipment times the fair market value." If equipment purchased with federal grant funds is not correctly identified in the property records, the department's ability to transfer equipment, dispose of equipment, or reimburse the federal government in accordance with federal laws and regulations is greatly diminished. In addition, if equipment is not included on the property listing, an accurate inventory count cannot be achieved, and the department's accountability may be undermined.

Recommendation

Employees who initiate equipment purchases that are to be funded with federal funds should include correct grant information on the face of the purchase documents. Supervisors should verify that all funding information is complete and correct prior to approving the purchase documents. Also, the property officer should ensure correct grant funding information is stated on purchase orders and entered in POST, and should retain documentation of the reconciliation process between STARS and POST to ensure the department's property listing is accurate and complete. The Director of the Division of General Services should ensure that staff consistently follow the procedures developed to ensure that the appropriate grant information is entered into POST.

Management's Comment

We concur. The Department will reinforce the policy of recording accurate grant information on the face of the purchase documents. The new property officer has been instructed that the grant number and the percentage of federal funding must be reflected on all purchase orders being procured for federally funded cost centers. In addition, the STARS to POST monthly reconciliation and documentation will be retained on file in order to ensure the Department's property listing is accurate and complete.

Finding Number	99-TDES-01
CFDA Number	17.245
Program Name	Trade Adjustment Assistance: Workers
Federal Agency	Department of Labor
State Agency	Department of Employment Security
Grant/Contract No.	91707
Finding Type	Reportable Condition, Allowable Costs/Cost Principles
Questioned Costs	$1,190.38

The department did not effectively review the allowability of costs charged to the Trade Adjustment Assistance Program

Finding

The Department of Employment Security did not adequately review invoices, receipts, and other documentation supplied by vendors in requests for reimbursements of Trade Adjustment Assistance (TAA) training costs. The TAA Training Coordinator did not review the charges to ensure that they were reasonable, necessary and adequately documented.

The Trade Adjustment Assistance program was created to provide assistance for individuals who became unemployed due to situations such as increased imports. The TAA program can provide participants with training assistance in the form of payment for educational expenses that will allow the participant to enter a new trade or business. The Trade Act Part 617.11(a) (6) (iii) (A) states that the costs of a training program shall include tuition and related expenditures such as books, tools, and academic fees.

The department enters into contracts with the program participant and the training institution. The contracts outline the types of training to be provided, and the total amounts of assistance. In addition, the contracts between the training institutions and the department contain attachments that provide itemized estimates of educational expenses. These expenses include class fees, textbooks, lab fees, and other necessary supplies and materials. The contracts also state that non-training expenses shall be the responsibility of the participant. The institution is responsible for submitting invoices and approval for payment. However, the coordinator does not adequately review the invoices to ensure that only allowable expenses are paid. The Fiscal Services staff reviews the invoices to determine that the contract amount is not exceeded prior to payment.

Testwork for a sample of 52 expenditures totaling $17,564.08 revealed the following:

- 1 of 52 expenditures (2%) tested was not adequately documented. The invoice for $897.92 did not provide an itemized explanation of the expenses.

- 2 of 52 expenditures (4%) tested were not allowable. Items including a cassette tape recorder, cassette tapes and batteries, totaling $73.45 were not allowable expenditures under the contract, grant, and/or federal guidelines.

Also, additional testwork revealed that items totaling $219.01 were not allowable expenditures under the contract, grant, and/or federal guidelines. These items included a graduation pin, graduation pictures, and photocopies.

For the fiscal year ended June 30, 1999, the department reported training expenditures in the amount of $523,620.96. The total questioned cost was determined to be $1,190.38. We believe that likely federal questioned cost associated with this condition could exceed $10,000.00.

Office of Management and Budget Circular A-87 (C)(2) provides the following regulations regarding the allowability of charges to federal programs:

> A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:
>
> > a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award…
> >
> > d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.
> >
> > j) Be adequately documented

If invoices are not reviewed for allowability prior to payment, then improper charges could have been made tot he program and not have been detected. This could also result in a loss of funding for this program.

Recommendation

The TAA Training Coordinator should ensure that charges made against the contracts funded under the TAA program are reviewed for reasonableness, necessity, and adequately documentation prior to payment.

Management's Comment

We concur in part with the finding. Following is our response to the issues raised in the audit report.

Issue 1 - One of 52 expenditures (2%) tested was not adequately documented. The invoice for $897.92 did not provide an itemized explanation of the expenses.

We concur that an itemized receipt should be required for all expenditures. Invoices will be reviewed and all participating training institutions will be reminded of this requirement.

Issue 2 – Two of 52 expenditures (4%) tested were not allowable. Items including a cassette tape recorder, cassette tapes and batteries, totaling $73.45 were not allowable expenditures under the contract, grant, and/or federal guidelines.

We concur with the findings associated with the purchase of the batteries and the cassette tapes. Although we do not dispute its existence, we were unable to document the purchase of a tape recorder in our review of the designated invoices.

On February 9, 2000, a professor in the Business School at Motlow State Community College, was contacted to evaluate the need for a tape recorder in the Business School. Her response follows: "The course work in the Business School is comprehensive and intense. Occasionally, when adults who have been working return to the academic environment, they may not be as skilled at listening and taking notes as their peers. Utilizing a tape recorder can minimize this barrier, allowing time for an adjustment and the opportunity to maintain the demanding pace in the classroom."

We believe that in the interest of promoting successful occupational training that leads to prompt productive re-employment, school aides such as calculators and tape recorders should be evaluated on a case-by-case basis. However, subject equipment will only be purchased with permission from the Regional Office.

Issue 3 - Also, additional testwork revealed that items totaling $219.01 were not allowable expenditures under the contract, grant, and/or federal guidelines. These items included a graduation pin, graduation pictures, and photocopies.

Graduation pins and pictures are listed as a requirement and are approved for purchase by the Regional Office. Students have the option of selecting their pins from three levels of quality. The current prices are $48.50, $54.50, and $103.50. We agree that one of the students selected the most expensive pin.

The Tennessee Department of Labor and Workforce Development will inform the training institutions that, in the future, all costs exceeding the mid-level of quality ($54.50) will be the responsibility of the participant.

Graduation pictures are also listed as a requirement. Per a discussion on February 7, 2000, with a secretary for the Walter State Division of Health Program, all nursing students are required to provide two photographs. The nursing school maintains one copy for their files. A second copy is required for identification for the state nursing exam. Occasionally, students order additional copies for identification during their hospital rotation.

The amount of $16.95 for one student's pictures was acceptable. However, $40.00 and $30.36, which paid for two sittings for one student, are unacceptable. We agree that one of these photo sessions should not have been paid for with TAA money.

Invoices will be more thoroughly reviewed to avoid unacceptable expenditures. Training institutions will be instructed to tell students that they are limited to two pictures for identification purposes only. Any cost incurred for additional pictures will be each student's responsibility.

Finding Number	99-DHS-01
CFDA Number	93.563
Program Name	Child Support Enforcement Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G9804TN4004; G9904TN4004
Finding Type	Material Weakness, Special Tests and Provisions
Questioned Costs	None

The department did not comply with child support enforcement procedures

Finding

As noted in the prior five audit reports, the department did not comply with child support enforcement procedures. The Department of Human Services is the designated Child Support Title IV-D office; however, enforcement activities are generally contracted out to district attorneys general or to private contractors. Although these agencies have day-to-day responsibility for child support enforcement, the Department of Human Services has ultimate responsibility for compliance with federal regulations.

The most significant deficiencies noted in the prior audit concerned the department's failure to take all necessary steps to locate noncustodial parents. The Tennessee Child Support Enforcement System (TCSES) was designed to automate much of the necessary location activity; however, the TCSES locate function was disabled for much of the prior and current audit periods. Management concurred with the prior audit findings and stated that they understood the importance of locating noncustodial parents and were committed to resolving remaining system problems and fully utilizing the automated locate system. According to management, the locate interfaces were reactivated statewide as of July 30, 1998, but the most critical interfaces were disabled in August 1998. Some interfaces were reactivated in March 1999 but most were not reactivated until August 1999 and one interface has still not been activated. Once the locate function is working properly, many of the issues discussed in this finding should be resolved.

In a review of active child support cases using the Tennessee Child Support Enforcement System (TCSES), the following weaknesses were noted:

a. None of the 26 cases tested contained evidence that all feasible sources were used to locate the absent parent. *Code of Federal Regulations*, Title 45, Section 303.3(b)(1), states that the department must

> Use appropriate location sources such as the Federal PLS [Parent Locator Service]; interstate location networks; local officials and employees administering public assistance, general assistance,

> medical assistance, food stamps and social services (whether such individuals are employed by the State or a political subdivision); relatives and friends of the absent parent; current or past employers; the local telephone company; the U.S. Postal Service; financial references; unions; fraternal organizations; and police, parole, and probation records if appropriate; and State agencies and departments, as authorized by State law, including those departments which maintain records of public assistance, wages and employment, unemployment insurance, income taxation, driver's licenses, vehicle registration, and criminal records.

b. None of the 26 cases tested contained evidence that the Federal PLS was used within 75 days of determining the locate functions were necessary. *Code of Federal Regulations*, Title 45, Section 303.3(b)(3), states, "Within no more than 75 calendar days of determining that location is necessary, access all appropriate location sources, including transmitting appropriate cases to the Federal PLS, and ensure that location information is sufficient to take the next appropriate action in a case."

c. Ten of 11 cases tested (91%) did not have evidence that attempts to locate absent parents were repeated quarterly or immediately upon receipt of new information. *Code of Federal Regulations*, Title 45, Section 303.3(b)(5), states that the IV-D agency must

> Repeat location attempts in cases in which previous attempts to locate absent parents or sources of income and/or assets have failed, but adequate identifying and other information exists to meet requirements for submittal for location, either quarterly or immediately upon receipt of new information which may aid in location, whichever occurs sooner.

d. Fourteen of 18 cases tested (78%) contained no documentation that the child support order was reviewed within a 36-month interval. Therefore, it could not be determined whether notification of review should have been sent to each parent at least 30 days before the review or whether each parent should have been notified of the results of the review. *Code of Federal Regulations*, Title 45, Section 303.8(c)(4), states that the state must "review child support orders at 36-month intervals after establishment of the order of the most recent review."

e. The court order for one case tested was not adjusted to include medical support reviewed. *Code of Federal Regulations*, Title 45, Section 303.8(b)(2)(iv), states that the agency must "adjust the order when the review determines that there should be a change in the child support award amount, or that health insurance should be required."

f. Eight of 13 cases tested (62%) did not have evidence of attempts to enforce all child support obligations, including orders for medical support. *Code of Federal Regulations*, Title 45, part 303.6(c)(2), states that enforcement action is required to be taken "within no more than 30 calendar days of identifying a delinquency or other support-related noncompliance with the order." Also, *Code of Federal Regulations*, Title 45, part 303.31(b)(7), states, "If health insurance is available to the absent parent at reasonable cost and has not been obtained at the time the order is entered, [the IV-D agency shall] take steps to enforce the health insurance coverage required by the support order."

g. Three of 39 cases tested (8%) were not classified correctly in TCSES.

- ? For two cases, the case type was listed as an Aid to Families with Dependent Children (AFDC) case, when the cases were actually non-AFDC cases.
- ? One case was classified as an establishment case when it was actually an enforcement case.

Correctly classifying the case type in the system is essential for proper distribution of child support. When numerous case type errors exist, case workers can lose confidence in the reliability of the system.

h. Nine of 40 cases tested (23%) were not valid open cases. These cases were classified as active open when they should have been classified as closed. When the active case population includes cases that are not valid or should no longer be open, a child support worker's attention can be diverted needlessly from truly active cases.

The failure to promptly attempt to locate absent parents, to repeat location attempts as necessary, to respond immediately when new information is received, to enforce child support and medical support orders, to classify cases correctly, to close cases timely, and to review orders timely may deprive caretakers and dependent children of needed financial support or deprive the state's Child Support Enforcement Program of reimbursement of program expenses.

No location attempts were recorded in TCSES for any of these crucial activities from at least August 1998 to March 1999 since the locate function had been disabled during this period due to continued unexpected software problems. Therefore, no key sources were used to locate absent parents, and quarterly location attempts, which at a minimum must include matching to state employment security records, were not made. When the locate function was disabled at TCSES, the vast majority of judicial districts did not have access to Federal PLS and could not perform the required search. Only the urban judicial districts, such as Davidson, Knox, Hamilton, and Shelby Counties, had direct access to Federal PLS.

TCSES was programmed to perform locate functions using automatic interfaces between various computer systems of different agencies. These functions should be automatically recorded on the system's locate diary but were not since the locate function in TCSES was disabled. If manual locate attempts were made, these attempts were not recorded in TCSES. *The Tennessee Child Support Enforcement System Policy and Procedures Manual*, chapter 3, states, "The required documentation for the case will be maintained within the system by the use of various interfaces or by manually entering information by the worker. Such documentation will consist of … a record of local and state location efforts including the dates and results."

Recommendation

The commissioner should ensure that problems associated with TCSES are corrected. The Director of Child Support should ensure that all available sources are used to locate absent parents, and if attempts are unsuccessful, location attempts should be repeated quarterly or upon receipt of new information. The director should ensure that attempts are made to enforce the necessary support obligations. Further, the director should ensure that all cases on TCSES are classified correctly and that support orders are reviewed in a timely manner. The commissioner should ensure that the efforts of the Director of Child Support are frequently monitored to ensure compliance with child support enforcement procedures. The Director of Child Support and the Director of Internal Audit should work together to perform analytical procedures on the TCSES databases to monitor activity and determine areas of noncompliance. The failure to comply with child support enforcement procedures should result in appropriate administrative action.

Management's Comment

We concur. As noted in the finding, once the TCSES locate function is working properly, many of the issues discussed in this finding should be resolved. As of August 31, 1999, all TCSES locate modules were activated, with the exception of the Tennessee Wildlife Resource Agency (TWRA) module. There has been a delay in activating the TWRA module because of file problems; nevertheless, the module should be activated in the near future.

In addition to activating the TCSES locate modules, efforts to enforce the necessary support obligations and properly classify cases in TCSES includes quarterly meetings with and training of all Judicial Districts. Also, Informational Memorandums are issued to local enforcement staff emphasizing the importance of review and adjustment support awards, enforcing support obligations, proper classification of cases in TCSES, and the importance of medical enforcement.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 requires each state to assess the performance-based effectiveness of their own IV-D

program, and report their findings and results to the federal Office of Child Support Enforcement. The report filed as of March 31, 1999, found that of the eight compliance criteria reviewed, five exceeded the required benchmark, and were therefore in compliance, two criteria were not in compliance, and one criteria received a waiver. The five criteria exceeding the federal benchmark are disbursement of collections, case closure, expedited process, review and adjustment, and interstate services. Only the criteria related to the establishment of paternity and support orders, and enforcement of support obligations, fell short of compliance requirements. DHS obtained a waiver for medical support orders. The failure of these criteria to meet or exceed the benchmark requirements may be traced in each instance to the lack of an automated locate functionality on TCSES during the review time frame.

DHS is confident that with the activation of TCSES, we are now in compliance with child support enforcement procedures. DHS is aware of the importance of child support enforcement, and we will continue our efforts concerning child support enforcement procedures.

Finding Number	99-DHS-02
CFDA Number	93.563
Program Name	Child Support Enforcement Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G9804TN4004; G9904TN4004
Finding Type	Special Tests and Provisions
Questioned Costs	None

The department did not comply with federal regulations concerning child support payments

Finding

As noted in the prior five audit reports, the department did not always distribute intercepted federal tax refunds to custodial parents in accordance with federal regulations. Also, local child support enforcement offices did not always have a record of intercepted federal tax refunds and they had not always adjusted arrearage balances. Management concurred with prior audit findings and stated that all IRS processing is now being performed in the Tennessee Child Support Enforcement System (TCSES) and they "expect that IRS offset collections will be processed within the required time frames." They also stated that local child support enforcement offices "do receive, and have in past years received, reports of all IRS offset collections." However, the department has not fully converted all local office case file data to TCSES.

The *Code of Federal Regulations*, Title 45, Section 302.32(f)(2)(iv), requires that intercepted federal tax refunds be distributed, as appropriate, "within 30 calendar days of the date of initial receipt by the IV-D agency." Two of 20 intercepted IRS tax refunds reviewed (10%) were distributed late or improperly collected. One payment was remitted 47 days late to the custodial parent. The other payment was sent to the custodial parent; however, the noncustodial parent owed no arrears. The custodial parent returned the money to the department, but there was a total of 315 days from the time of the intercept until the check was refunded to the noncustodial parent.

In addition, local child support enforcement offices were contacted to determine whether the local offices had records that the tax intercepts had taken place and whether the noncustodial parents' arrearage balances had been properly adjusted to reflect the intercepted funds. In 10 of 20 cases tested (50%), the local office confirmed that the arrears had not been adjusted to reflect the intercepted funds, and for two of those 20 cases (10%) the local office confirmed that it had no record the intercepts had occurred. Nine of the 20 cases tested (45%) were in Shelby county. Eight of the nine cases (88%) did not have arrears adjusted for the intercepted funds, including the two intercepts for which the local office had no record of the intercepts. The *Code of Federal Regulations*,

Title 45, Section 303.102 (g)(3)(iv), states, "The State must credit amounts offset on individual payment records."

Failure to distribute child support payments in a timely manner deprives custodial parents and their children of needed child support. When tax intercepts are not properly and promptly recorded, the child support enforcement office may continue to pursue collection of debts that have already been satisfied, causing noncustodial parents considerable frustration and needlessly wasting scarce child support enforcement resources. Failure to account for funds received and to promptly update case records creates unreliable financial records.

Recommendation

The Director of Child Support should comply with federal regulations for the child support enforcement program and ensure that funds are distributed timely to custodial parents and that case balances are updated to reflect the changes in arrearage balances. Also, the Director of Child Support should ensure that tax refunds are not improperly intercepted, and in cases where this mistake has occurred, funds should be returned to the noncustodial parent in a timely manner. The commissioner should frequently monitor the distribution of child support payments to ensure that accurate and timely distributions are made.

Management's Comment

We concur. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 specifies that states should assess the performance-based effectiveness of their own IV-D program, and report their findings and results to the federal Office of Child Support Enforcement. DHS issued an annual report as of March 31, 1999, based on 600 randomly selected cases. Eighty-six cases were sampled to determine if child support collections were disbursed in a timely fashion. Of the 86 cases, 84 were determined to have been disbursed within federal guidelines. This resulted in an efficiency percentage of 97.7%. Of the 51 cases sampled for the March 31, 2000 annual report by DHS Internal Audit, 48 cases were determined to have been disbursed within federal guidelines. This resulted in an efficiency percentage of 94.1%. The federal government realizes that there will be cases where the state cannot meet federal standards. Therefore, the federal government has established benchmarks. States are deemed to be in compliance if they meet the federally established benchmark. The benchmark for timely disbursements of Child Support collections is 75.0%. (10/1/98 Edition of the Code of Federal Regulations, Title 45, Section 305.20 (a) (2) (3) and Federal Action Transmittal 98-12 dated March 31, 1998). With efficiency rates consistently in excess of 90.0%, DHS is well above the federal benchmark, and thus we are in compliance with federal regulations.

According to the finding, in 19 out of 20 (95.0%) tested cases, IRS intercepts were properly collected, and in 18 out of 19 (94.7%) tested cases, distribution was made in a timely manner. It is DHS' understanding that the federal benchmark for distribution of tax intercepts in a timely manner is the same as the benchmark for child support payments, which is 75.0%. Thus, DHS is in compliance with federal regulations concerning the timeliness of child support payment distribution. It is unclear to DHS what the federal benchmark is for proper IRS tax intercepts, however, with a 95.0% accuracy rate, it is DHS' understanding based on conversations with federal auditors from the Office of Child Support Enforcement, that we are in compliance.

According to the finding, in 18 of 20 (90.0%) cases the local office confirmed that it had received notice of the IRS tax intercepts. Local offices do receive hard copies of all tax IRS offset collection reports. As of 1999, the information is also available to the local offices through TCSES/INFOPAC.

According to the finding, in 10 of 20 cases tested (50.0%) the local office confirmed that the arrears had not been properly adjusted to reflect intercepted funds. In all 10 cases cited, the case was put on hold. In 8 of the 10 cases cited, the case was put on hold as the result of the non-custodial parent requesting either an administrative or informal hearing. In instances where the non-custodial parent requests a hearing, the case is routinely put on hold, to ensure that distribution of funds to the custodial parent does not occur prior to the Administrative Hearing Officer's decision being made. While the case is on hold, arrearage balances cannot be updated.

Finding Number	99-DHS-03
CFDA Number	93.575
Program Name	Child Care Development Block Grant
Federal Agency	Department of Health and Human Services
Grant/Contract No.	G95B1TNCARE
Finding Type	Reportable Condition, Matching, Level of Effort, Earmarking
Questioned Costs	None

The department did not comply with federal regulations concerning the Child Care and Development Block Grant funds

Finding

The department did not comply with federal earmarking (spending) requirements for the Child Care and Development Block Grant (CCDBG). The CCDBG program provides funds to low-income families to help provide affordable and quality child care services. The department spent a total of $19,181,307 for the three-year period beginning September 30, 1995, and ending September 30, 1998.

Testwork revealed that the department did not comply with the federal earmarking requirements. The department only spent a total of $3,204,368 of the $19,181,307 (16.7%) to establish or expand and conduct early childhood development programs, and, therefore, fell short of the earmarking requirement by approximately $392,000.

The *Code of Federal Regulations*, Title 45, Section 98.51(b), states,

> Each Grantee receiving funds to operate a program under this part shall use not less than 18.75 percent of the total amount of a fiscal year's Block Grant funds to establish or expand and conduct . . . early childhood development programs.

Without compliance with all applicable federal requirements, the department may risk losing federal funds.

Recommendation

The Commissioner should ensure that the CCDBG Program Director complies with federal regulations concerning earmarking requirements.

Management's Comment

We concur. Sub-grantors failed to spend the full amount of their grants. Grant Director received financial reports for CCDBG on an annual basis. By the time the Director realized that insufficient funds had been spent, it was too late to distribute the funds to other sub-grantors.

In the future, financial reports for CCDBG will be minimally sent to the Grant Director on a quarterly basis, thus allowing for redistribution of unspent funds.

Finding Number	99-DCS-03
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Material Weakness, Allowable Costs/Cost Principles
Questioned Costs	$55,129.09

Since 1993 Children's Services has not collected overpayments; uncollected overpayments totaling at least $1,195,745.66 are due from foster care and adoption assistance parents

Finding

As noted in the five previous audits, from July 1, 1993, to June 30, 1998, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. Management concurred in part with the prior audit finding and stated,

> The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies, by county, adjustments that result in overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment.

However, as of June 1999, the department's records indicated an outstanding accounts receivable balance for these parents totaling $1,195,745.66, a decrease of only $29,388.10 (2.5%) since June 1998. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period.

When a child is removed from a foster home, the Department of Children's Services' case manager is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the case manager enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or case manager of the overpayment. However, as noted in finding 99-DCS-05, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

It is the department's policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a

receivable is established. In addition, subsequent payments to the parent are reduced up to 50% until the amount due from that individual foster parent is indicated to be zero. However, the department is not actively pursuing recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children.

When overpayments to foster parents are noted, it is the department's policy to adjust subsequent requests for federal funds in order to eliminate federal participation in the overpayment. However, the ChipFins system does not automatically reverse the original overpayment. ChipFins allocates payments and adjustments to programs based on the child's eligibility at the date of the transaction. Therefore, if the child's eligibility changes between the dates of payment and adjustment, the allocation of the adjustment will not agree to the allocation of the payment.

Because the adjustment process in the ChipFins system has attempted to remove federal participation in the overpayments, only a portion of the outstanding balance represents questioned costs owed to Title IV-E (Foster Care) as of June 30, 1999. These amounts represent the net of transactions not properly adjusted. The federal participation in these amounts is as follows: fiscal year 1997 and earlier, $38,486.52; for fiscal year 1998, $4,831.66; and for fiscal year 1999, $11,810.91.

Recommendation

In order to prevent or minimize future overpayments, it is imperative that case managers record status changes for foster children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Furthermore, the Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should take the appropriate steps to ensure collection of existing and future overpayments. These steps should include such collection efforts as collection letters, telephone calls, collection agencies, and litigation.

Management's Comment

We concur. As represented in the finding the department has attempted to adjust all federal reports so that any overpayment has been refunded to the federal government. The differences represented in the finding were correctly identified as a result of the ChipFins program's inability to make the needed adjustments based on the historical eligibility of the child at the time of the overpayment. Remittance notices are sent to every vendor with an overpayment indicated after each pay-run showing the balance due and requesting reimbursement to the department. An accounts receivable is set up prior to this notice in ChipFins. The department will continue its current efforts of collecting overpayments for accounts where no child remains in the home. The department will explore additional options for collecting these overpayments.

The department has completed the development of a ChipFins Prepayment Authorization system which will require each pay period the approval by all case managers for foster care children in their case load. Testing for this system has completed and training will begin shortly. The Prepayment Authorization system should be in full operation by the end of this fiscal year. In addition, the department is anticipating the development of a call-in phone system which will require the foster parents and adoption assistance parents to call in each pay period to enter information which will be verified and will result in the generation of their payment for the children currently in their home. This information and the information obtained from the case managers will be compared electronically for agreement. For data that does not agree, an error report will be generated. This error report will be sent to the Assistant Commissioner of Field Operations to verify the accuracy of the information. Once the information has been verified and all needed corrections have been made, a payment will be generated. It is anticipated that the use of both of these systems will virtually eliminate ChipFins overpayments.

Finding Number	99-DCS-04
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Material Weakness
Questioned Costs	None

Controls over disbursements were still weak

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated,

> Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with [Social Services Block Grant (SSBG).].…The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment.

Problems noted during the current audit included lack of supporting documentation and insufficient approvals. Examples are:

- Lack of Supporting Documentation - The central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments. Through testwork performed for the SSBG grant, it was determined that the information in ChipFins is not always reliable or accurate (See finding 99-DCS-05). Nine of 40 expenditures tested (23%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. There was not a valid foster care contract for one of the nine payments, and for the other eight payments, the foster care contracts did not provide for the therapeutic bonus fees paid by the department. As evidenced by the above errors, documentation for payments is not always present before

payments are made. The errors noted above resulted in questioned costs of $1,297.81, or 2% of the dollar value of the sample. Based on total SSBG expenditures of over $5 million, we believe likely questioned costs associated with this condition could exceed $10,000.

- Insufficient Approval – The data in ChipFins results in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties are required to verify that services were provided to children before these payments are made. Until case managers update a change in the child's status, payments continue to be made to the parents. This results in overpayments because ChipFins often is not updated timely. As noted in finding 99-DCS-03, Children's Services has continued to overpay foster care and adoption assistance parents during the audit period. For all 40 of the SSBG expenditures tested and 49 of 60 Title IV-E expenditures tested (81.7%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

Effective internal control is essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal control includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for services that were not received.

Recommendation

In order to prevent or minimize inappropriate payments, it is imperative that case managers record status changes for children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Data in the ChipFins system should be supported by adequate documentation in the case files. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. Management should consider modifications to ChipFins that would require case managers to approve foster care and adoption assistance payments prior to payment.

Management's Comment

We concur. Management believes that the corrective actions proposed for the ChipFins overpayments will also correct the problems noted in this finding. Please see finding 99-DCS-03 for a detailed discussion of the systems that are under development and examination. The changes represented in that finding response will greatly reduce if not eliminate overpayments in the ChipFins program. Monitoring of case managers'

approval of payments based on their case load and the information they are to maintain in the records of the children should make the Prepayment Authorization program along with the soon to be developed phone-in system for foster care and adoption assistance parents a very effective method of controlling overpayments.

Finding Number	99-DCS-05
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Material Weakness
Questioned Costs	None

Status changes for foster children are still not processed promptly

Finding

As noted in the five previous audits, which covered the period July 1, 1993, to June 30, 1998, status changes for foster children are not processed promptly, resulting in overpayments.

According to management, the Children's Plan Financial Information System (ChipFins) database should be updated by the case managers when a child's foster care placement changes. Until case managers enter these placement changes, payments are automatically made to the foster parents of record in the ChipFins database. In order to correct over/under payments, case managers must submit change-in-status adjustment forms to the central office. There is still a problem with case managers not entering status changes on ChipFins timely.

As indicated in management's comments to the prior audit finding, the department began preparing monthly reports that show the adjustment forms received and the number of changes by case manager. Starting in March 1998, the Fiscal Division started tracking the number of status changes submitted to that office from field staff. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address why the changes are not being made timely by the case managers. Internal Audit also prepares three-month trend analyses that are reported to the Director of Regional Services and the Deputy Commissioner.

Since the department started preparing, distributing, and reviewing the monthly reports, the number and dollar amount of adjustments do not indicate that management's actions have corrected the problem. Adjustment forms for the time period July 1998 through June 1999 show that 1,036 adjustments were made, totaling $422,636.78 in overpayments and $44,294.77 in underpayments. The department paid the total amount of underpayments to foster parents. However, Children's Services could not determine the amount of collections it had received for the overpayments. Had the department

properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete.

Management stated in their response to the prior finding that each case manager has the responsibility of data entry for each child entering or exiting assigned homes. Management further stated, "It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry." However, based on a review of adjustment forms, it does not appear that case managers always enter their own status changes in ChipFins. Numerous instances were noted in which reasons for adjustments were due to "keyers" not entering information provided to them by case managers accurately or timely. Case managers not entering their own information in ChipFins provides a greater opportunity for errors and untimely input to occur and not be detected.

Furthermore, this monthly report of adjustments shows when status changes were made late but does nothing to determine if status changes should have been made but were not. A review of case files by case managers' supervisors would be necessary to ensure that the case managers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure case managers enter child placement information in ChipFins timely. These procedures should include a requirement that case managers' immediate supervisors examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against case managers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur. The department has made progress in identifying problem areas concerning untimely status changes in ChipFins. Reports continue to be provided to Regional Administrators and disciplinary actions are taken when staff habitually miss cut off dates or when staff habitually fail to change the status of a child when they leave a foster home. In the case of the 1999 overpayments, nearly 10% of the total overpayments can be attributed to a single case manager. Needless to say, this case manager is no longer employed by the department. The department is committed to reducing overpayments and the number of ChipFins adjustments, as evidenced by the department's plans to develop the systems discussed below.

The department is anticipating the development of two systems, the Prepayment Authorization System and the phone-in system for foster and adoption assistance parents, which should resolve the ChipFins overpayment issue. These systems are more fully discussed in finding 99-DCS-03. Once these systems are operating in conjunction, the department will know before a payment is made that a status change was not entered timely. These new systems will allow the department to immediately identify case managers who are not entering status changes timely, as opposed to the current system, which may detect status change errors months after they have been made. This knowledge will allow the department to better determine the reasons for the untimely status changes and take appropriate action.

The Program Operations central office staff has investigated several reports of "keyers" being used in the regions. In the past, case managers gave keyers, who were not case managers, information to input into ChipFins. This practice was discontinued two years ago. The current practice is for each case manager to enter his/her own data into ChipFins. In each situation investigated, the use of "keyers" as they were defined in the past was not substantiated. When residential case managers are on annual or sick leave, or when a residential case manager position is vacant, the need for the entering of ChipFins data does not disappear. In each situation where it was alleged that a "keyer" was completing ChipFins data entry, we determined that a supervisor or other residential case manager was actually entering the data. The term "keyer" was used in these situations to denote that the normal case manager did not enter the information, but a backup staff member was responsible for completing ChipFins data entry when the assigned case manager was not available to do so. The department realizes the necessity for data to be entered into ChipFins in a timely and accurate manner regardless of who is entering the data. Management will continue to emphasize the importance of this task to all staff who have this responsibility.

The department does not currently have a mechanism in place to structure a database to account for ChipFins collections from overpayments caused by untimely status changes. To build such a database would be labor intensive since all of the individual transactions would have to be manually keyed. The fiscal division does not have the staff to perform such a labor intensive activity. The department plans to address this issue in the financial phase of TNKIDS development.

Finding Number	99-DCS-06
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Reportable Condition
Questioned Costs	None

Case files do not contain adequate documentation tracking the services provided, progress, or movement of the child

Finding

The department did not have adequate documentation in each child's case file showing the services provided to the child, the progress of the child, or the movement of the child. Department of Children's Services Policies 9.1, 9.2, and 9.9 indicate that a child's case file shall have a section titled "Case Recordings." Policy 9.1, "Program Operations-Child Case Files," states,

> This section consists of, but is not limited to, chronological information concerning each contact with the child/family or other individuals. Appropriate documentation shall include the following: narratives, monthly recordings, collaterals, case notes/progress notes, dictation, contacts or case documentation on child and family.

Problems were noted involving time lapses between case notes and the case manager's visits to the child.

Seven of 60 case files tested (11.7%) did not contain adequate documentation tracking the services provided, progress, or movement of the children. In all seven instances, there were substantial gaps in time between case recordings documenting the progress of the children. Time lapses between entries in case notes ranged from 50 to 245 days. One case file did not contain case recordings from August 1998 to November 1998 and from January 1999 to May 1999. Complete records (as detailed in the department's policies and procedures) are essential if case managers are to appropriately assess and monitor the progress of children.

Recommendation

The Assistant Commissioner of Program Operations should ensure that case managers are making the required contacts with children in state custody and documenting all contacts made. Proper case recordings documenting the progress of the

child as described in the department's policies should be prepared in a reasonable time and placed in the child's case file.

Management's Comment

We concur. Case file reviews conducted by central office staff from the Division of Program Operations documented similar findings. Historically, part of the documentation problem is related to the number of cases assigned to each case manager. During the past year, the department has hired 121 new case manager positions and 22 new supervisor positions. These recent improvements in staffing and subsequent reductions in caseloads are expected to result in improvement in the timeliness and completeness of case documentation. In the past, when case manager vacancies occurred, the department had problems ensuring that the terminating case manager's cases were being documented properly. When this occurs, the field has been directed to reassign cases to existing case managers or to team leaders who are to handle the cases. This is a stop gap measure that enables staff to deal with emergencies regarding a case and provide an appropriate level of documentation regarding significant events. The Division of Program will also modify policy 9.1, "Program Operations-Child Case Files" to establish a formal policy expectation regarding the timeliness of casework documentation.

Finding Number	99-DCS-07
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Material Weakness
Questioned Costs	None

The department does not have adequate property management controls

Finding

The department did not perform a complete inventory to ensure that all equipment was properly accounted for during the fiscal year. The department did not maintain accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. In addition, the department did not report lost or stolen equipment to the Comptroller of the Treasury, and did not have the items removed from the inventory and accounting records.

The department did not complete the physical inventory process by year-end as required by the Department of General Services. The Property of State of Tennessee (POST) guidelines require an annual physical inventory prior to the close of the fiscal year. A memo from General Services regarding inventory for fiscal year 1999 requires that an annual physical count of fixed assets and sensitive items owned by the department be completed by June 1, 1999. After June 1, 1999, General Services will generate an exception report and the department should review the exception report and prepare a final update to the inventory list by June 30, 1999. All items not accounted for will be considered lost and a list of these items must be forwarded to the Comptroller of the Treasury.

The department's inventory exception report as of July 21, 1999, contained over 900 items that had not been inventoried for fiscal year 1999. Analytical procedures were performed on the inventory exception report in an attempt to determine possible causes for the large number of items not located. Three locations accounted for 466 items on the exception report (Tennessee Preparatory School, 193; Central Office, Cordell Hull Building, 167; and Local Government Data Processing Center, Columbia, 106). There were 14 additional locations that had from 10 to 67 items on the exception report. Based on this review, it appeared that many locations did not perform a complete inventory for fiscal year 1999 and management did not promptly follow up on the exception report.

Because of the large number of items management did not locate at year-end in the Central Office, the auditors attempted to locate the 37 laptop computers on the

exception report whose assigned location was the Cordell Hull Building. This process produced the following results:

- Twenty-three of the laptops were located and confirmed by the auditors. These items should have been located through the regular inventory process, inventoried, and should not have been on the exception report.

- Three of the laptops were located but had the wrong location code on POST. POST records allow location information to be updated on-line; therefore, location information should have been updated immediately when equipment was moved. These items should have been inventoried, and they should not have been on the exception report.

- Eleven of the laptops could not be located by the auditors or management as of October 7, 1999. Since the department is not aware of the location of these laptops, this equipment should be reported to the Comptroller of the Treasury as lost or stolen and removed from the inventory records.

The department is not maintaining accurate subsidiary inventory records of laptop computers, peripheral equipment, and other portable equipment. The department relies on POST to keep track of all equipment, including these items. POST only provides the county and building location of equipment; therefore, additional subsidiary records are needed to account for portable items assigned to specific individuals. Administrative Services procures equipment and is responsible for maintaining inventory records on POST. Information Resources provides maintenance and supportive services for computers and peripheral equipment. In addition, they are responsible for assignment of computer equipment. Information Resources has a database of computer equipment purchased with Statewide Automated Child Welfare Information Systems (SACWIS) funds; however, this database has not been adequately updated or maintained. Three of the 37 laptop computers assigned to Information Resources Desktop Support inventory could not be located.

In addition, the auditors reviewed the database records from Information Resources to determine if an individual employee in the Department of Children's Services (DCS) was assigned more than one laptop computer or portable printer. According to the database, there were 22 individuals on the inventory report maintained by Information Resources who were assigned two or more laptop computers/printers. The auditors attempted to locate these items, as well as items not assigned which were on the exception report. The total number of laptops/printers tested in this procedure was 108. As a result of this test, there were only a few persons who actually had custody of two or more laptop computers/printers, and all of these assignments appeared proper. The location and assignment of 37 items agreed with the database. However, the following problems were noted with the subsidiary inventory records maintained by Information Resources:

- Forty-five items were located, but they were not in the custody of the person indicated on the Information Resources database. These laptops/printers had been moved and exchanged for other units. Information Resources has not updated its database on portable computer equipment.
- One item was stolen in December 1997 but was still on the database and had not been removed from POST.
- Twenty-five items were not at the assigned location and DCS personnel could not locate this equipment as of October 7, 1999; however, this equipment still remains on POST and has not been reported as lost or stolen. Two of these 25 items were included in other testwork.

The exception report contained 374 computer equipment items that were purchased with Title IV-E (SACWIS) funds. Based on the inaccuracies noted in the department's records regarding location and assignment of this equipment, the department may not be complying with federal guidelines of the program regarding its usage. In addition, SACWIS regulations govern how this equipment should be used. U.S. Department of Health and Human Services, Administration for Children and Families, Action Transmittal No. ACF-O1SM-001, page 10, section B, states:

> Equipment acquired solely to support the activities of State or contract staff administering the programs under the approved State plan under title IV-B or IV-E may be charged to title IV-E. Equipment, which is acquired to support other individuals or programs, must either be direct-charged to the other agency or program, or allocated among all appropriate funding sources, dependent upon whether the equipment is used partially for the programs under titles IV-E or IV-B.

The department does not report lost or stolen equipment to the Comptroller of the Treasury. In addition, they have not requested its removal from the POST records. The Department of General Services requires that the department submit a written request when asking that a stolen item be removed from POST. This request should include the description of the item, tag number, and serial number. In addition, a copy of the police report or security report, copy of the letter to the Comptroller of the Treasury, and a signature of the department head should accompany this request.

Notwithstanding the fact that some of the items on the exception report were subsequently located as a result of the auditors' testwork, over 20% of the items tested still were not located by management as of October 7, 1999. None of the items on the exception report were reported to the Comptroller of the Treasury as lost or stolen, or were removed from the POST records of fixed assets in the state's general fixed assets account group as of June 30, 1999. Furthermore, the department had knowledge of nine pieces of equipment that had been stolen from August 18, 1997, through December 12, 1998. These items were not reported to the Comptroller's office and requests were not made to General Services to remove them from POST.

Not maintaining adequate inventory records could result in management not detecting lost or stolen equipment timely. Since the department's inventory records were incomplete and were not updated, the department cannot provide accurate information on location and usage of equipment. Therefore, the department is unable to adequately document compliance with federal guidelines regarding the usage of federally funded equipment. In addition, not properly completing physical inventory procedures by year-end and not reporting necessary adjustments could result in the misstatement of fixed assets on the state's financial statements.

Recommendation

The property officer should follow the Department of General Services, procedures to ensure that the department performs a complete physical inventory of equipment annually. All items not accounted for during the inventory should be researched thoroughly. The inventory exception report should not be considered a list of items to locate during the next inventory cycle. Rather, the department should promptly research all items on the exception report so that necessary adjustments to the inventory and accounting records can be made at year-end. All items which are not accounted for by year-end should be considered lost or stolen and should be reported to the Comptroller of the Treasury and removed from POST records. Inventory records should also be sufficient to document compliance with program guidelines for proper usage of equipment purchased with specific program funds.

Top management should ensure that the department establishes and maintains adequate subsidiary inventory records of portable computer equipment and other portable equipment. In addition to assigning recordkeeping responsibilities, it is imperative that management establish systems and procedures which clearly assign responsibilities to each division in order to ensure the timely reporting of information necessary to properly update all inventory records. The subsidiary inventory records should identify the person who has custody of the equipment, and POST records should be promptly adjusted to reflect any changes in equipment location.

Management's Comment

We concur. The department's problems in this area were created in part by the process which was utilized in taking inventory for the state fiscal year ending 1999. During that process the various offices across the state were allowed to take their own inventory. The department is extremely decentralized with approximately 145 offices across the state. Each field office was to assign a person to complete the inventory process and submit the results to Administrative Services. Field offices across the state apparently did not put the appropriate emphasis on this process. With the change in the Assistant Commissioner position over the Administrative Services division, this practice has been terminated. One person will have the responsibility for conducting inventory in each region. The department will then be assured that only one person will be

accountable for this process in each region. These individuals will be adequately trained to collect the necessary information from all departmental equipment required to be inventoried. This will also be helpful in the department's effort to be sure all information has been received timely.

In addition, the department will shortly be conducting a campaign to verify the location of all laptops assigned to its personnel. The maintenance of subsidiary records for these items will be maintained by the Administrative Services property officer with the Information Resources division tracking any moves or reassignment of all computer equipment. A tracking sheet has been developed and the responsibility assigned for the collection of information concerning reassignment, maintenance, surplusing, installation, etc. The flow of that information to the property officer has also been clearly identified. It has also been very clearly communicated to the property officer that records on POST are to be updated in a timely manner. This process is currently being put in policy.

The location of all equipment will be determined after completing the laptop exercise noted above. At that time, the department will also collect information concerning the function of every staff member that has been assigned the equipment to check for the appropriateness of its use as required by the SACWIS grant. This process will require a sufficient amount of time to visit each region in the state in order to collect the information, check the information collected against the departments current records, and do a follow-up on any discrepancies for verification of the correct location of the equipment. After that process has been completed, Internal Audit will periodically do inventory testwork on a sample of equipment to verify that the system developed is working adequately.

In addition, with improved procedures the department will ensure that property items which cannot be located or were reported as lost, stolen or damaged are properly reported to both the Comptroller of the Treasury and the Department of General Services and removed from inventory records.

Finding Number	99-DCS-08
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Reportable Condition
Questioned Costs	None

The department continues to issue duplicate payments and overpayments to vendors; $181,025.12 was returned or refunded voluntarily by vendors

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During the year ended June 30, 1999, vendors voluntarily made over 160 refunds totaling $113,946.79 and returned 276 original checks totaling $67,078.33. These totals only represent the known overpayments due to vendors making refunds. Management concurred with the prior audit finding and stated that comprehensive reports concerning returns of original checks were provided to fiscal management starting in April 1999 in order to indicate the areas that should be targeted for improvement and the type of action that should be taken. Also, the department has started using a database program to help locate duplicate entries for TOPS/STARS invoices. However, it does not appear that the corrective action taken by the department was timely or completely effective. Compared to last year, the total dollar amount of duplicate payments and overpayments and the number of returned checks were nearly the same.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Administrative Services should take appropriate measures to establish adequate internal controls that will eliminate duplicate

payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for all expenditures.

Management's Comment

We concur. However, the $181,025 in overpayments noted in the finding represents only .0943 percent of the total expenditures in this category ($192,123,149) for the fiscal year ending June 30, 1999. The overpayments noted in the finding represent a very small percentage of the total payments made for this category of expenditures; however, the department is committed to reducing any overpayments and has implemented controls which the department believes will reduce this amount even further.

In addition, $43,080.75 of the above dollar amount was recovered through controls initiated by the department on April 8, 1999 through the end of the fiscal year. Through these controls the department identified $50,523 in overpayments and recovered 85% of those funds. This was done by the department's use of the Standard Claim System which provides edit checks to determine overlapping service dates for all children for whom services have been provided and billed on a Standard Claim. If two or more vendors submit a claim for a child indicating services have been provided on overlapping dates during the billing period, the system will not allow payment of any claim after the initial payment. Since the first billing received will not indicate any overlaps, it is paid in full. Only when another vendor's billing is received can the system's edit checks be applied. When a claim is submitted for an overlapping service date, DCS staff determines the kind of services that were provided so that it can be determined if the overlap is appropriate. If not, staff then contacts all vendors billing during the overlapping period to determine which vendors should be paid for which dates. All approvers for the claims involved are alerted to look for the resubmittal of these claims for approval. Upon correction, any overpayment resulting from overlaps is recovered from the state contracted vendor during the next billing period. This procedure allows the department to control the number of duplicate payments for services submitted on Standard Claims. This process is similar to how any business would check billings submitted to verify that the bill is only for services provided. The department cannot verify vendors' invoices prior to their submittal to the department for payment.

The department began using a database program to log invoices for TOPS and STARS in May 1999. After fiscal's evaluation of the controls in this system, weaknesses were noted and an enhancement to this database program was made in August of 1999 to correct the problem. The effects of the controls within this program would not have been

evident during the audit period. When an invoice is being logged into the database, the program will give a warning message that this is a duplicate invoice if the vendor and invoice number already exist in the log. The system will not accept a duplicate entry. A replica of this database has been requested from Information Resources for travel claims.

For Y2K compliance the department developed a new processing program for the medical claims. The department began using the new program December 18, 1999. The new medical program is written to mirror the Standard Claim Invoice system. There are edit checks to address duplicate payments in relation to child information, vendor information, NDC code (pharmacy codes), CPT codes (medical procedure codes), and hospital codes.

The department has been very proactive in its efforts to strength the controls over disbursements as evidenced by the corrective actions discussed above and will continue to explore additional ways to strengthen the effectiveness of its controls in all areas.

Finding Number	99-DCS-09
CFDA Number	93.658
Program Name	Foster Care – Title IV-E
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9501TN1401 through 99TN1401
Finding Type	Material Weakness
Questioned Costs	None

The CORS system currently in place and the new TnKids computer system, which has not been implemented as scheduled, do not ensure data integrity and user accountability

Finding

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Client Operation and Review System (CORS), which records the profiles of children in state custody and matches these with the facilities providing care, does not ensure data integrity and user accountability. CORS contains information such as the child's placement history, family information, permanency plan, and assigned case manager; and is used to monitor the status of children and to identify those who need to be reassigned to other facilities. In addition, CORS is the largest source of information for the Children's Plan Financial Information System (ChipFins).

Management partially concurred with the prior finding and stated that the CORS system was not capable of supporting the control issues noted in the prior audit and was no longer supported by the vendor and cannot be upgraded within the CORS programming structure. Management further stated that the TnKids Data Conversion Plan required trial conversions of actual data from CORS prior to the implementation of TnKids Release 2.1 (the first phase in development of the system) in each region. The scheduled implementation date for the first phase of TnKids was March 1999. However, phase one of TnKids was not implemented until June 1999, and that was only in the Southeast Region.

Subsequent to management not meeting its initial projection and due to the CORS system not being year 2000 compliant, management prepared a TnKids Y2K Contingency Plan which projects TnKids to be in place in all regions by November of 1999. According to this plan, each region will have a central site for TnKids data entry, which will prevent individual case managers from updating information in the system. The site personnel will enter input for each region based on information supplied by case managers. Since case managers will not enter information directly and are unable to access and review data in the system for accuracy, this method provides greater opportunity for errors and untimely input to occur and not be detected.

Management's response to the prior finding also stated that this phase of TnKids would permit only authorized users to add, change, or delete client information and that it

would provide a system log to record user activity and serve as an audit trail. However, our review of this phase of TnKids revealed the following weaknesses:

- The planned "restricted access" part of TnKids, which will prevent users from accessing certain sensitive records, has not been implemented. In addition, there are no plans to incorporate regional access limitations into TnKids. Without such limitations, any user with update access can change any record in the state.

- The system does not track all of the changes that are made to a given record. Rather than tracking all changes to records, the system only documents the last date and user that changed a particular record. Therefore, inappropriate information may be input to a record and a subsequent entry to that record will remove evidence as to who entered any previous information. This system control does not provide an adequate audit trail to trace all changes to a particular child's record in TnKids.

The fact that these system controls are not incorporated in the TnKids system results in a severe lack of accountability since any user with update access can add, change, or delete client information across the state without any record of the change. Because the aforementioned weaknesses existed in the CORS system and presently exist in the TnKids system, other previously noted CORS control weaknesses may exist in the TnKids system.

Our review of CORS revealed that the following weaknesses continue:

- A client's record can be created on the system multiple times because the system does not check for duplicate entries. Also, each new entry to CORS, even a duplicate entry, results in a matching new entry to ChipFins.

- Any user, including community services agency employees, could add, change, or delete information on any client.

- The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.

- Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.

- CORS does not maintain sufficient information for proper foster care semiannual reporting, as required by the federal Department of Health and Human Services. Therefore, the Department of Children's Services has chosen to take a penalty each time the report is submitted without the required

data rather than spend the time and money to gather the necessary foster care data required. Because the department has decided it is not cost effective to gather the information, the department paid a penalty on the September 1998 reports totaling approximately $82,685.00. The March 1999 report was submitted with all required information and no penalty was incurred.

- Problems noted with data integrity cause concern because data from CORS is being transferred to TnKids, the new system on which the department is relying to correct many of the department's existing problems. If the information is not accurate or in some cases nonexistent in CORS, it will not be accurate in TnKids. The department has undertaken data cleanup efforts that consisted of case managers manually comparing CORS information to the documentation maintained in the child's case file. In addition, reports were generated to search for missing information in CORS in order to add any missing data prior to conversion to TnKids. It is not determinable at this time whether these cleanup efforts will significantly reduce inaccurate data within the CORS system due to the lack of control that still allows invalid and inaccurate data to be entered into the system.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective system management controls require procedures to prevent duplication of data, to reduce the risk of incorrect or invalid data, and to require periodic password changes. In addition, these management controls require appropriate access restrictions to clients' records and an audit trail of changes to client information.

Recommendation

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new TnKids computer system has the following capabilities:

- has edits for duplicate or invalid data;
- permits only authorized users to add, change, or delete client information;
- provides a system log to record user activity and serve as an audit trail; and
- requires periodic password changes to reduce the risk of unauthorized access.

The Assistant Commissioner for Support Services should monitor the implementation of the new system to ensure that the above controls are built into the system. In the meantime, the department should continue to ensure the accuracy of information in CORS before it is transferred into the new TnKids system.

Management's Comment

We concur. The CORS system was replaced in the Southeast region in June 1999 and in all other regions by November 1999. Though it is accurate that not all case managers currently have access to TNKIDS, selected staff in each region were extensively trained to use the system and case managers are submitting case information to those selected staff. Part of the delay in the deployment of TNKIDS to all case managers is due to management's commitment to understanding and following federal guidelines as they pertain to the SACWIS grant. Management wanted to ensure that the department's process for procurement and installation of the equipment were in compliance with federal and state laws. The department has developed a federally approved process for the procurement and installation of the new desktop computers. The computers were purchased in early January with installation beginning January 31, 2000.

When the department was planning the conversion of CORS data into TNKIDS, the department fully recognized that there were problems with the data quality in CORS. The department took three steps to minimize the risk of converting inaccurate and incomplete data into TNKIDS. First, data was converted from CORS to TNKIDS through a series of conversion activities developed by the department and reviewed and monitored by the Department of Finance and Administration's Office of Information Resources. These activities were to provide a certain level of assurance that data would be converted in a complete manner from CORS into TNKIDS. Second, in April 1999, the department created a Data Quality Unit to be housed in the division of Policy, Planning and Research. This unit was charged with the ongoing mission of assisting the regions and central office with improving and monitoring the reliability and accuracy of TNKIDS data. In order to ensure that this mission is carried out, the unit has initiated a scheduled data review process. The Data Quality Unit is working closely with Information Resources, Program Operations, and regional staff to verify and correct as needed, inaccurate, missing and duplicated data through consultation via face-to-face meetings, telephone conversations and e-mail contacts. Third, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before new records are created or information is added to an established record to minimize duplication.

The finding suggests that access to TNKIDS cases need to be more restricted by incorporating regional access limitations into the system. Because of the way the department is forced to conduct business, limiting case access regionally is not practical. Case managers and administrative staff anywhere in the state need the ability to update a case when relevant activity occurs. For example, a child protective services referral could occur in one region then the family moves to another region, the case managers in both regions would need to have the ability to access the case concurrently. In fact, the regional limitation in CORS caused many difficulties in regional operations. The TNKIDS security model was carefully reviewed and approved by field staff, the TNKIDS Project Steering Committee and the Management Advisory Committee. In

order to put controls in TNKIDS that would ensure data integrity without limiting the case managers' ability to enter timely data, the department is developing an enhanced system log (i.e. audit trail) on pertinent data that will serve as a compensating control to having restricted regional access. A work group has been formed to address this issue. While it is true that restricted access, which will prevent users from accessing certain sensitive records, has not yet been implemented, a work group has been formed to finalize the requirements for the restricted access function of TNKIDS. Implementation for this restricted access is tentatively scheduled for August 2000. Until the restricted access component for sensitive cases is implemented, these cases are not being entered into TNKIDS.

TNKIDS captures the ID of the user who created each record and the user who last changed the record along with date and time the record was changed. In addition, the case narrative section captures and displays each user who entered case notes on a given record. The department recognizes that this tracking system is not adequate and, as mentioned earlier, has formed a work group to develop a system log for pertinent data in TNKIDS.

The finding recommendation states that TNKIDS should have "edits for duplicate and invalid data." As stated above, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before records are added to minimize duplication. The finding recommendation also states that TNKIDS should require "periodic password changes to reduce the risk of unauthorized access." The feature was developed as a part of TNKIDS 2.1, but did not function properly due to a known bug in the ORACLE database. The company has provided a patch, which is scheduled to be implemented in the next TNKIDS release.

Finding Number	99-DCS-03
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Material Weakness
Questioned Costs	None

Since 1993 Children's Services has not collected overpayments; uncollected overpayments totaling at least $1,195,745.66 are due from foster care and adoption assistance parents

Finding

As noted in the five previous audits, from July 1, 1993, to June 30, 1998, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents. Management concurred in part with the prior audit finding and stated,

> The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies, by county, adjustments that result in overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment.

However, as of June 1999, the department's records indicated an outstanding accounts receivable balance for these parents totaling $1,195,745.66, a decrease of only $29,388.10 (2.5%) since June 1998. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period.

When a child is removed from a foster home, the Department of Children's Services' case manager is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the case manager enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or case manager of the overpayment. However, as noted in finding 99-DCS-05, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

It is the department's policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a

receivable is established. In addition, subsequent payments to the parent are reduced up to 50% until the amount due from that individual foster parent is indicated to be zero. However, the department is not actively pursuing recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children.

When overpayments to foster parents are noted, it is the department's policy to adjust subsequent requests for federal funds in order to eliminate federal participation in the overpayment. However, the ChipFins system does not automatically reverse the original overpayment. ChipFins allocates payments and adjustments to programs based on the child's eligibility at the date of the transaction. Therefore, if the child's eligibility changes between the dates of payment and adjustment, the allocation of the adjustment will not agree to the allocation of the payment.

Because the adjustment process in the ChipFins system has attempted to remove federal participation in the overpayments, only a portion of the outstanding balance represents questioned costs owed to Title IV-E (Foster Care) as of June 30, 1999. These amounts represent the net of transactions not properly adjusted. The federal participation in these amounts is as follows: fiscal year 1997 and earlier, $38,486.52; for fiscal year 1998, $4,831.66; and for fiscal year 1999, $11,810.91.

Recommendation

In order to prevent or minimize future overpayments, it is imperative that case managers record status changes for foster children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Furthermore, the Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should take the appropriate steps to ensure collection of existing and future overpayments. These steps should include such collection efforts as collection letters, telephone calls, collection agencies, and litigation.

Management's Comment

We concur. As represented in the finding the department has attempted to adjust all federal reports so that any overpayment has been refunded to the federal government. The differences represented in the finding were correctly identified as a result of the ChipFins program's inability to make the needed adjustments based on the historical eligibility of the child at the time of the overpayment. Remittance notices are sent to every vendor with an overpayment indicated after each pay-run showing the balance due and requesting reimbursement to the department. An accounts receivable is set up prior to this notice in ChipFins. The department will continue its current efforts of collecting overpayments for accounts where no child remains in the home. The department will explore additional options for collecting these overpayments.

The department has completed the development of a ChipFins Prepayment Authorization system which will require each pay period the approval by all case managers for foster care children in their case load. Testing for this system has completed and training will begin shortly. The Prepayment Authorization system should be in full operation by the end of this fiscal year. In addition, the department is anticipating the development of a call-in phone system which will require the foster parents and adoption assistance parents to call in each pay period to enter information which will be verified and will result in the generation of their payment for the children currently in their home. This information and the information obtained from the case managers will be compared electronically for agreement. For data that does not agree, an error report will be generated. This error report will be sent to the Assistant Commissioner of Field Operations to verify the accuracy of the information. Once the information has been verified and all needed corrections have been made, a payment will be generated. It is anticipated that the use of both of these systems will virtually eliminate ChipFins overpayments.

Finding Number	99-DCS-04
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Material Weakness
Questioned Costs	None

Controls over disbursements were still weak

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated,

> Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with [Social Services Block Grant (SSBG).].…The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment.

Problems noted during the current audit included lack of supporting documentation and insufficient approvals. Examples are:

- Lack of Supporting Documentation - The central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments. Through testwork performed for the SSBG grant, it was determined that the information in ChipFins is not always reliable or accurate (See finding 99-DCS-05). Nine of 40 expenditures tested (23%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. There was not a valid foster care contract for one of the nine payments, and for the other eight payments, the foster care contracts did not provide for the therapeutic bonus fees paid by the department. As evidenced by the above errors, documentation for payments is not always present before

payments are made. The errors noted above resulted in questioned costs of $1,297.81, or 2% of the dollar value of the sample. Based on total SSBG expenditures of over $5 million, we believe likely questioned costs associated with this condition could exceed $10,000.

- Insufficient Approval – The data in ChipFins results in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties are required to verify that services were provided to children before these payments are made. Until case managers update a change in the child's status, payments continue to be made to the parents. This results in overpayments because ChipFins often is not updated timely. As noted in finding 99-DCS-03, Children's Services has continued to overpay foster care and adoption assistance parents during the audit period. For all 40 of the SSBG expenditures tested and 49 of 60 Title IV-E expenditures tested (81.7%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

Effective internal control is essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal control includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for services that were not received.

Recommendation

In order to prevent or minimize inappropriate payments, it is imperative that case managers record status changes for children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Data in the ChipFins system should be supported by adequate documentation in the case files. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. Management should consider modifications to ChipFins that would require case managers to approve foster care and adoption assistance payments prior to payment.

Management's Comment

We concur. Management believes that the corrective actions proposed for the ChipFins overpayments will also correct the problems noted in this finding. Please see finding 99-DCS-03 for a detailed discussion of the systems that are under development and examination. The changes represented in that finding response will greatly reduce if not eliminate overpayments in the ChipFins program. Monitoring of case managers'

approval of payments based on their case load and the information they are to maintain in the records of the children should make the Prepayment Authorization program along with the soon to be developed phone-in system for foster care and adoption assistance parents a very effective method of controlling overpayments.

Finding Number	99-DCS-05
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Material Weakness
Questioned Costs	None

Status changes for foster children are still not processed promptly

Finding

As noted in the five previous audits, which covered the period July 1, 1993, to June 30, 1998, status changes for foster children are not processed promptly, resulting in overpayments.

According to management, the Children's Plan Financial Information System (ChipFins) database should be updated by the case managers when a child's foster care placement changes. Until case managers enter these placement changes, payments are automatically made to the foster parents of record in the ChipFins database. In order to correct over/under payments, case managers must submit change-in-status adjustment forms to the central office. There is still a problem with case managers not entering status changes on ChipFins timely.

As indicated in management's comments to the prior audit finding, the department began preparing monthly reports that show the adjustment forms received and the number of changes by case manager. Starting in March 1998, the Fiscal Division started tracking the number of status changes submitted to that office from field staff. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address why the changes are not being made timely by the case managers. Internal Audit also prepares three-month trend analyses that are reported to the Director of Regional Services and the Deputy Commissioner.

Since the department started preparing, distributing, and reviewing the monthly reports, the number and dollar amount of adjustments do not indicate that management's actions have corrected the problem. Adjustment forms for the time period July 1998 through June 1999 show that 1,036 adjustments were made, totaling $422,636.78 in overpayments and $44,294.77 in underpayments. The department paid the total amount of underpayments to foster parents. However, Children's Services could not determine the amount of collections it had received for the overpayments. Had the department

properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete.

Management stated in their response to the prior finding that each case manager has the responsibility of data entry for each child entering or exiting assigned homes. Management further stated, "It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry." However, based on a review of adjustment forms, it does not appear that case managers always enter their own status changes in ChipFins. Numerous instances were noted in which reasons for adjustments were due to "keyers" not entering information provided to them by case managers accurately or timely. Case managers not entering their own information in ChipFins provides a greater opportunity for errors and untimely input to occur and not be detected.

Furthermore, this monthly report of adjustments shows when status changes were made late but does nothing to determine if status changes should have been made but were not. A review of case files by case managers' supervisors would be necessary to ensure that the case managers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure case managers enter child placement information in ChipFins timely. These procedures should include a requirement that case managers' immediate supervisors examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against case managers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur. The department has made progress in identifying problem areas concerning untimely status changes in ChipFins. Reports continue to be provided to Regional Administrators and disciplinary actions are taken when staff habitually miss cut off dates or when staff habitually fail to change the status of a child when they leave a foster home. In the case of the 1999 overpayments, nearly 10% of the total overpayments can be attributed to a single case manager. Needless to say, this case manager is no longer employed by the department. The department is committed to reducing overpayments and the number of ChipFins adjustments, as evidenced by the department's plans to develop the systems discussed below.

The department is anticipating the development of two systems, the Prepayment Authorization System and the phone-in system for foster and adoption assistance parents, which should resolve the ChipFins overpayment issue. These systems are more fully discussed in finding 99-DCS-03. Once these systems are operating in conjunction, the department will know before a payment is made that a status change was not entered timely. These new systems will allow the department to immediately identify case managers who are not entering status changes timely, as opposed to the current system, which may detect status change errors months after they have been made. This knowledge will allow the department to better determine the reasons for the untimely status changes and take appropriate action.

The Program Operations central office staff has investigated several reports of "keyers" being used in the regions. In the past, case managers gave keyers, who were not case managers, information to input into ChipFins. This practice was discontinued two years ago. The current practice is for each case manager to enter his/her own data into ChipFins. In each situation investigated, the use of "keyers" as they were defined in the past was not substantiated. When residential case managers are on annual or sick leave, or when a residential case manager position is vacant, the need for the entering of ChipFins data does not disappear. In each situation where it was alleged that a "keyer" was completing ChipFins data entry, we determined that a supervisor or other residential case manager was actually entering the data. The term "keyer" was used in these situations to denote that the normal case manager did not enter the information, but a backup staff member was responsible for completing ChipFins data entry when the assigned case manager was not available to do so. The department realizes the necessity for data to be entered into ChipFins in a timely and accurate manner regardless of who is entering the data. Management will continue to emphasize the importance of this task to all staff who have this responsibility.

The department does not currently have a mechanism in place to structure a database to account for ChipFins collections from overpayments caused by untimely status changes. To build such a database would be labor intensive since all of the individual transactions would have to be manually keyed. The fiscal division does not have the staff to perform such a labor intensive activity. The department plans to address this issue in the financial phase of TNKIDS development.

Finding Number	99-DCS-06
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Reportable Condition
Questioned Costs	None

Case files do not contain adequate documentation tracking the services provided, progress, or movement of the child

Finding

The department did not have adequate documentation in each child's case file showing the services provided to the child, the progress of the child, or the movement of the child. Department of Children's Services Policies 9.1, 9.2, and 9.9 indicate that a child's case file shall have a section titled "Case Recordings." Policy 9.1, "Program Operations-Child Case Files," states,

> This section consists of, but is not limited to, chronological information concerning each contact with the child/family or other individuals. Appropriate documentation shall include the following: narratives, monthly recordings, collaterals, case notes/progress notes, dictation, contacts or case documentation on child and family.

Problems were noted involving time lapses between case notes and the case manager's visits to the child.

Seven of 60 case files tested (11.7%) did not contain adequate documentation tracking the services provided, progress, or movement of the children. In all seven instances, there were substantial gaps in time between case recordings documenting the progress of the children. Time lapses between entries in case notes ranged from 50 to 245 days. One case file did not contain case recordings from August 1998 to November 1998 and from January 1999 to May 1999. Complete records (as detailed in the department's policies and procedures) are essential if case managers are to appropriately assess and monitor the progress of children.

Recommendation

The Assistant Commissioner of Program Operations should ensure that case managers are making the required contacts with children in state custody and documenting all contacts made. Proper case recordings documenting the progress of the

child as described in the department's policies should be prepared in a reasonable time and placed in the child's case file.

Management's Comment

We concur. Case file reviews conducted by central office staff from the Division of Program Operations documented similar findings. Historically, part of the documentation problem is related to the number of cases assigned to each case manager. During the past year, the department has hired 121 new case manager positions and 22 new supervisor positions. These recent improvements in staffing and subsequent reductions in caseloads are expected to result in improvement in the timeliness and completeness of case documentation. In the past, when case manager vacancies occurred, the department had problems ensuring that the terminating case manager's cases were being documented properly. When this occurs, the field has been directed to reassign cases to existing case managers or to team leaders who are to handle the cases. This is a stop gap measure that enables staff to deal with emergencies regarding a case and provide an appropriate level of documentation regarding significant events. The Division of Program will also modify policy 9.1, "Program Operations-Child Case Files" to establish a formal policy expectation regarding the timeliness of casework documentation.

Finding Number	99-DCS-08
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Reportable Condition
Questioned Costs	None

The department continues to issue duplicate payments and overpayments to vendors; $181,025.12 was returned or refunded voluntarily by vendors

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During the year ended June 30, 1999, vendors voluntarily made over 160 refunds totaling $113,946.79 and returned 276 original checks totaling $67,078.33. These totals only represent the known overpayments due to vendors making refunds. Management concurred with the prior audit finding and stated that comprehensive reports concerning returns of original checks were provided to fiscal management starting in April 1999 in order to indicate the areas that should be targeted for improvement and the type of action that should be taken. Also, the department has started using a database program to help locate duplicate entries for TOPS/STARS invoices. However, it does not appear that the corrective action taken by the department was timely or completely effective. Compared to last year, the total dollar amount of duplicate payments and overpayments and the number of returned checks were nearly the same.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Administrative Services should take appropriate measures to establish adequate internal controls that will eliminate duplicate

payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for all expenditures.

Management's Comment

We concur. However, the $181,025 in overpayments noted in the finding represents only .0943 percent of the total expenditures in this category ($192,123,149) for the fiscal year ending June 30, 1999. The overpayments noted in the finding represent a very small percentage of the total payments made for this category of expenditures; however, the department is committed to reducing any overpayments and has implemented controls which the department believes will reduce this amount even further.

In addition, $43,080.75 of the above dollar amount was recovered through controls initiated by the department on April 8, 1999 through the end of the fiscal year. Through these controls the department identified $50,523 in overpayments and recovered 85% of those funds. This was done by the department's use of the Standard Claim System which provides edit checks to determine overlapping service dates for all children for whom services have been provided and billed on a Standard Claim. If two or more vendors submit a claim for a child indicating services have been provided on overlapping dates during the billing period, the system will not allow payment of any claim after the initial payment. Since the first billing received will not indicate any overlaps, it is paid in full. Only when another vendor's billing is received can the system's edit checks be applied. When a claim is submitted for an overlapping service date, DCS staff determines the kind of services that were provided so that it can be determined if the overlap is appropriate. If not, staff then contacts all vendors billing during the overlapping period to determine which vendors should be paid for which dates. All approvers for the claims involved are alerted to look for the resubmittal of these claims for approval. Upon correction, any overpayment resulting from overlaps is recovered from the state contracted vendor during the next billing period. This procedure allows the department to control the number of duplicate payments for services submitted on Standard Claims. This process is similar to how any business would check billings submitted to verify that the bill is only for services provided. The department cannot verify vendors' invoices prior to their submittal to the department for payment.

The department began using a database program to log invoices for TOPS and STARS in May 1999. After fiscal's evaluation of the controls in this system, weaknesses were noted and an enhancement to this database program was made in August of 1999 to correct the problem. The effects of the controls within this program would not have been

evident during the audit period. When an invoice is being logged into the database, the program will give a warning message that this is a duplicate invoice if the vendor and invoice number already exist in the log. The system will not accept a duplicate entry. A replica of this database has been requested from Information Resources for travel claims.

For Y2K compliance the department developed a new processing program for the medical claims. The department began using the new program December 18, 1999. The new medical program is written to mirror the Standard Claim Invoice system. There are edit checks to address duplicate payments in relation to child information, vendor information, NDC code (pharmacy codes), CPT codes (medical procedure codes), and hospital codes.

The department has been very proactive in its efforts to strength the controls over disbursements as evidenced by the corrective actions discussed above and will continue to explore additional ways to strengthen the effectiveness of its controls in all areas.

Finding Number	99-DCS-09
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	9701TN1407 through 9901TN1407
Finding Type	Material Weakness
Questioned Costs	None

The CORS system currently in place and the new TnKids computer system, which has not been implemented as scheduled, do not ensure data integrity and user accountability

Finding

As noted in the four previous audits covering the period July 1, 1994, to June 30, 1998, the Client Operation and Review System (CORS), which records the profiles of children in state custody and matches these with the facilities providing care, does not ensure data integrity and user accountability. CORS contains information such as the child's placement history, family information, permanency plan, and assigned case manager; and is used to monitor the status of children and to identify those who need to be reassigned to other facilities. In addition, CORS is the largest source of information for the Children's Plan Financial Information System (ChipFins).

Management partially concurred with the prior finding and stated that the CORS system was not capable of supporting the control issues noted in the prior audit and was no longer supported by the vendor and cannot be upgraded within the CORS programming structure. Management further stated that the TnKids Data Conversion Plan required trial conversions of actual data from CORS prior to the implementation of TnKids Release 2.1 (the first phase in development of the system) in each region. The scheduled implementation date for the first phase of TnKids was March 1999. However, phase one of TnKids was not implemented until June 1999, and that was only in the Southeast Region.

Subsequent to management not meeting its initial projection and due to the CORS system not being year 2000 compliant, management prepared a TnKids Y2K Contingency Plan which projects TnKids to be in place in all regions by November of 1999. According to this plan, each region will have a central site for TnKids data entry, which will prevent individual case managers from updating information in the system. The site personnel will enter input for each region based on information supplied by case managers. Since case managers will not enter information directly and are unable to access and review data in the system for accuracy, this method provides greater opportunity for errors and untimely input to occur and not be detected.

Management's response to the prior finding also stated that this phase of TnKids would permit only authorized users to add, change, or delete client information and that it would provide a system log to record user activity and serve as an audit trail. However, our review of this phase of TnKids revealed the following weaknesses:

- The planned "restricted access" part of TnKids, which will prevent users from accessing certain sensitive records, has not been implemented. In addition, there are no plans to incorporate regional access limitations into TnKids. Without such limitations, any user with update access can change any record in the state.

- The system does not track all of the changes that are made to a given record. Rather than tracking all changes to records, the system only documents the last date and user that changed a particular record. Therefore, inappropriate information may be input to a record and a subsequent entry to that record will remove evidence as to who entered any previous information. This system control does not provide an adequate audit trail to trace all changes to a particular child's record in TnKids.

The fact that these system controls are not incorporated in the TnKids system results in a severe lack of accountability since any user with update access can add, change, or delete client information across the state without any record of the change. Because the aforementioned weaknesses existed in the CORS system and presently exist in the TnKids system, other previously noted CORS control weaknesses may exist in the TnKids system.

Our review of CORS revealed that the following weaknesses continue:

- A client's record can be created on the system multiple times because the system does not check for duplicate entries. Also, each new entry to CORS, even a duplicate entry, results in a matching new entry to ChipFins.

- Any user, including community services agency employees, could add, change, or delete information on any client.

- The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.

- Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.

- CORS does not maintain sufficient information for proper foster care semiannual reporting, as required by the federal Department of Health and Human Services. Therefore, the Department of Children's Services has chosen to take a penalty each time the report is submitted without the required

data rather than spend the time and money to gather the necessary foster care data required. Because the department has decided it is not cost effective to gather the information, the department paid a penalty on the September 1998 reports totaling approximately $82,685.00. The March 1999 report was submitted with all required information and no penalty was incurred.

- Problems noted with data integrity cause concern because data from CORS is being transferred to TnKids, the new system on which the department is relying to correct many of the department's existing problems. If the information is not accurate or in some cases nonexistent in CORS, it will not be accurate in TnKids. The department has undertaken data cleanup efforts that consisted of case managers manually comparing CORS information to the documentation maintained in the child's case file. In addition, reports were generated to search for missing information in CORS in order to add any missing data prior to conversion to TnKids. It is not determinable at this time whether these cleanup efforts will significantly reduce inaccurate data within the CORS system due to the lack of control that still allows invalid and inaccurate data to be entered into the system.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective system management controls require procedures to prevent duplication of data, to reduce the risk of incorrect or invalid data, and to require periodic password changes. In addition, these management controls require appropriate access restrictions to clients' records and an audit trail of changes to client information.

Recommendation

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new TnKids computer system has the following capabilities:

- has edits for duplicate or invalid data;
- permits only authorized users to add, change, or delete client information;
- provides a system log to record user activity and serve as an audit trail; and
- requires periodic password changes to reduce the risk of unauthorized access.

The Assistant Commissioner for Support Services should monitor the implementation of the new system to ensure that the above controls are built into the system. In the meantime, the department should continue to ensure the accuracy of information in CORS before it is transferred into the new TnKids system.

Management's Comment

We concur. The CORS system was replaced in the Southeast region in June 1999 and in all other regions by November 1999. Though it is accurate that not all case managers currently have access to TNKIDS, selected staff in each region were extensively trained to use the system and case managers are submitting case information to those selected staff. Part of the delay in the deployment of TNKIDS to all case managers is due to management's commitment to understanding and following federal guidelines as they pertain to the SACWIS grant. Management wanted to ensure that the department's process for procurement and installation of the equipment were in compliance with federal and state laws. The department has developed a federally approved process for the procurement and installation of the new desktop computers. The computers were purchased in early January with installation beginning January 31, 2000.

When the department was planning the conversion of CORS data into TNKIDS, the department fully recognized that there were problems with the data quality in CORS. The department took three steps to minimize the risk of converting inaccurate and incomplete data into TNKIDS. First, data was converted from CORS to TNKIDS through a series of conversion activities developed by the department and reviewed and monitored by the Department of Finance and Administration's Office of Information Resources. These activities were to provide a certain level of assurance that data would be converted in a complete manner from CORS into TNKIDS. Second, in April 1999, the department created a Data Quality Unit to be housed in the division of Policy, Planning and Research. This unit was charged with the ongoing mission of assisting the regions and central office with improving and monitoring the reliability and accuracy of TNKIDS data. In order to ensure that this mission is carried out, the unit has initiated a scheduled data review process. The Data Quality Unit is working closely with Information Resources, Program Operations, and regional staff to verify and correct as needed, inaccurate, missing and duplicated data through consultation via face-to-face meetings, telephone conversations and e-mail contacts. Third, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before new records are created or information is added to an established record to minimize duplication.

The finding suggests that access to TNKIDS cases need to be more restricted by incorporating regional access limitations into the system. Because of the way the department is forced to conduct business, limiting case access regionally is not practical. Case managers and administrative staff anywhere in the state need the ability to update a case when relevant activity occurs. For example, a child protective services referral could occur in one region then the family moves to another region, the case managers in both regions would need to have the ability to access the case concurrently. In fact, the regional limitation in CORS caused many difficulties in regional operations. The TNKIDS security model was carefully reviewed and approved by field staff, the TNKIDS Project Steering Committee and the Management Advisory Committee. In

order to put controls in TNKIDS that would ensure data integrity without limiting the case managers' ability to enter timely data, the department is developing an enhanced system log (i.e. audit trail) on pertinent data that will serve as a compensating control to having restricted regional access. A work group has been formed to address this issue. While it is true that restricted access, which will prevent users from accessing certain sensitive records, has not yet been implemented, a work group has been formed to finalize the requirements for the restricted access function of TNKIDS. Implementation for this restricted access is tentatively scheduled for August 2000. Until the restricted access component for sensitive cases is implemented, these cases are not being entered into TNKIDS.

TNKIDS captures the ID of the user who created each record and the user who last changed the record along with date and time the record was changed. In addition, the case narrative section captures and displays each user who entered case notes on a given record. The department recognizes that this tracking system is not adequate and, as mentioned earlier, has formed a work group to develop a system log for pertinent data in TNKIDS.

The finding recommendation states that TNKIDS should have "edits for duplicate and invalid data." As stated above, TNKIDS includes numerous features to minimize the occurrence of invalid data, including drop down lists, imbedded business rules and transaction sequencing, and field edits (such as those to prevent invalid dates). In addition, a search function is invoked before records are added to minimize duplication. The finding recommendation also states that TNKIDS should require "periodic password changes to reduce the risk of unauthorized access." The feature was developed as a part of TNKIDS 2.1, but did not function properly due to a known bug in the ORACLE database. The company has provided a patch, which is scheduled to be implemented in the next TNKIDS release.

Finding Number	99-DCS-04
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Allowable Costs/Cost Principles
Questioned Costs	$1,297.81

Controls over disbursements were still weak

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated,

> Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with [Social Services Block Grant (SSBG).].…The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment.

Problems noted during the current audit included lack of supporting documentation and insufficient approvals. Examples are:

- Lack of Supporting Documentation - The central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments. Through testwork performed for the SSBG grant, it was determined that the information in ChipFins is not always reliable or accurate (See finding 99-DCS-05). Nine of 40 expenditures tested (23%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. There was not a valid foster care contract for one of the nine payments, and for the other eight payments, the foster care contracts did not provide for the therapeutic bonus fees paid by the department. As evidenced

by the above errors, documentation for payments is not always present before payments are made. The errors noted above resulted in questioned costs of $1,297.81, or 2% of the dollar value of the sample. Based on total SSBG expenditures of over $5 million, we believe likely questioned costs associated with this condition could exceed $10,000.

- Insufficient Approval – The data in ChipFins results in the automatic issuance of foster care and adoption assistance payments. Neither case managers nor other knowledgeable parties are required to verify that services were provided to children before these payments are made. Until case managers update a change in the child's status, payments continue to be made to the parents. This results in overpayments because ChipFins often is not updated timely. As noted in finding 99-DCS-03, Children's Services has continued to overpay foster care and adoption assistance parents during the audit period. For all 40 of the SSBG expenditures tested and 49 of 60 Title IV-E expenditures tested (81.7%), the receipt of services was not verified. All of the exceptions noted above were payments generated by the ChipFins system.

Effective internal control is essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal control includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for services that were not received.

Recommendation

In order to prevent or minimize inappropriate payments, it is imperative that case managers record status changes for children promptly and accurately in the ChipFins system. The Assistant Commissioner of Field Operations should ensure that case managers fulfill this responsibility. Data in the ChipFins system should be supported by adequate documentation in the case files. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. Management should consider modifications to ChipFins that would require case managers to approve foster care and adoption assistance payments prior to payment.

Management's Comment

We concur. Management believes that the corrective actions proposed for the ChipFins overpayments will also correct the problems noted in this finding. Please see finding 99-DCS-03 for a detailed discussion of the systems that are under development and examination. The changes represented in that finding response will greatly reduce if

not eliminate overpayments in the ChipFins program. Monitoring of case managers' approval of payments based on their case load and the information they are to maintain in the records of the children should make the Prepayment Authorization program along with the soon to be developed phone-in system for foster care and adoption assistance parents a very effective method of controlling overpayments.

Finding Number	99-DCS-08
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The department continues to issue duplicate payments and overpayments to vendors; $181,025.12 was returned or refunded voluntarily by vendors

Finding

As noted in the five previous audits covering the period July 1, 1993, to June 30, 1998, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During the year ended June 30, 1999, vendors voluntarily made over 160 refunds totaling $113,946.79 and returned 276 original checks totaling $67,078.33. These totals only represent the known overpayments due to vendors making refunds. Management concurred with the prior audit finding and stated that comprehensive reports concerning returns of original checks were provided to fiscal management starting in April 1999 in order to indicate the areas that should be targeted for improvement and the type of action that should be taken. Also, the department has started using a database program to help locate duplicate entries for TOPS/STARS invoices. However, it does not appear that the corrective action taken by the department was timely or completely effective. Compared to last year, the total dollar amount of duplicate payments and overpayments and the number of returned checks were nearly the same.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Administrative Services should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for all expenditures.

Management's Comment

We concur. However, the $181,025 in overpayments noted in the finding represents only .0943 percent of the total expenditures in this category ($192,123,149) for the fiscal year ending June 30, 1999. The overpayments noted in the finding represent a very small percentage of the total payments made for this category of expenditures; however, the department is committed to reducing any overpayments and has implemented controls which the department believes will reduce this amount even further.

In addition, $43,080.75 of the above dollar amount was recovered through controls initiated by the department on April 8, 1999 through the end of the fiscal year. Through these controls the department identified $50,523 in overpayments and recovered 85% of those funds. This was done by the department's use of the Standard Claim System which provides edit checks to determine overlapping service dates for all children for whom services have been provided and billed on a Standard Claim. If two or more vendors submit a claim for a child indicating services have been provided on overlapping dates during the billing period, the system will not allow payment of any claim after the initial payment. Since the first billing received will not indicate any overlaps, it is paid in full. Only when another vendor's billing is received can the system's edit checks be applied. When a claim is submitted for an overlapping service date, DCS staff determines the kind of services that were provided so that it can be determined if the overlap is appropriate. If not, staff then contacts all vendors billing during the overlapping period to determine which vendors should be paid for which dates. All approvers for the claims involved are alerted to look for the resubmittal of these claims for approval. Upon correction, any overpayment resulting from overlaps is recovered from the state contracted vendor during the next billing period. This procedure allows the department to control the number of duplicate payments for services submitted on Standard Claims. This process is similar to how any business would check billings submitted to verify that the bill is only for services provided. The department cannot verify vendors' invoices prior to their submittal to the department for payment.

The department began using a database program to log invoices for TOPS and STARS in May 1999. After fiscal's evaluation of the controls in this system, weaknesses were noted and an enhancement to this database program was made in August of 1999 to correct the problem. The effects of the controls within this program would not have been evident during the audit period. When an invoice is being logged into the database, the program will give a warning message that this is a duplicate invoice if the vendor and invoice number already exist in the log. The system will not accept a duplicate entry. A replica of this database has been requested from Information Resources for travel claims.

For Y2K compliance the department developed a new processing program for the medical claims. The department began using the new program December 18, 1999. The new medical program is written to mirror the Standard Claim Invoice system. There are edit checks to address duplicate payments in relation to child information, vendor information, NDC code (pharmacy codes), CPT codes (medical procedure codes), and hospital codes.

The department has been very proactive in its efforts to strength the controls over disbursements as evidenced by the corrective actions discussed above and will continue to explore additional ways to strengthen the effectiveness of its controls in all areas.

Finding Number	99-DCS-10
CFDA Number	93.667
Program Name	Social Services Block Grant
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Human Services
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Reportable Condition, Eligibility
Questioned Costs	$38,052.30

The department's Memphis region violated policies and procedures and sound internal control principles relative to daycare placements

Finding

Our review determined that the department's Memphis region violated policies and procedures and sound internal control principles relative to daycare placements as follows:

- We determined that 52 of the 78 recipients we traced to supporting records were ineligible for daycare services. Of these 52 recipients, 17 were ineligible because the department had no record (other than documentation created by the former clerk) of ever receiving a complaint of abuse or neglect regarding the children, of investigating a complaint of abuse or neglect regarding the children, or of authorizing the children for daycare services. Based solely on false documentation the clerk prepared and submitted to the daycare brokerage organization (contracted by the state to facilitate payment for daycare services), the state paid $38,052.30 for daycare services provided to these 17 ineligible recipients.

- The remaining 35 recipients were ineligible because neither the department nor the brokerage organization had any record that the services had been authorized. For these 35 recipients, the clerk personally provided the daycare center operators documentation listing the names of children that would be attending their daycare centers without submitting documentation to the brokerage organization to initiate payment for the services. For 24 of the 35 recipients the department had no record (other than documentation created and provided to the daycare centers by the former clerk) of ever receiving a complaint of abuse or neglect regarding the children, of investigating a complaint of abuse or neglect regarding the children, or of authorizing the children for daycare services. While case files existed for the remaining 11 recipients (indicating a report of abuse or neglect was received by the department and investigated), the department had no record of ever authorizing the recipient for daycare services.

Recipient approval and payment authorization is communicated to the daycare centers by a certificate that is sent to the centers by the brokerage organization. Since the brokerage organization never received documentation from the Department of Children's Services authorizing payment for these 35 recipients, no authorization certificates were sent to the centers. Under these circumstances, staff of the daycare centers should not have accepted these 35 recipients for services until the appropriate authorization certificates had been obtained. However, the daycare centers provided services to these 35 recipients (based solely on the former clerk's representation that they would be attending) without obtaining the appropriate authorization certificates. The centers provided daycare services for approximately two months before contacting the department to inquire about payment, becoming aware of the recipients' ineligibility, and terminating their services. The daycare centers did not receive payments from the state for the services. At the center reimbursement rate of $72 per week per child over two years of age, the approximate loss to these centers for providing services to the 35 ineligible recipients for eight weeks totaled $20,160.

- Of the daycare operators we interviewed, three acknowledged paying an estimated $1,035 to the clerk after she had personally provided them documentation listing the names of children that would be attending their daycare centers and requested money. Two of the daycare operators could not recall the specific names of children referred to their centers by the former clerk in the manner discussed above. Thus, we could not determine their eligibility for the services. The other daycare operator provided us names of the children referred to her center by the former clerk for which payments were made to the clerk. Of these 13 children, we determined that eight appeared to be eligible for daycare services while the remaining five were not eligible for daycare services. One of the daycare center operators characterized the payments as a "quid pro quo" for daycare referrals from the clerk. The other two daycare center operators said the payments were loans unrelated to daycare referrals from the clerk.

- One parent and one guardian of daycare recipients acknowledged paying the clerk $50 each ($100 total) to authorize daycare services for their children. They both stated that they considered the payment to the former clerk as a required one-time fee for daycare services and that they were unaware that the clerk's request for the payment was improper. We determined that three of these four children were not eligible for daycare services.

The clerk was able to make these improper placements because she was given sole responsibility for handling the processing of daycare referrals for the region with little or no oversight. After receiving documentation authorizing daycare services from the applicable caseworker, the clerk prepared another form and submitted it the brokerage organization for the purpose of initiating payment. This other form was controlled solely

by the clerk without independent management review and approval or reconciliation to the caseworker-prepared approval form. This process to communicate recipient approval to the brokerage organization diminished the significance of the approval documentation prepared by the caseworker. Furthermore, the process violated the department's policies and procedures in effect (requiring the caseworker-prepared and supervisor-approved daycare approval form to be submitted to the brokerage organization), failed to adhere to sound internal control principles, and allowed the clerk's inappropriate activities to continue undetected.

Upon completion, the details of our review of this matter will be released in a Special Report. On December 21, 1999, we submitted a preliminary summary of our review to the Office of the District Attorney General, Thirtieth Judicial District (Memphis), and the Office of the State Attorney General.

Action Taken by Department Officials

Written procedures developed and implemented by Memphis regional staff in May 1999 require all daycare approval forms to be completed by the caseworker and approved by the assigned supervisors. While the Memphis region continues to use the two forms to authorize daycare services, these procedures require a monthly reconciliation by an administrative assistant (independent of the referral process) of the caseworker-prepared approval form to a listing of approved daycare recipients obtained from the brokerage organization. This reconciliation, if properly conducted, should detect the submission of any bogus approval forms to the brokerage agency.

Furthermore, the Acting Director of the department's Memphis region designated the region's Adolescent and Parenting Unit as the agency to monitor and reevaluate daycare and other services authorized by the caseworkers in response to deficiencies in properly monitoring services authorized by the region's caseworkers. The acting director stated that this unit would provide better monitoring of service programs and allow caseworkers to focus on responding to investigative responsibilities.

Recommendation

Our review resulted in the following recommendations:

The department's Assistant Commissioner of Field Operations should ensure eligibility of all 737 children in the Memphis region who are currently receiving daycare services or who had received daycare services since July 1997 by conducting the procedures detailed in our June 21, 1999, memorandum to her. These procedures include tracing daycare recipients to the department's two computerized intake tracking systems (the Social Services Management System and the Client Operations Review System) and departmental case files. When no case file, approval documentation, or intake record can be located, the daycare recipient would not be eligible for services.

Policies and Procedures relative to the Child Protective Services daycare programs should be developed and disseminated to all applicable department staff. These procedures should specifically address eligibility criteria, authorization procedures and documentation, re-assessment procedures and documentation, term limits, and case file management. At no time should a single individual be allowed to prepare and submit authorization documentation to a brokerage organization without appropriate independent approvals.

The department's Memphis Region Director should continually monitor the effectiveness of the newly designated follow-up unit to ensure timely and appropriate monitoring and reevaluation of daycare and other services authorized by department caseworkers.

The department's Memphis Region Director should consider consolidating the information contained on the two forms used to authorize daycare placement (the form prepared by the caseworker approving services and the form submitted to the brokerage organization to initiate services and payment). Memphis region staff should continue the independent monthly reconciliation process discussed above and also consider replacing this manual reconciliation with an automated comparison of the department's computerized intake system (listing the names of children reported to the department for investigative review) and the computerized Tennessee Child Care Management System (listing the names of children receiving daycare services.) This reconciliation should be documented and maintained by the Memphis Region.

Memphis regional management (the director and Child Protective Services unit team leaders) should continue to monitor the implementation of corrective actions to ensure adequate monitoring and compliance with established criteria.

Management's Comment

We concur. The department is currently in the process of conducting the procedures as outlined in the memorandum from the Comptroller's Office on all 737 children noted in this memorandum to be reviewed. The anticipated date for completing this project is March 1, 2000. The department is also developing policies and procedures relative to daycare services being provided to children in state custody and those at risk of coming into state custody. These policies and procedures will disseminate to all applicable department staff once they are completed. The department's Memphis Regional Administrator will continually monitor the effectiveness of the newly designated follow-up unit designed to oversee the eligibility and authorization of DCS children receiving daycare services. The department's Memphis Regional Administrator will consider consolidating the information on the forms used to authorize daycare placement and automating the comparison of the department's computerized intake system. The reconciliation will be documented and maintained by the Memphis Region.

Finding Number	99-DCS-01
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Health
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

Children's Services inappropriately requested and received reimbursement from TennCare for children not eligible for TennCare services

Finding

The Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 1999.

As noted in the prior two audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. DCS's previous responses indicated this situation would be corrected by a separate contract numbering sequence to be used for detention center contracts. However, no improvement has been made.

Per *Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009, delinquent children who are placed in correctional facilities or facilities operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of juvenile and adult inmates. Children's Services is under contract with TennCare to determine the eligibility of children under its care. Children's Services has a responsibility not only to notify TennCare when these children are no longer eligible, but also to refrain from billing TennCare for services provided to ineligible children.

Using computer-assisted audit techniques, a search of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least $1,972,296.82 from July 1, 1998, to June 30, 1999, for juveniles in the youth development centers and detention centers. In addition, Children's Services did not fulfill its contractual responsibility to notify TennCare of children placed in youth development or detention centers. TennCare makes monthly capitation payments to Managed Care Organizations (MCOs) and to Behavorial Health Organizations (BHOs) to cover TennCare enrollees in these plans. Since TennCare was not aware of the ineligible

status of the children in the youth development and detention centers, TennCare incorrectly made capitation payments to the MCOs and BHOs on their behalf.

In addition to billing TennCare for ineligible youth in locked facilities as noted in previous audits, the current audit revealed that Children's Services is also billing for other categories of ineligible children. This includes children not in state custody; children in state custody but on runaway status; children in the Hometies program; individuals over the age of 21; and children under the age of three.

Children's Services inappropriately billed and received payment from TennCare for children not in state custody. TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavorial services for children not in state custody should be provided through the TennCare BHOs. Using computer-assisted audit techniques, auditors performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Client Operation and Review System (CORS). The results of the data match indicated that DCS had improperly billed TennCare $4,647,493.79 from July 1, 1998, to June 30, 1999, for services to children who were not in the state's custody. TennCare also contracts with DCS to determine the eligibility of children under its care and should, but does not, notify TennCare of the custodial status of children.

Children's Services inappropriately billed and received payment for children who are in the state's custody but are on runaway status. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $403,653.63 from July 1, 1998, to June 30, 1999, for services to children on runaway status. Since TennCare is permitted to pay only for actual treatment costs, TennCare should not be billed for services that were not provided while children were on runaway status.

Children's Services inappropriately billed and received payment from TennCare for services rendered to the Hometies program, which exists to prevent children from entering state custody. TennCare contracts with two BHOs to provide behavioral health services to its recipients. The BHOs are contractually responsible to provide all Hometies treatment. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $2,279,293.00 from July 1, 1998, to June 30, 1999, for Hometies services. The BHOs are contractually responsible to provide all services rendered to prevent children from entering state custody.

Children's Services inappropriately billed and received payment for individuals over the age of 21. Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $77,347.00 from July 1, 1998, to June 30, 1999, for services

to individuals who were over the age of 21. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for Medicaid services provided to recipients in its care who are 21 years or under.

The department has inappropriately billed and received payment from TennCare for behavioral health services provided to children under the age of three. Based on discussions with TennCare's medical staff, a child cannot be mentally evaluated until the age of three. Since these children cannot be mentally evaluated, it does not seem possible that these children received these types of Medicaid services. Management at Children's Services cited the following as possible reasons this occurred:

- Children's Services billed in the child's name for services actually rendered to the infant's mother. However, this is inappropriate because TennCare has not received approval from the Health Care Financing Administration (HCFA) to allow this type of indirect billing. By allowing this type of indirect billing, it is possible the service provider was paid twice for services provided to the mother.

- Children's Services billed for infants who are medically fragile. However, the MCOs are responsible for providing all medical treatment to all TennCare enrollees.

Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date of birth records from DCS's CORS system. The results of the data match indicated that DCS had improperly billed TennCare $1,673,100.41 from July 1, 1998, to June 30, 1999, for services to children who were under the age of three. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for children who receive Medicaid services.

In addition, testwork at the Department of Health, Bureau of TennCare found that vendors were unable to provide documentation indicating the child received therapeutic treatment for 12 of 60 DCS billings sampled. These errors totaled $2,838.05.

Questioned costs are reported in the Department of Health's audit report and in the TennCare findings in the Tennessee Single Audit report for the year ended June 30, 1999.

Recommendation

The Commissioner should determine why Children's Services has not developed and implemented the procedures necessary to ensure that TennCare is not billed for medical expenses related to children in youth development and detention centers. The Commissioner should then see that corrective measures are immediately implemented. In addition, the Assistant Commissioner of Fiscal and Administrative Services should

implement controls immediately to prevent the department from requesting reimbursement from TennCare for children who are not in custody, in the Hometies program, over the age of 21, under the age of three, or on runaway status. Management's top priority should be to bill TennCare only for allowable services provided to eligible children. In addition, Children's Services should provide TennCare information as to children that are in youth development and detention centers in order for TennCare to cease capitation payments made on behalf of these children.

Management's Comment

We concur in part. The department did incorrectly bill and receive reimbursement from TennCare for children in locked facilities. The department has refunded to TennCare $1,279,459.49 for children in locked facilities. In addition, the department has $93,888.80 of partial (part of a month) refunds to be sent to TennCare when their system can be reconfigured to accept partial refunds. During the department's analysis of the Tenncare questioned cost of $1,972,296.82 for incarcerated youth, stated in the finding, the department determined that $598,948.53 of this amount was for children placed in residential and group homes facilities, not youth development centers and detention centers.

The department began developing a financial funding system in October 1999 which would be integrated into the TnKids system upon completion. The data available upon the completion of this project will identify children's placement status for billing purposes. This data would include, but not be limited to, children in locked facilities. This information would be utilized to insure the accuracy of billings submitted to TennCare. In addition, the department is currently developing a process which will result in the fiscal division receiving weekly reports from all Youth Development Centers operated by the department which will identify all children in the facilities until the funding project is completed. This report will be used to eliminate children in locked facilities from the monthly billings to TennCare. In addition, for approximately the last six months, the department has been sending monthly reports to TennCare so that TennCare may eliminate payments to DCS for these children.

The department will immediately terminate all billing to TennCare for youth in runaway status. A waiver request from HCFA for this status of child has been discussed with TennCare. This waiver, if granted by HCFA, would allow this population to be billed to TennCare. The department will not bill for this population unless the waiver is granted.

The department reviewed the listing provided to the auditors of children who were supposedly not in state custody. All of these children were either Child Protective Services (CPS) cases or were in the department's continuum program. When a child is removed from his/her home in an emergency, there is to be a hearing within 72 hours. Most of the courts adhere to the 72 hour requirement, but if the docket is full, the hearing may be delayed. The department has no control over when the court schedules the

hearing. In addition, the department may not receive a written order at the conclusion of the hearing. Several days may pass before a written order is received by the department. The auditors used as the basis of their finding the date of legal custody which came from the CORS database. This legal custody date represents the date of the court hearing, not the date that the child came into the department's physical custody for protective, child safety reasons. Protective custody is a legal form of physical custody pending the court hearing in which the department is ensuring the child's safety. TennCare reimburses DCS for services to children in legal and physical custody.

The department is currently reviewing coverage issues and negotiating with TennCare regarding its children served in continuum contracts so that DCS may bill TennCare for children during the entire scope of their continuum contract. This is particularly important because two outside consulting groups, Child Welfare League of America, and the DeMuro Report on TennCare Services, cite continuum contracts as important initiatives in the department and recommend that they be expanded. The continuum model follows the child to reunification or permanency. Therefore, the contractor may provide services to the child after the child transitions home. The child remains in legal custody of the department during the receipt of these services. These services fall under the scope of enhanced services, as both residential services and specialized outpatient and symptoms management. These enhanced services continue during the transition period and the BHO continues the basic benefit package.

Tennessee Code Annotated 37-3-603(a) states in part that "the department of children's services shall develop, coordinate and implement a program to provide family services to each family with a child at imminent risk of placement…" The department provides Hometies services, which are family preservation services, to families that the department reasonably expects that the services will prevent out of home placement. The department provides this service as statutorily mandated and it is funded by Title XIX as part of enhanced services to a statutorily defined group of children/families for whom children have been identified as being at imminent risk of custody. This service was designed to meet the special need of this population, unlike BHO services, designed to meet the needs of TennCare enrollees. The Hometies population is a targeted population, and under the state's Title V agreement, such services for targeted populations are appropriate for Title XIX funding. TennCare has appropriately paid these expenditures and the grant agreement is being modified to reflect this policy.

The department examined the listing of children over the age of 21 provided by the auditors. In each case, the child has been certified as having severe mental retardation and have been put into the permanent custody of the state. When a child who is mentally retarded reaches the age of 21, DCS seeks to transition them to the adult special services system in the Division of Mental Retardation (Home and Community Based Waiver services). However, in the case of these individuals, the Division of Mental Retardation did not have any resources available to serve these children. The Division of Mental Retardation currently has a waiting list for these services. The department has notified the Division of Mental Retardation of 79 individuals that need to be transitioned to adult services. Due to the high demand for adult mental retardation

services, the department has not been assured that these placements can occur, but will continue to seek solutions in conjunction with the Division of Mental Retardation. The department cannot abandon these individuals who have been in permanent custody. The department will request that TennCare include language in future contracts which would allow the department to continue serving this population if services are not available at Mental Retardation.

Children under the age of three who come into the custody of the department and in need of out of home placement are not typical of children in the general population. Children who are under the age of three primarily enter custody due to serious physical abuse, sexual abuse (including child rape), and serious neglect. These children need and receive treatment in therapeutic foster care or in residential programs focusing on physiologically fragile young children. Often these very young children are at a high risk of attachment disorder and have serious developmental and psychological delays. While children this young do not respond to and cannot benefit from cognitive verbal focused therapy, they can benefit from therapy that focuses on the following: behavioral intervention, helping the traumatized child to feel safe, developing trust in adults, learning missed key developmental skills, and addressing other needs of the traumatized child.

The finding reads in part that " based on discussions with TennCare's medical staff, a child cannot be mentally evaluated until the age of three." However, in Attachment B to the BHO Provider Risk Agreement, recommended models for children's behavioral services include family preservation, in-home crisis stabilization, day treatment, therapeutic nursery, and infant stimulation. By allowing the BHO to provide therapeutic nursery and infant stimulation, TennCare has taken the position that a child under three years of age can receive therapeutic services.

It should be noted that these models of therapeutic nursery and infant stimulation fall into the category of enhanced behavioral services under symptom management. The department is clearly entitled to receive reimbursement for enhanced behavioral services from TennCare, and TennCare has not excluded infants from this coverage. TennCare expected the department to provide these enhanced benefits, as needed, to the custody population. TennCare made no provision for these services to be provided by the BHO. These services clearly fall in the enhanced services category, which obligates DCS to provide them, and age should not exclude this coverage, particularly since such services to infants are accepted models of treatment.

Auditor's Comment

Incarcerated Youth

In October 1999, the Division of State Audit forwarded a list of incarcerated youth payments to the Department of Children's Services (Children's Services) management. Children's Services management had two months before the end of the

audit field work in December 1999, to follow up on the incarcerated youth payments to ensure all information obtained from the CORS (Client Operation Review System) was correct. In February 2000, Children's Services management stated that $598,948.53 of the incarcerated youth questioned cost was actually for children placed in residential and group home facilities, not youth development and detention centers, however, Children's Services management has not provided any documentation to support this claim.

Children Not in State Custody

Children's Services management indicated that all the children identified in the custody data match were either Child Protective Services (CPS) cases or were in the Children's Services continuum program. For children in Child Protective Services, Children's Services management stated that several days might pass between the child entering physical custody and the department being granted legal custody. However, utilizing computer-assisted audit techniques, the auditors compared CORS custody dates and dates of services for children in this situation. The comparison revealed that only 2% of the amount questioned could possibly be attributed to such short delays. The majority of the cases involved months, not days, between the dates of services and the dates of custody. And, in some cases, there was no evidence the child was ever in custody.

Continuum services are similar to Hometies services except these services are provided for children leaving state custody instead of entering state custody. While the department contends that Children's Services should be allowed to bill TennCare for continuum services, auditors determined that for over 40% of the custody exceptions identified, the children had not been in custody for at least the past 3 years. Therefore, these children were not eligible for continuum services. Furthermore, all continuum services, as well as Hometies services, are covered by the BHOs and therefore Children's Services should not bill TennCare directly for such services.

Hometies

Although the *Tennessee Code Annotated* 37-3-603 (a) gives Children's Services the authority to develop, coordinate, and implement a program to provide family services to each family with a child at imminent risk of placement, it does not give Children's Services the authority to charge the TennCare program for these services. For those children who are TennCare enrollees, TennCare makes monthly capitation payments to Behavioral Health Organizations (BHOs) to provide enrollees with services covered under the agreements between TennCare and the BHOs. These agreements require the BHOs to provide all services to prevent enrolled children from entering state custody. Therefore, it should be the BHOs' responsibility to provide whatever enhanced services are necessary to prevent these children from entering state custody under their agreements with TennCare.

Case managers should seek services for children who are in Hometies, Child Protective Services, or continuum services from the BHOs as opposed to contracting with vendors to provide them. Furthermore, all of the non-state vendors that the department

contracts with to provide these services are also in the BHOs provider networks. Therefore, the department has paid the same vendors (and billed TennCare) for services that the BHOs should have provided (and paid for) under their agreements with TennCare. Children's Services must ensure the case managers properly use the BHOs as opposed to incurring additional expenses by paying for these covered services and billing TennCare.

Children Under Three Years of Age

Children's Services management indicated children who are under the age of three receive treatment in therapeutic foster care or in residential programs focusing on physiologically fragile young children. However, management of the Children's Services' providers stated that children at this age receive only medical treatment not physiological treatment. In addition, Children's Services' management provided the auditors with case notes for some of the children under three that were listed in the CORS database. These case notes indicated that these children received only immunizations and physical examinations; services that are covered by the Managed Care Organizations (MCOs). These children are TennCare enrollees, and, as such, TennCare makes monthly capitation payments to MCOs to provide enrollees with services covered under the agreements between TennCare and the MCOs. Children's Services must ensure the case managers properly use the MCOs to provide medical treatment as opposed to incurring additional expenses by paying providers for these covered services and billing TennCare.

Finding Number	99-DCS-02
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
Pass Through Agency	Department of Health
State Agency	Department of Children's Services
Grant/Contract No.	Various
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

Because Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program

Finding

As noted in the prior audit, the Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. Children's Services purchases goods and services (such as room and board, treatment, and education) for eligible children. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs.

In 1991-92, a cost analysis study of all the treatment facilities providing services to Children's Services was performed by an independent contractor. As a result of this study, a percentage rate, which supposedly represented the treatment portion of the service, was determined for each individual facility. According to management of the department, they questioned the validity of the cost study but decided to use these percentages to bill TennCare for the treatment portion. If a treatment facility was not included in the 1991-92 cost study, the department arbitrarily set a rate of 50% for the treatment portion of service. However, the percentage rates being used may not accurately reflect the portion of the total charge that is related to treatment. In performing the testwork on the billing procedures, we found that the department is not following its own arbitrary guidelines. In five of the ten billings tested (50%), the department had charged TennCare a larger percentage of the total amount paid to the provider than set by the department's guidelines. The department could not substantiate the rates being used. In many instances, the department was billing TennCare 90% to 100% of the total amount paid to the provider. However, the amount paid to the provider included room and board and education costs that should not be billed to TennCare.

Management concurred in part with the prior finding and stated,

> The department is . . . currently working on another cost and time study to develop more equitable and less complicated rates based on the recommendations made by the Comptroller's office. The new cost and time study (a similar study was performed in 1992) has been developed to mitigate the issues resulting from the first study and to address other inconsistencies.

It appears that the department has developed a new cost and time study; however, the department has yet to implement the study and bill TennCare based on the new rates.

Without a reliable system in place to identify medical treatment and room and board costs, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program.

Recommendation

As stated in the prior audit, management should become familiar with TennCare guidelines addressing the issue of allowable treatment costs. The department needs to implement a system for billing TennCare that includes a standard rate based on the level of care being provided. The rate should fairly represent the actual treatment portion of the care allowable according to TennCare regulations. The recently developed cost and time study should be reviewed with TennCare officials and the resulting rates should be implemented upon approval by both parties.

Management's Comment

We concur. For almost a year, the Department of Children's Services has been collecting information from vendors providing treatment services which are billed to TennCare. This information would allow the department to develop treatment rates that would be based on time and cost studies as well as audited financial information provided by the vendors. The information collected from the vendors was required to be reconciled to the audited financial statements submitted. This process of collecting the required information from vendors has taken significantly longer than planned. Five deadlines were set and passed with some vendors still not having submitted the required information to allow the department to develop more accurate rates for reimbursement. Additional deadlines were allowed in an effort to prevent the necessity of locating new treatment facilities for which new contracts would have to be developed and the relocation of many children to the new facilities. When the fifth deadline was set, the Commissioner and Deputy Commissioner personally called the vendors that had not complied to date and informed them that if compliance was not met by this deadline admissions would be frozen to the facility with the next alternative being cancellation of

their contract. Admissions were frozen for short periods for several vendors; however, compliance has still not been met by one vendor whose admissions remain frozen. DCS staff worked closely with TennCare in reviewing the process used to collect the information and the methodology for establishing the new rates. Now that the required information has been received, TennCare will submit the methodology and results to HCFA for approval. If approved by HCFA, the methodology will become the basis for establishing treatment rates not only for existing programs, but also new programs. The rates are to be applied back to July 1, 1999 (for fiscal year 2000). A cost settlement will be done with TennCare upon the final determination of the rates for each level of care provided by DCS.

Finding Number	99-DFA-01
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-9805TN5028, 05-9905TN5028
Finding Type	Material Weakness, Special Tests and Provisions
Questioned Costs	None

The Division of Mental Retardation Services did not provide adequate monitoring of Medicaid Home and Community Based Services

Finding

The Division of Mental Retardation Services (DMR) did not comply with its contract monitoring requirements for the Medicaid Home and Community Based Services (HCBS) for the Mentally Retarded and Developmentally Disabled waiver. The contract between the TennCare Bureau and DMR requires DMR to give assurance that necessary safeguards will be taken to protect the health and welfare of the recipients of home and community based services (HCBS) and assurance of financial accountability for funds expended for home and community based services.

Testwork revealed that DMR is adequately monitoring to ensure that the traditional long-term care providers have the necessary safeguards in place to protect the health and welfare of waiver recipients. However, testwork revealed that DMR has not adequately monitored the waiver's alternative providers. Alternative providers are home health agencies and individual providers such as dentists, behavioral therapists, nutritionists, physical therapists, etc.

In addition, DMR is not providing necessary assurance of financial accountability for funds expended for all providers. Furthermore, DMR's current monitoring policies have not been revised to include the monitoring process for the alternative providers and do not include the fiscal monitoring process for the financial accountability assurances.

DMR relies on programmatic personnel at the regional offices to perform monitoring for health and welfare assurances of the traditional long-term care providers. DMR and the Department of Mental Health and Mental Retardation share responsibility for fiscal monitoring. Although fiscal monitors were employed for the Middle Tennessee Regional Office – Nashville and in the East Tennessee Regional Office – Knoxville during the year ended June 30, 1999, the West Tennessee Regional Office – Memphis did not have a fiscal monitor during this period. During June 1999, the fiscal monitor at the Middle Tennessee Regional Office left, leaving this position vacant. In the absence of fiscal monitors, DMR programmatic monitors have performed fiscal monitoring tasks; however, on a statewide basis, monitoring may not be effective for financial

accountability because the programmatic staff performing fiscal monitoring may not be adequately trained to perform fiscal monitoring.

Furthermore, the Middle and West Tennessee Regional offices did not maintain back-up documentation for fiscal monitoring activities and the West Tennessee Regional office did not maintain back-up documentation for health and welfare monitoring. Survey results were documented and final reports disseminated and these are the records that were maintained. However, without all documentation of the monitoring activities, TennCare cannot be certain contract requirements regarding assurances of health and welfare and of financial accountability are met.

Recommendation

The Deputy Commissioner should ensure DMR complies with contractual requirements for assurances of health and welfare and of financial accountability. Monitoring policies and procedures should be developed to ensure all federal requirements are met.

Management's Comment

We concur. DMR has developed and implemented many community policies that relate to monitoring and oversight. Approximately 3% of claims are for services provided by alternative providers. DMR agrees that the monitoring for alternative providers can be enhanced and that current monitoring mechanisms for these providers can be better documented. DMR is in the process of implementing new monitoring procedures that will apply to alternative providers. These new procedures include enhanced fiscal monitoring guidelines for all providers. Also, since July, 1999, the West Tennessee Regional Office has begun to retain copies of the back-up documentation for health and welfare monitoring.

Finding Number	99-DFA-02
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-9805TN5028, 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

Claims for services provided to the mentally retarded and developmentally disabled have not been paid in accordance with the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver

Finding

The Division of Mental Retardation Services (DMR) has paid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled waiver (HCBS waiver) claims outside the prescribed waiver arrangement. The waiver is designed to afford eligible individuals access to home and community based services as authorized by Section 1915 (c) of the Social Security Act. Typically, any claims submitted by providers for services performed to waiver recipients would be processed in accordance with all applicable federal regulations and waiver requirements. In addition, the state would receive the federal match funded at the appropriate federal financial participation rate. However, DMR and TennCare have not processed waiver claims within federal requirements. As a result, the state contributed state funds for the waiver services, without maximizing federal financial participation. For example, DMR has paid providers for services that cannot be charged to the federal grantor because they are not allowable under the waiver regulations.

Per *Office of Management and Budget* (OMB) *Circular A-133*, for costs to be allowable Medicaid costs, claims must be for allowable services rendered that are supported by records or other evidence indicating the services were provided and consistent with a recipient's plan of care for HCBS waiver services. In addition, the *Code of Federal Regulations* Title 42, Part 1003, Section 102, states that penalties or assessments may be imposed by the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services (HHS) if an item or service was not provided as claimed. Furthermore, the Federal Register: August 10, 1995 Volume 60, Number 154 Notices *OIG Special Fraud Alerts* states that claiming unperformed or excessive services is fraud and may be prosecuted by the OIG.

The HCBS waiver requirements prohibit services for recipients when they are absent from their homes. In addition, the HCBS waiver does not permit recipient leave days because care is home based and not performed in a residential facility. TennCare forwarded DMR a transmittal letter from the Health Care Financing Administration of

HHS dated October 31, 1994, stating that leave days could not be paid for by the HCBS wavier. However, DMR implemented a system that would, in essence, permit patient leave days. For example, providers performing services for 300 days are paid the same amount as providers performing services for 365 days. DMR has also paid the providers rates that exceed the TennCare rates. In addition, the DMR payment system has no controls to prevent payment for unperformed services.

The current billing and payment process is as follows:

1. Medicaid services providers perform services for waiver recipients.

2. Providers bill DMR for services.

3. DMR pays providers based on rates established by DMR, but not the rates calculated in the waiver to TennCare. TennCare's rates are based on an average cost per service. DMR's uses the Community Services Tracking System and the State of Tennessee Accounting and Reporting System to pay the providers.

4. DMR bills TennCare as if DMR was a provider based on the TennCare rates.

5. TennCare pays DMR, as if DMR was a provider, the TennCare rates using the TCMIS system.

6. Per the agreement with TennCare and DMR, at year end TennCare and DMR intended to cost settle so that DMR could receive the difference between its full payment for services paid to providers and the amount which has been reimbursed by TennCare based on the TennCare rates.

Although DMR management intended to cost settle with TennCare, as described above, discussions with management subsequent to field work revealed that management will seek guidance from the grantor prior to proceeding with any cost settlement.

DMR has paid Medicaid providers more than the authorized rates, and in some cases has paid for unallowable leave days and unperformed services. DMR requires providers to bill using a standardized form generated by DMR that allows the providers to bill for total authorized services rather than for services that are actually performed. Because DMR does not provide a mechanism that allows providers to report/bill actual services performed, DMR has paid providers for all authorized services when actual services performed were less than those authorized. Testwork revealed that in one of 33 claims tested, a provider billed for more staff than was actually present for 21 of 28 days in the July 1998 billing period. Testwork also revealed that DMR used a payment and rate methodology that allowed providers to be paid for days (leave days) in which waiver recipients were not receiving services. In 8 of 33 claims tested, DMR paid Medicaid service providers for a full month service when less than a full month of service was actually performed.

Because DMR administered the waiver outside of federal regulations, if an exception is not granted by HCFA, the state will have forgone $30,631,388 of federal financial participation.

Recommendation

DMR should not pay providers; payments should be directly from TennCare. However, if DMR is allowed to continue paying providers by HCFA, the Deputy Commissioner of the Division of Mental Retardation Services should review all federal requirements including those in the waiver and ensure that DMR complies with all requirements. The Deputy Commissioner should ensure that DMR pays providers in accordance with the waiver and only for allowable services that are actually performed. DMR provider billings to TennCare should reflect only the actual level of services performed.

Management's Comment

We concur in part. It is acceptable for the Division of Mental Retardation Services (DMR) to pay providers of Waiver services. However, HCFA requirements do mandate that the State either 1) offer all providers the choice of billing either the Division of Mental Retardation Services or the Bureau of TennCare or 2) establish an Organized Health Care Delivery System that would permit only the Division to make payments. At this time, the Division and the Bureau of TennCare have not implemented either of these options, although the Bureau of TennCare has assured HCFA that the State will begin to address this issue.

The Division of Mental Retardation Services has not paid contracted providers for days when the person was not present or did not receive services nor has the Division billed the Bureau of TennCare for leave days since the mid 1990's when HCFA disseminated information that leave days were only applicable to institutional settings. The Division did develop an alternative payment system at that time that we maintain complies with the following information, which is excerpted from a HCFA Program Issuance - Transmittal Notice - Region IV, dated October 31, 1994:

> Medicaid may only make payment for waiver or State plan services actually provided to an eligible recipient. In setting payment rates States may consider the fact that providers incur fixed costs (such as rent, salaries, insurance, etc.). For example, rent is generally paid for a period of one month. Day habilitation services are generally furnished only five days per week. When establishing rates of payment the State may take the entire month's rental cost into consideration as well as the assumption that a facility will not have a 100 percent utilization rate every day of the year. Since payment may not be made for non-institutional

services on days when no service was provided, rates are established by dividing the provider's total allowable costs by the estimated number of Medicaid patient days.

Following the receipt of that information, the Division established the annual cost of services and divided payments to residential providers across 300 days. This was based on the reasonable assumption that if a minimum of 300 days of direct services are provided, then all fixed costs, including "rent, salaries, insurance, etc.", must be maintained for the additional days in a year and that these costs are part of the service that is in fact provided for 365 days. Payment in any individual month is capped at 25 days although providers are directed to report actual attendance if it exceeds 25 days. The Division bills TennCare actual days at an average rate for each residential service. During the annual reconciliation process at the end of the year, if the provider has provided 300 days of services but has not been paid for all of them due to monthly caps, the Division will pay for those days, up to a maximum of 300, during that one annual reconciliation. If the provider has not provided a minimum of 300 days of direct services, then the provider is only paid for those days.

The audit also reports that in 11 of 33 HCBS waiver claims tested (33.3%), DMR billed TennCare more service units than the actual service units claimed by the providers, subject to the 25 units per month maximum. This is a distinct possibility since the Division could legitimately bill TennCare for more days than paid out to providers. Since DMRS's payments to providers are paid at multiple payment rates and are based on 300 days and TennCare's payments to the Division are paid at an average cost based on 365 days, it is reasonable to expect that the Division will bill more days than providers. Please note that although the Division's payments to providers are capped at 300 days per year, the Division does require providers to report all actual days, so when the Division bills TennCare for additional days, those days are actual days of service, not leave days.

At this time, the issue of cost settlement has not been decided. However, should cost settlement occur, the DMR payments made to providers at the various established rates should not exceed the actual days of direct services provided to persons at the average cost of those services.

The audit report also cited the Division for paying for services when staffing patterns were not met. Although this is not optimal, the named service was in fact provided. To argue its point, the Division draws an equivalent with ICF/MR services which is the institutional equivalent of Waiver services. We are certain that those facilities are permitted to bill their per diem rates, even under circumstances when staff are sick or absent, and the facilities' required staff-to-client ratios are not met. Although the Division will agree that this is a weakness from a programmatic standpoint, it is not an indicator that services were not provided. This issue does concern the Division and it will be addressed through the development of guidelines for providers and Regional Office staff to follow when these circumstances arise as a pattern.

It is not accurate to state that no controls are in place to detect billing of unperformed services. The Division's Contract Compliance checklist which is used by DMR Regional Office staff to monitor the provision of services include the requirement that each service is provided in conjunction with a person's Individual Service Plan and Cost Plan that has been authorized by the Division. The Division's Quality Enhancement surveyors monitor to determine whether billed services were actually provided. Additionally, providers are instructed through the DMR Operations Manual and billing procedures to bill actual days services were provided. These billings are then checked by the surveyors against attendance records and providers are cited for any variances. The Division does agree that with the tremendous growth of Waiver services, this component of our monitoring system needs to be expanded.

The Division maintains that the information presented does not indicate that claims for services have not been paid in accordance with the Home and Community Based Services Waiver. First, the Division has not paid for "leave days" but has developed a payment system that, we believe, fulfills HCFA requirements. Further, there is no requirement that service providers be paid directly by TennCare, only the requirement that each provider of Waiver services be offered the option. Additionally, the Division maintains that, even if staffing ratios are not always met, the service has been provided and is billable. DMR has certain controls in place in order to prevent payment for "unperformed services"; however, the Division is currently in the process of developing additional controls for identifying discrepancies. Also, the Division will develop guidelines that address circumstances when services are provided but not at an optimum staff level. The Division agrees that its monitoring system would benefit from an increased focus on detecting errors in the billing and payment process.

Auditor's Comment

According to federal regulations, as stated in the finding, DMR may not directly pay providers of HCBS waiver services. The Bureau of TennCare concurred with this issue in a related finding published in the Department of Health audit report for the year ended June 30, 1999. The TennCare Bureau also concurred that the present DMR payment process was not in compliance with all federal requirements of the waiver. The Bureau of TennCare specifically stated, "We will work toward the federal requirement that the Medicaid agency make payments directly to the provider of services."

The HCFA guidance is clear that Medicaid will only pay for waiver services actually provided to an eligible recipient. DMR contends that it has not paid contracted providers for days when a person was not present or did not receive services, nor has DMR billed TennCare for leave days since the mid 1990s. However, because DMR has established an alternative payment system to pay Medicaid providers, auditors believe that this alternative payment system, in essence, allows for leave days and payment of unperformed services.

As described in management's comment, DMR's alternative payment system is based on units of services that are different from the units of service defined in the HCBS waiver and the Medicaid state plan. As noted, DMR established the annual cost of services to providers and divided the costs across 300 days. However, through the TennCare Management Information system, TennCare reimburses DMR average unit costs spread across 365 days. As noted in the finding, DMR's alternative system allows providers who perform 300 days of services to be paid the same as providers who perform 365 days of services, which reaffirms the auditors' conclusion that some providers are paid for days when services are not performed (leave days).

The finding indicated that for 24% of waiver claims tested, DMR billed TennCare for a full month of services when less than a full month of service was performed. DMR stated in its response that this was a distinct possibility since DMR could legitimately bill TennCare for more days than paid out to providers. DMR further stated that since DMR's payments to providers are paid at multiple payment rates based on 300 days and that TennCare reimburses DMR average cost rates based on 365 days, it is reasonable to expect the DMR will bill TennCare for more days than providers bill to DMRS. Auditors believe this is unallowable. In essence, DMR has admitted in their response that its alternative payment system has built-in leave days. Furthermore, DMR bases the number of days or units that can be charged by providers on a lesser number of maximum units than actually exist in one year of service as defined by the waiver.

As a result of the alternative payment system, the amount paid by DMR to Medicaid providers exceeds the Medicaid payment for services from TennCare. While the difference is not charged to the TennCare program, the state in effect is funding waiver services without maximizing federal financial participation.

The finding also cites DMR for paying providers for services when staffing patterns were not met. In its argument, DMR refers to regulations allowable for Intermediate Care Facilities for the Mentally Retarded, which are institutionalized services. However, the HCBS waiver program is uniquely different and does not follow the same rules as Intermediate Care Facilities for the Mentally Retarded because the HCBS waiver program is designed to provide services while allowing the recipient to live in his own home. In the HCFA Transmittal letter dated October 31, 1994, this is made clear:

> States have raised questions regarding pertinence of regulations at 42 CFR 447.40 which permit payment to an institution for leave days. We note these provisions apply solely to institutional care furnished under the Medicaid State plan. Since institutional care is, by definition, not provided under a home and community based waiver, this regulation does not apply to waiver services.

By implementing a payment system outside the TennCare billing and payment system, DMR appears to have circumvented applicable federal requirements.

Furthermore, providers cannot bill for the actual level of services performed, but must bill for the authorized level of services whether they are provided or not. Without a mechanism for providers to report the actual level of service provided, federal and state funds could be paid for unperformed services. Finally, DMR concurred with finding 99-DFA-01 that adequate fiscal monitoring was not being performed. Therefore, DMR does not have an adequate system in place to eventually detect providers' billing errors.

Finding Number	99-TDH-01
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness
Questioned Costs	None

Top management must address the TennCare program's numerous and serious administrative and programmatic deficiencies

Finding

Most of the findings in this department are the result of TennCare's numerous administrative and programmatic deficiencies. The March 1999 Performance Audit report also describes many of the program's weaknesses. Well-publicized events concerning the ability of the program to continue in its present form that occurred subsequent to the end of the audit period, June 30, 1999, have contributed to the perception that the program is in crisis.

As required by the Single Audit Act and OMB Circular A-133, the auditors are responsible for reporting on the department's internal control and management's compliance with laws and regulations material to the program. Top management is responsible for establishing an effective control environment, which is the foundation for all other components of internal control: risk assessment, control activities, information and communication, and monitoring. Under generally accepted auditing standards, control environment factors include assignment of authority and responsibility; commitment to competence; integrity and ethical values; management's philosophy and operating style; and organization structure.

Our evaluation of the control environment and the other components of internal control revealed several overall, structural deficiencies that have caused or exacerbated many of the program's problems. These deficiencies are discussed below.

TennCare Lacks Stable Leadership

The TennCare program has continued to lack stable leadership. Since the beginning of the program in January 1994, and through December 1999, the program has had four directors and two acting directors. In addition, during the same time there has been significant turnover in the top positions of the program's various divisions, including the Division of Operations, the Division of Budget and Finance, the Division of Quality Improvement, the Division of Policy and Intergovernmental Relations, and the Division of Contract Development and Compliance.

Inadequate System and Staff Resources

As discussed further in finding 99-TDH-02, the TennCare program does not have an adequate information system. Currently the program is dependent upon a large and complex computer system, the TennCare Management Information System (TCMIS), that is outdated and inflexible.

According to management, the TennCare program is understaffed. During fieldwork the auditors noted various efforts to recruit and hire new employees. Another concern is that because of the complexity of the TennCare program (including the laws and regulations that govern the program), long-time employees at the TennCare Bureau possess invaluable knowledge and experience that is difficult to replace when employees retire or leave for other reasons. For this reason, TennCare needs to focus on plans for retaining key directors, managers, and staff.

The auditors also noted what appears to be a dramatic imbalance in the allocation of staff resources, which appears to reflect top management's priorities as well as the distribution of work. Although the Division of Programs is responsible for numerous programmatic functions, including the provision of special services to children and seriously mentally ill individuals, this division consists only of a director and one other person. In contrast, as of April 1999, there were 39 positions in the Division of Information Services (I/S Division). While it is possible that all of the I/S positions are necessary, it appears that the Division of Programs may lack the resources it needs to adequately perform its duties and responsibilities.

Assignment of Responsibility Concerns

In certain areas of the program, the auditors believe that the assignment of authority and responsibility could be improved. In several areas, the I/S Division is responsible for performing numerous functions beyond the scope of data processing and systems support. This is a concern in terms of which division is most suited or capable of performing the required functions and workload distribution. Because of the numerous and varied responsibilities currently assigned to the I/S Division, management of this division is overburdened and thus less able to focus on system maintenance, development, and support.

For example, as discussed in finding 99-TDH-20, currently the I/S Division is responsible for the premium billing and collection process. Typically the fiscal division-accounting department is responsible for these functions. And as described in finding 99-TDH-03, currently the I/S Division is responsible for eligibility functions within the TennCare Bureau, e.g., maintaining a complex eligibility and enrollment database. It might be more appropriate if the TennCare Division of Operations or a newly created and independent Eligibility and Enrollment Unit were responsible for this very important function.

The I/S Division also is responsible for "capturing, maintaining, and reporting encounter data," which is patient data submitted by the managed care organizations and

behavioral health organizations. This function may reside more appropriately in the Division of Quality Improvement, which is responsible for gathering and analyzing program statistics.

Last, when obtaining information on the rules and regulations for Medicare cross-over claims, the auditors learned that no one has been assigned the responsibility for 1) being knowledgeable about the rules and regulations for these types of claims or 2) ensuring that these claims are being paid correctly. See finding 99-TDH-16 for more information about the processing and payment of these claims.

The appropriate assignment of responsibility is critical to ensure that all areas of the program are managed effectively and efficiently. Responsibilities should be assigned with regard to training and expertise; proper segregation of duties; and the workload. In addition, policy and program administration management should be the driving force of the TennCare program, not the computer system or the individuals responsible for the system.

Inadequate Written Operating Policies and Procedures

Despite its size and complexity, TennCare does not have adequate written operating policies and procedures. The previous TennCare Director had discussed hiring a consultant to document the program's operating policies and procedures; however, this did not occur.

Inadequate Monitoring

The Bureau of TennCare does not have an on-site internal audit unit and the Office of Audit and Investigations does not monitor the internal operations of the Bureau. A strong and sizable internal audit presence is critically important given the nature, size, and complexity of the program, and the number of internal control problems that exist.

In addition, in its August 9-12, 1999, site visit report, the Federal Health Care Financing Administration stated:

> Although we have brought this to the attention of State officials on multiple occasions, we found that Tennessee has not developed a comprehensive plan for monitoring the TennCare program. Tennessee does have some activities in place for monitoring; however, Tennessee needs a plan that incorporates these activities and any other activities that the State may develop for long-term monitoring for the life of the project (i.e., TennCare). This plan should incorporate the monitoring of the TennCare Partners program.

Recommendation

For the TennCare program to improve and succeed over the long term, the Commissioner and the Acting TennCare Director and his staff must address the problems within and external to the program's administrative structure.

Hiring a new TennCare Director should continue to be one of the Commissioner's top priorities. He or she should also develop a plan to address the program's other personnel requirements. The plan might include cross training, employee development, emphasizing employee career-paths, staff reassignment, workload redistribution, and ways to retain key managers and staff. In addition, the Director should continue to pursue acquisition/development of a new TennCare information system.

The Director should ensure that the assignment of authority and responsibility in all areas is adequate and appropriate. He or she should consider implementing the changes discussed in the finding concerning responsibility for billing and collecting premiums; eligibility and enrollment; capturing, maintaining, and reporting encounter data; and administering Medicare cross-over claims more effectively. In addition, the Director should consider if there are other areas where similar changes should be made.

The Director should ensure that written and comprehensive operating policies and procedures are developed for all areas of the TennCare program. The policies and procedures should be clearly communicated to all program employees, and responsibility for updating the policies and procedures, as well as distributing the updates, should be assigned to the appropriate staff.

Finally, the Director should develop and implement the comprehensive monitoring plan requested by the grantor. He or she should use the internal auditors to review and monitor the internal operations of the program, particularly the program's extensive and complex automated processes. The internal auditors also could be used to help to implement the monitoring plan or ensure that the plan is being implemented properly by others.

Management's Comment

We concur. While we do concur with the finding recommendation, we do not concur with the implications made by the auditors that the current or the previous management has not addressed the program problems. In previous and in current audit findings, we have addressed the many changes that have either been made for program improvement or have been made due to redirection or enhancement to the program. We all seem to agree that this is a very complex program but we must have cooperation and support, both internally and externally, for the program to continue to succeed. We do acknowledge those areas of concern mentioned in this finding. Management is determined to provide the direction and implement the procedures to stabilize the TennCare Program and ensure the continuity of health care services to the eligible

TennCare population. In addition to the major priorities of ensuring the integrity of the program, ensuring consistency in the process of the program with written policies and procedures and ensuring the existence of an emergency plan should a managed care organization fail, the following additional actions have now occurred or are in process: 1) A new Director of Operations has been hired, 2) Enhancements to the eligibility/reverification process are being implemented, 3) An RFP is in process to review current and future system needs, 4) Continuing to search for new director, as well as other critical vacancies in the Program, 5) New Medical Director and a Quality Improvement Director have been hired, 6) In the process of filling 95 new positions that were authorized by the legislature for FY2000.

Finding Number	99-TDH-02
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	$15,416.52

TennCare Management Information System lacks the necessary flexibility and internal controls

Finding

As noted in the prior audit, management of the Bureau of TennCare has not adequately addressed critical information system internal control issues. In addition, the TennCare Management Information System (TCMIS) lacks the flexibility it needs to ensure that the State of Tennessee can continue to run the state's $4 billion federal/state health care reform program effectively and efficiently. Management concurred in part with the prior finding; however, problems continue.

Because of the system's complexity, frequent modifications of the system, and because this system was developed in the 1970s for processing Medicaid claims, TennCare staff and Electronic Data Services (EDS) (the contractor hired to operate and maintain the TCMIS) primarily focus on the critical demands of processing payments to the managed care organizations, behavioral health organizations, and the state's nursing homes rather than developing and enhancing internal controls of the system. This has contributed to a number of other findings in this report. These findings indicate that the TennCare bureau

- has not ensured adequate system security controls related to access were in place during the entire audit period (finding 99-TDH-17);
- has not made payments to certain providers in accordance with the rules (finding 99-TDH-16);
- has not strengthened system controls for Medicare cross-over claims (finding 99-TDH-16);
- made capitation payments for individuals who were not eligible for TennCare (findings 99-TDH-14 and 99-TDH-15);
- did not adjust nursing home claims timely (finding 99-TDH-30);

- incorrectly made payments to the Department of Children's Services for services that should have been provided by behavioral health organizations (finding 99-TDH-04);

- made payments to the Department of Children's Services for individuals over 21 years old (finding 99-TDH-04); and

- made payments to the Department of Children's Services for behavioral health services provided to children under three years of age (finding 99-TDH-04).

In addition to the findings noted in this report, audit testwork also revealed several immaterial weaknesses:

Capitation payments made for dates of services occurring before individuals were born

Computer-assisted audit techniques (CAATs) revealed that TennCare overpaid $18,166.60 in capitation payments for individuals with dates of services occurring before individuals were born. This situation occurred because the system controls do not prevent payments for dates of services occurring prior to date of birth. According to a Division of Information Services Manager, these erroneous payments may occur because TennCare has designed the system so that coverage to individuals will not be denied simply because an incorrect date of birth is loaded on an individual's history screen. Exception reports are produced and worked; however, corrections and recoveries are not always made timely. Federal questioned costs totaled $11,473.57. An additional $6,693.03 of state matching funds was related to the federal questioned costs.

Incorrect Capitation Payments

CAATs revealed that the TennCare system incorrectly calculated payments for the following situations:

- The system calculated and underpaid the MCOs $135.94 based on a rate for individuals that are ages 1-13; however, the two individuals were both over 20 years old based upon dates of birth loaded in the system.

- The system used the applicable female rate for two payments for individuals that were male and overpaid by approximately $346.44. Federal questioned costs totaled $218.80. An additional $127.64 of state matching funds was related to the federal questioned costs.

- The system used the applicable male rate for nine payments for individuals that were female and underpaid the MCOs by $535.47.

- For 21 capitation payments during year ended June 30, 1999, TennCare deducted a total of $305.67 incorrectly for local government and charity. Local government and charity has not been a part of the capitation payment

process since year ended June 30, 1995. This situation occurred because payment logic had been hard-coded into the system and was not removed when local government and charity costs ceased to be a part of the capitation payment calculation.

Incorrect information used to calculate payments

TennCare overpaid MCOs $5,896.60 for individuals based on a date of birth predating 1880 on the recipient eligibility history file screen. However, the date of birth on the original application screen was often 100 years different than the original application screen. In many of the cases, TennCare paid the rate for over 65 years old when in fact the individual was younger than 65 years old per the original application screen. Federal questioned costs totaled $3,724.15. An additional $2,172.45 of state matching funds was related to the federal questioned costs. The situation apparently occurred because the recipient eligibility history file screen was updated with the incorrect information. However, with appropriate system controls, such as flags for birth years predating 1880, management could have discovered and corrected this problem.

Recommendation

The TennCare Bureau should address internal control issues and pursue the acquisition of a system designed for the managed care environment. Until a new system is acquired, the Bureau should continue to strengthen the systems controls to prevent erroneous payments.

Management's Comment

We concur. We agree with the recommendation that the Bureau should pursue the acquisition of a system designed for the managed care environment. The Division of Information Services is currently drafting an Advanced Planning Document (APD) to HCFA requesting enhanced FFP for securing consulting services to assist TennCare in the analysis, definition, design and potential implementation of a new system for TennCare. However, prior to redesign or replacement of the current system, we must have a written business process established. The TennCare Bureau is coordinating strategic business planning effort for the future needs of TennCare. The components of the strategic business plan will be used as the basis for defining a system which will be both flexible as well as functional in maintaining a large and complex system for maintaining managed care.

We also agree that we should continue to strengthen, where possible, the system controls to prevent erroneous payments. The TennCare system has procedures in place to help identify ineligible payments, such as incarcerated youth, deaths, and incarcerated adults. However, the TennCare system must rely on other billing agencies to provide inputs into the system for both payments made to billing agencies and for edit data that

determines TennCare eligibility. When this information is updated within the TCMIS, attempts are made to validate the data. Because payments are dependent on this outside information received from the other state agencies and the TCMIS reacts accordingly, internal controls can not eliminate some of the erroneous payments addressed in this finding. Examples include DCS files for payments for children in state custody. Incarcerated youth should not be billed to the TennCare Program. TennCare must rely on DCS data or rely on DCS not to bill for incarcerated youth that are not eligible for the TennCare Program. TennCare must also rely on the Department of Corrections to provide data for those adult inmates that are not eligible for the program. TennCare relies on the Department of Health to provide death records for terminations due to death. Once these data files from other state agencies have been processed, the TennCare system also must follow carefully established procedures for terminating enrollees from the program. In order to prevent the inappropriate termination of an individual, even with data received from these state agencies, other matches must be identified that affirm the accuracy of the termination. When the matches required by the TCMIS system do not occur, a Suspect Report is produced and someone must research the variances before the actual termination can occur. The audit finding also references using Computer-assisted audit techniques (CAATs) to identify capitation payments that have been incorrectly made. Although we may be able to use these CAATs for monitoring our payment process, we would not be able to use these techniques to restrict payments. We will continue to pursue the instances that have been presented in the findings for possible weaknesses in the systems calculation, but TennCare cannot react to outside sources (CAATs) for termination without significant validation of the data.

Auditor's Comment

Management at the Bureau of TennCare is responsible for all expenditures incurred by the Bureau. Management cannot shift this responsibility to others. Instead, management should work with other departments and coordinate efforts to ensure compliance with federal requirements. If necessary, the Director of TennCare should seek assistance from the Administration.

Finding Number	99-TDH-03
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Eligibility
Questioned Costs	$7,854.19

Internal control over TennCare eligibility is not adequate

Finding

The four prior audits of the Bureau of TennCare noted that in many cases, the eligibility of TennCare participants who are classified as uninsured or uninsurable had not been verified. Management concurred with the prior audit finding, stating that face-to-face enrollment and reverification projects would be implemented to confirm eligibility information onsite. However, verification procedures for initial enrollment and for reverification were still not performed adequately, consistently, or timely. In addition, the Bureau of TennCare does not have a written policies and procedures manual governing enrollment verification and reverification procedures for uninsured and uninsurable enrollees. Furthermore, the Bureau of TennCare has not assigned responsibility for the entire eligibility function to one unit or individual.

For the uninsured and uninsurable population, which makes up approximately 35% of all TennCare enrollees, responsibility for eligibility determination is divided between the county health offices in the Department of Health and the Division of Information Services in the Bureau of TennCare. Because the main purpose of the Division of Information Services is to develop and maintain the TennCare Management Information System, which supports the TennCare program, this division may not be able to effectively and efficiently develop or maintain enrollment procedures.

Furthermore, TennCare does not have a written policies and procedures manual to ensure that TennCare recipients are appropriately and consistently determined to be eligible for TennCare. The county health offices, the Regional Mental Health Institutes, the TennCare Hotline, and the Division of Information Services in the Bureau of TennCare all have the responsibility of determining eligibility for the uninsured and uninsurable population. The different divisions have not been provided with a uniform written policies and procedures manual that would help to ensure appropriate and consistent eligibility criteria.

TennCare's reverification project began in June 1998 and established face-to-face interviews for eligibility updates of enrollees. This project was intended to reverify the eligibility of one-twelfth (1/12) of the entire uninsured and uninsurable population each

month. TennCare also relied heavily on updates to the TennCare Management Information System (TCMIS) for reverifying eligibility through data matches and information received from various sources. According to waiver requirements (Special Term and Condition #24), the State must continue to assure that its eligibility determinations are accurate. These reverification procedures, however, did not adequately ensure all TennCare participants were eligible.

Testwork revealed that 115 of 121 (95%) uninsured and uninsurable participants had not had their eligibility information verified or reverified within a year of the date of service. Thirty-two of the 121 (26%) files tested were added to the program within a year of the date of service, which required initial verification of the information on the application. Initial verification includes verifying the applicant's income, social security number, and access to insurance. Of the 32 files requiring initial verification, 27 (84%) had not been verified properly. TennCare could not provide documentation that the enrollees' income and access to health insurance indicated on the application was verified.

The remaining 89 were enrollees who were in the program for more than one year and required reverification of the enrollees' information. Reverification includes obtaining current information about the enrollees' income and access to insurance. For 88 of the 89 (99%), the enrollee's eligibility information had not been reverified within a year prior to the date of service. Further testwork revealed that 25 of the 88 were reverified subsequent to the date of service and subsequent to the year ended June 30, 1999. The remaining 64 enrollees had not been reverified (as of November 10, 1999) according to the TennCare system. The total amount of capitation improperly paid for the errors noted above was $12,435.88 out of a total of $12,789.96 tested. Federal questioned costs totaled $7,854.19. An additional $4,581.69 of state matching funds was related to the federal questioned costs. We believe likely questioned costs would exceed $10,000.

Furthermore, using computer-assisted audit techniques to search the TennCare Management Information System (TCMIS), auditors found 115 TennCare participants had "pseudo social security numbers," e.g., numbers that began with 8 or had all zeros in one field. According to TennCare personnel, some applicants who do not have their social security cards and/or newborns who have not yet been issued social security numbers are assigned these "pseudo" numbers. Management stated in response to the prior finding that TennCare strives to provide needed care to children as soon as possible and that the reverification project would help ensure that valid numbers are obtained after enrollment.

Testwork revealed that 68 of 115 individuals (59%) found with "pseudo" social security numbers had not had a correct social security number entered on TCMIS, although they were enrolled more than a year earlier. Some of these TennCare participants had been enrolled in the Medicaid program as early as 1980. Also, while it is not always possible to obtain social security information for newborns (0-3 months),

auditors noted that several individuals with pseudo social security numbers were over one year old.

According to the *Code of Federal Regulations*, Title 42, Part 435, Section 910, the state agency must require, as a condition of eligibility, that those requesting services (including children) provide social security numbers. Additionally, Section 3(g) of the Code states that the agency "must verify the social security number of each applicant and recipient with the Social Security Administration, as prescribed by the Commissioner, to ensure that each social security number furnished was issued to that individual, and to determine whether any others were issued."

Adequate verification procedures are needed to ensure that only those eligible are enrolled in TennCare. According to *Office of Management and Budget Circular A-133*, payments are only allowed for individuals who are eligible for the TennCare/Medicaid program. For the year ended June 30, 1999, the Bureau paid capitation payments totaling approximately $1,873,069,128 to MCOs and $343,959,092 to BHOs for TennCare enrollees, which includes approximate capitation payments for the uninsured and uninsurable population of $654,075,739 and $120,110,515, respectively.

Annual reverification is also necessary to obtain current, accurate information about family size, income, Tennessee residency, and access to other insurance. This information is needed to determine whether participants previously considered eligible have become ineligible because of changes in their family or personal circumstances. Also, this information is used to determine the correct premium and deductible amounts paid by participants.

Recommendation

The Director of TennCare should promptly develop and implement adequate uniform procedures to ensure that the eligibility status of all TennCare recipients is determined properly, consistently, and timely. Bureau Management should consider establishing a unit to oversee the eligibility function. The Director should also develop a written policies and procedures manual and ensure that all divisions involved in the enrollment process of the uninsured and uninsurable population are provided with the manual to ensure eligibility criteria is applied to the TennCare recipients consistently and accurately.

Management's Comment

We concur. The reverification process that began in June of 1998 has resulted in the reverification of 145,006 enrollees as of January 2000. This represents approximately 28% percent of the current TennCare non-Medicaid population and is consistent with the audit finding of 24 out of 88 cases reverified subsequent to the date of service and subsequent to the year ended June 30. Another approximately 28% are enrollees who

have not been in the program for one year. The current reverification process is a process that is verifying enrollees that are past due (enrolled for >12 1months) for the annual reverification. In order to facilitate the completion of past due cases and move to the desired annual reverification, the Bureau of TennCare appointed a reverification task force. The task force was appointed in January 2000 in order to identify deficiencies, improve the reverification process and to address previous audit finding. The task force is lead by an outside consultant has been given the authority to make necessary changes and ensure appropriate systems are in place to address this repeat audit finding. The task force includes individuals from all government departments involved in enrollee eligibility verification, including Department of Human Services, Department of Mental Health and Mental Retardation, Department of Health Services and Bureau of TennCare. The goals of the task force are: 1) Initiate the process for reverification on each case/enrollee in the non-Medicaid population. 2) Terminate enrollees that are no longer eligible. 3) Build credibility in the reverification process. 4) Identify and develop procedures to include cases that are currently excluded from reverification. 5) Identify and develop procedures to deal with cases that remain indefinitely in various stages of the process. 6) Improve enrollee education concerning TennCare. 7) Ensure accuracy of enrollee information. 8) Develop tracking and audit mechanisms to ensure efficacy of the reverification process. 9) Document policies and procedures related to reverification of non-Medicaid enrollees. The task force has initiated changes that allowed inclusion of 600 cases in the February 2000 reverification selection that had not previously completed the process. In addition the task force is testing an electronic database to expedite locating forwarding addresses for enrollees. The intent of the task force is to include in the March 2000 selection the bulk of the remaining past due reverifications. Reports addressing findings and results realized from the task force directives are given directly to top management.

Finding Number	99-TDH-04
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	$6,506,178.60

Because communication between TennCare and Children's Services has been inadequate, TennCare incorrectly reimbursed the Department of Children's Services over $9 million for services covered by the Behavioral Health Organizations, services that were unallowable, services inadequately documented, or services not performed

Finding

TennCare has paid the Department of Children's Services (Children's Services) for services that were outside the scope of its agreement with the Bureau of TennCare during the year ended June 30, 1999. In accordance with its agreement with TennCare, Children's Services contracts separately with various practitioners and entities (service providers) to provide Medicaid services not covered by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) that are also under contract with TennCare. Children's Services pays these service providers for Medicaid services (enhanced behavioral health services) and non-Medicaid services (housing, meals, and education) directly. Children's Services then should bill TennCare for the reimbursement of only the Medicaid services. During the year ended June 30, 1999, TennCare paid approximately $103 million in fee-for-service reimbursement claims to Children's Services.

TennCare has not adequately defined and communicated the specific Medicaid/TennCare services it is requesting from Children's Services. In addition, TennCare has not communicated the specific laws and regulations that Children's Services must follow. Testwork revealed the following deficiencies:

Payments for Incarcerated Youth

As noted in the prior two audits, TennCare has not identified incarcerated youth enrolled in the program, and has paid for the health care costs of youth in the state's youth development centers and detention centers. Under federal regulations (*Code of Federal Regulations*, Title 42, Section 435, Subsections 1008 and 1009), the state, not the federal government, is responsible for the health care costs of juvenile and adult inmates. Management concurred with the prior finding, stating that the TennCare staff had met with Children's Services on this subject and would utilize the monitoring agreement with the Department of Finance and Administration (F&A) to examine internal controls over

this area. In addition, management stated that TennCare would pursue implementing computer-assisted monitoring techniques similar to the ones used by the auditors for detecting incarcerated youth. Although TennCare's management contracted with F&A to examine this area, TennCare still does not have adequate controls and procedures in place to prevent these types of payments (see finding 99-TDH-07).

Using computer-assisted audit techniques (CAATs), a search by the auditors of TennCare's paid claims records revealed that TennCare made payments totaling $2,871,075.03 for the year ended June 30, 1999, for juveniles in the youth development centers and detention centers. Of this amount, $656,519.26 was paid to MCOs, $242,258.95 was paid to BHOs, and $1,972,296.82, to Children's Services. Federal questioned costs totaled $1,660,294.52. An additional $968,521.56 of state matching funds was related to the federal questioned costs.

BHOs are not to be reimbursed for costs associated with incarcerated youth. The total payments to the two BHOs are based on a predetermined budget for mental health services approved by the Health Care Financing Administration (HCFA). These payments are allocated between the BHOs based on the number of eligible clients. Eligibility includes not being incarcerated. When a BHO has included ineligible clients in its population of TennCare eligible clients, the portion of the money budgeted for that BHO should be reduced to that extent and awarded to the other BHO. The total amount paid to the BHOs is not affected. Thus, the total amount paid to the BHOs is not a questioned cost in this audit.

Although the total amount paid to the BHOs is not affected, future funding might be affected. When ineligible individuals are included in the population, the population is skewed and could affect assumptions made when determining the amount of the global budget paid to the BHOs in the future.

The payments to the MCOs were monthly capitation payments—payments to managed care organizations to cover TennCare enrollees in their plans. Since the bureau was not aware of the ineligible status of the children in the youth development and detention centers, TennCare incorrectly made capitation payments to the MCOs on their behalf.

Payments for children on runaway status

TennCare has paid for enhanced behavioral health services for children who are in the state's custody but are on runaway status. No services were performed for these children because they have run away from the service providers. According to the *Office of Management and Budget (OMB) Circular A-133*, to be allowable, Medicaid costs for services must be for an allowable service that was actually provided. *Code of Federal Regulations*, Title 42, Part 1003, Section 102, prohibits billing for services not rendered.

It is the responsibility of Children's Services to notify TennCare when children run away from service providers. Testwork revealed Children's Services does not notify TennCare when children are on runaway status. Children's Services' provider policy

manual allows service providers to bill Children's Services for up to 10 days for children on runaway status, but Children's Services cannot bill TennCare for those days. Since the Bureau has no routine procedures, such as data matching, to check for such an eventuality, it was unaware Children's Services was reimbursed for treatment costs that were not incurred by the service providers.

Using CAATs, auditors performed a data match comparing TennCare's payment data to runaway records from Children's Services Client Operation and Review System (CORS). Management at Children's Services has indicated the CORS records are not reliable; however, as of December 10, 1999, Children's Services has not provided the auditors with evidence that would indicate the runaway records were incorrect. The results of the data match indicated that TennCare had improperly paid $403,653.63 for year ended June 30, 1999, to Children's Services for children on runaway status. Federal questioned costs totaled $254,937.54. An additional $148,716.09 of state matching funds was related to the federal questioned costs.

Payments for individuals over 21

TennCare does not have procedures to identify the TennCare eligible individuals who have reached the age of 22, and therefore cannot stop payments to Children's Services for Medicaid services provided to these individuals who are older than 21 years. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for Medicaid services provided to recipients in its care who are 21 years or under.

TennCare contracts with Children's Services to determine the eligibility of children under its care and should notify TennCare when an individual is older than 21 years. However, Children's Services does not notify TennCare when a individual reaches the age of 22. Since the Bureau has no routine procedures to check for such an eventuality, it was unaware Children's Services billed for recipients who were older than 21 years. When the recipient is over 21 years of age, the recipient may receive TennCare services through the MCOs, BHOs, or other departments, but not through Children's Services.

Using CAATs, a search by the auditors of TennCare's paid claims records revealed that TennCare improperly paid a total of $77,347.37 for the year ended June 30, 1999, for individuals over 21. Federal questioned cost totaled $48,850.67. An additional $28,496.70 of state matching funds was related to the federal questioned costs.

TennCare paid Children's Services for services covered by the BHOs

When TennCare began (January 1, 1994), TennCare contracted with Children's Services to provide all behavioral treatment for children in state custody or at risk of state custody. On July 1, 1996, TennCare contracted with the BHOs to provide some behavioral health treatment for children in state custody or at risk of state custody.

However, the TennCare waiver was not amended to define the responsibilities of Children's Services.

TennCare contracts with the BHOs to provide the basic and enhanced behavioral health services for children not in state custody as well as basic behavioral health services for children in state custody. In addition, TennCare has contracted with the BHOs to provide all services to prevent children from entering state custody (Hometies) for children at risk of state custody. All behavioral services for children not in state custody should be provided through the TennCare BHOs. Enhanced behavioral health services for children in state custody should be provided by Children's Services. Since TennCare does not have procedures to identify services covered by the BHOs for children in state custody or at risk of state custody, TennCare has paid both the BHOs and Children's Services for the following services:

- TennCare has made payments to Children's Services for enhanced behavioral health services for children not in state custody. Using CAATs, auditors performed a data match comparing payment data on the Bureau of TennCare's system to custody records from Children's Services CORS system. The results of the data match indicated that TennCare had improperly paid $4,647,493.79 for the year ended June 30, 1999, for children who were not in the state's custody. Management at Children's Services indicated that the CORS system was not reliable and that the children could possibly be in the state's custody. As of December 10, 1999, Children's Services had not provided the auditors with evidence that would support the custodial status of the children in question. A portion of these improper amounts (see below for further discussion) was paid for services to prevent children from entering state custody, also known as the Hometies Program in Children's Services, which is covered by the BHOs. Federal questioned costs, excluding $1,411,028.51, which is included in the Hometies amount questioned below, totaled $2,044,070.56. An additional $1,192,394.72 of state matching funds was related to the federal questioned costs.

- TennCare has made payments to Children's Services for Hometies services provided to children at risk of state custody. TennCare improperly paid Children's Services $2,279,293.00 for the year ended June 30, 1999, for services covered by the BHOs. Federal questioned costs totaled $1,439,544.48. An additional $839,748.52 of state matching funds was related to the federal questioned costs.

<u>Payments for services provided to children under three years</u>

TennCare has paid Children's Services for behavioral health services provided to children under three years old. Based on discussion with TennCare's medical staff, a child cannot be mentally evaluated until the age of three. Since very young children cannot be mentally evaluated, it does not seem reasonable that these children received

these types of Medicaid services. Management at Children's Services cited the following as possible reasons this occurred:

- Children's Services billed in the child's name for services actually rendered to the childs mother. However, this is inappropriate because TennCare has not received approval from HCFA to allow this type of indirect billing. By allowing this type of indirect billing, it is possible the service provider was paid twice for services provided to the mother.

- Children's Services billed for children under age three who are medically fragile. However, the MCOs are responsible for providing all medical treatment to these TennCare enrollees.

Using CAATs, a search by the auditors of TennCare's paid claims records revealed that TennCare improperly paid a total of $1,673,100.41 for the year ended June 30, 1999, for children under three. Federal questioned costs totaled $1,056,688.39. An additional $616,412.02 of state matching funds was related to the federal questioned costs.

Payments to Children's Services for claims that were not adequately supported

For 12 of 60 claims tested (20%), TennCare inappropriately reimbursed Children's Services for billings when there was inadequate evidence that the child received the service. *OMB Circular A-87* requires all costs to be adequately documented.

A total of $2,838.05 was paid for these services. Federal questioned costs totaled $1,792.44. An additional $1,045.61 of state matching funds was related to the federal questioned costs. We believe that likely federal questioned costs associated with this condition could exceed $10,000.

Our review of the files associated with custody, runaways, incarcerated youth, individuals over 21, vendor billings, children under three, and children in the Hometies program, revealed that there was some duplication of questioned costs. We estimate the amount of duplicated questioned costs to be $250,000.

In total, $9,644,994.56 was improperly paid to Children's Services, $656,519.26 to the MCOs, and $242,258.95 to the BHOs. As discussed earlier, the amounts paid to the BHOs will not be questioned. A total of $6,506,178.60 of federal questioned costs is associated with the conditions discussed in this finding. An additional $3,795,335.22 of state matching funds was related to the federal questioned costs.

Recommendation

The Director of TennCare should ensure computer-assisted monitoring techniques are developed by the Bureau to prevent or detect payments for incarcerated youth, children on runaway status, individuals over 21, services covered by the BHOs, and

children under three. The Director of TennCare should ensure Children's Services bills only for recipients who receive services and are eligible to receive services. Management should also consider whether any action is necessary regarding the monthly allocation of funds between the BHOs. An accurate population of eligible BHO clients should be determined for purposes of future monitoring. In addition, the Director of TennCare should ensure Children's Services is immediately notified of all relevant laws and regulations. Also, the Director of TennCare should ensure Children's Services is appropriately notified of which services the BHOs are responsible for and which services would fall to Children's Services. The Director of TennCare should also ensure TennCare's management communicates effectively with Children's Services to ensure timely resolution of the numerous problems noted.

Management's Comment

We concur. TennCare will review the services provided by the BHOs in relation to those services provided by DCS and will work with DCS to ensure their knowledge of those services that can be billed to TennCare and those that must be billed to the BHOs. TennCare will continue to work with DCS to determine the cause and resolution necessary to resolve problems addressed with this program. TennCare will address monitoring techniques that may be available to help detect or prevent unauthorized payments for children in state custody or at risk of coming to state custody.

Finding Number	99-TDH-05
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

TennCare should ensure the Department of Children's Services payment rates are reasonable and have been approved by the Health Care Financing Administration

Finding

As noted in a previous audit finding, with which management concurred, TennCare has not ensured the Department of Children's Services (Children's Services) has established federally approved Medicaid treatment rates for services provided for children in state custody. TennCare has relied on Children's Services to determine the Medicaid treatment rates paid to the Medicaid service providers for children in the state's custody. Children's Services pays the Medicaid service providers for all Medicaid (treatment) and non-Medicaid services (housing, meals, and education) directly, then bills TennCare for the reimbursement of Medicaid services.

Management of Children's Services could not provide information as to how the treatment portion of services was determined. Management of Children's Services concurred in part with the previous finding in their report and stated they would perform a study to address the problem. Although a study has been performed, Children's Services has not implemented the new rates as of December 10, 1999. Without an understandable methodology to determine the true treatment costs incurred by the Medicaid service providers, Children's Services may be over- or underbilling TennCare for costs associated with the treatment. In addition, TennCare may be reimbursing Children's Services for non-Medicaid services. Because actual treatment costs could not be determined and differentiated from unallowable costs, auditors could not determine the amounts of possible overbillings and unallowable costs paid by the federal government. Since management at Children's Services could not explain the current methodology, it is unlikely the current rates meet Medicaid principles.

Recommendation

The Director of TennCare should ensure that Children's Services implements a federally approved methodology that is in compliance with Medicaid principles for treatment costs associated with children in state custody. If the Director of TennCare cannot persuade Children's Services to comply, the Director of TennCare should seek the

assistance of the Commissioner of Finance and Administration in seeking Children's Services' compliance with federal regulations.

Management's Comment

We concur. The Bureau of TennCare is working with DCS in getting a revised federally approved payment methodology for children's therapeutic intervention services that is in compliance with Medicaid principles and Medicaid/Title V Agreement relative to children in state custody.

Auditor's Comment

The Medicaid/Title V agreement referenced above is not relevant to the current program because it was not updated to reflect the changes in the state Medicaid plan and the expanded services for children in state custody under the current TennCare waiver. In addition, neither TennCare nor Children's Services perform Title V services.

Finding Number	99-TDH-06
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

TennCare should continue to seek written approval and clarification of grant requirements

Finding

As noted in the prior three audits, modifications to TennCare's grant requirements are often necessary because TennCare is a relatively new approach to Medicaid for both the state and the Health Care Financing Administration (HCFA). However, the intent of some requirements becomes unclear with the changes. The payment rates for certain psychiatric services is one such case. Although management concurred with the prior findings and stated that they contacted HCFA officials and are awaiting response, no evidence of this contact has been provided.

When TennCare began, mental health services were not immediately moved into a managed care setting as were other health services. As a result, the state requested permission from HCFA to continue to pay for some mental health services on a fee-for-service basis. The November 18, 1994, approval letter from HCFA states:

> For both the Children's Plan [Department of Children's Services] and the SPMI [severely and persistently mentally ill], retroactive payments to January 1, 1994, will be permitted on a fee-for-service (FFS) basis, subject to the State's processing these claims through the State Medicaid Management Information System that was in place prior to January 1, 1994, at the previously existing rates. [emphasis added]

Without seeking guidance from HCFA, TennCare interpreted this waiver as allowing the state to continue to adjust for inflation the SPMI and the Department of Children's Services (Children's Services) rates for psychiatric hospitals and community mental health centers as it had done under Medicaid. During the year ended June 30, 1995, TennCare also adjusted these rates to cover additional costs, such as capitalization of fixed assets and property taxes, and enhanced the rates by a Medicaid "disproportionate share factor" to help cover hospital charity costs. Prior to TennCare, these costs and the disproportionate share factor were not a part of the rates.

On July 1, 1996, TennCare implemented the TennCare Partners Program to provide mental health services in a managed care setting and discontinued fee-for-service payments for SPMI. However Children's Services continues to pay with the higher adjusted rates on a fee-for-service basis. Since TennCare is using the higher adjusted rates, then both the state and the federal government are paying more than has been approved by the waiver.

Although management agreed that all policies and programs and resulting payments should comply with grant requirements, management has not obtained documentation from HCFA regarding its position on the adjusted rates. During audit fieldwork, the Fiscal Director of TennCare stated that HCFA had verbally approved the adjusted rates. As of October 19, 1999, TennCare has not received the approval letter from HCFA.

Recommendation

The Director of TennCare should immediately follow up with HCFA to obtain formal written approval for the adjusted rates. The Director of TennCare should also ensure that all policies or programs and resulting payments comply with grant requirements. If these requirements are unclear or if a substantial change is made, TennCare should seek written approval from the grantor before implementing the change.

Management's Comment

We concur. TennCare has requested written response from HCFA. As of the date of this response, we have not received the written response.

Finding Number	99-TDH-07
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

TennCare has not adequately monitored TennCare-related activities at the Department of Children's Services

Finding

As noted in the prior two audits, TennCare has not adequately monitored the Department of Children's Services (Children's Services). Management concurred with the finding and contracted with the Department of Finance and Administration (F&A) to monitor several aspects of Children's Services' operations for the year ended June 30, 1999. Although TennCare recognized the need for a strong monitoring effort and has contracted with F&A to provide this service, the monitoring effort still needs improvement. In addition, TennCare did not inform F&A of all compliance issues, regulations, and guidelines that should be monitored.

In accordance with the agreement between Children's Services and TennCare, Children's Services contracts separately with various practitioners and service providers to provide health care benefits not provided by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) under contract with TennCare. Children's Services pays these providers and bills TennCare for reimbursement. For the year ended June 30, 1999, TennCare paid approximately $103 million to Children's Services in fee-for-service reimbursement claims.

TennCare's monitoring through a memorandum of understanding (MOU) F&A includes efforts to ensure:

- Only services allowable under the grant are billed.
- The amounts billed are correct and allowable.
- The expenditures are valid and properly supported.
- Only eligible, licensed, or certified providers are providing the services.

F&A reviewed only one out of twelve months for allowability of payments. One month of testing does not provide reasonable assurance that all services billed TennCare

were allowable. In addition, F&A did not follow the MOU's requirements related to monitoring of the following critical areas:

- F&A did not test the accuracy of Children's Services billing rates (finding 99-TDH-05).

- F&A did not test the eligibility determinations to ensure that only eligible individuals are enrolled in TennCare.

- F&A did not determine if procedures existed to identify incarcerated youth. Claims associated with incarcerated youth cannot be billed to TennCare.

- F&A did not test the providers to ensure all provider enrollment qualifications were met.

- Based on numerous discussions with F&A monitoring staff, it was apparent that F&A was not aware of all possible unallowable costs associated with Children's Services' claims including runaway days, payments for non-custodial children, and services that were covered by the behavioral health organization (BHOs) for children in state custody (finding 99-TDH-04).

Recommendation

The Director of TennCare should ensure F&A properly performs its responsibilities under the monitoring agreement. TennCare should consider all critical areas of compliance, especially related to Children's Services' billings for ineligible services or children. These areas and the applicable compliance requirements should be appropriately included in the monitoring agreement with the Department of Finance and Administration.

Management's Comment

We concur. The Bureau of TennCare has enhanced the scope of services required in the monitoring plan with the Department of Finance & Administration for the current fiscal year. We will work with F&A monitoring staff to ensure their knowledge of allowable and unallowable services.

Finding Number	99-TDH-08
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

TennCare has delegated authority to the Division of Mental Retardation Services in the Department of Finance and Administration to determine eligibility for and to have administrative discretion over the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled

Finding

TennCare has delegated authority for eligibility determinations and authority to exercise administrative discretion for the Medicaid Home and Community Based Services (HCBS) Waiver to the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration. As provided under Section 1902(a)(5) of the Social Security Act, the Department of Health (including the TennCare Bureau) is the state's designated single state agency for the Medicaid program. The *Code of Federal Regulations*, (CFR) Title 42, Part 431, Section 10, requires the single state Medicaid agency to determine eligibility for the disabled. However, the TennCare Bureau has allowed DMR to determine the eligibility of recipients under the HCBS waiver. The eligibility function performed by DMR includes all approval functions for those recipients deemed eligible.

The CFR, Title 42, Part 431, Section 10, states that in order for an agency to qualify as the Medicaid agency the following must exist:

(1) The agency must not delegate, to other than its own officials, authority to (i) Exercise administrative discretion in the administration or supervision of the plan, or (ii) Issue policies, rules, and regulations on program matters.

(2) The authority of the agency must not be impaired if any of its rules, regulations, or decisions are subject to review, clearance, or similar action by other offices or agencies of the state.

(3) If other State or local agencies or offices perform services for the Medicaid agency, they must not have the authority to change or disapprove any administrative decision of that agency, or otherwise substitute their judgment for that of the Medicaid agency with respect

to the application of policies, rules, and regulations issued by the Medicaid agency.

Testwork revealed that TennCare has not maintained its authority over the HCBS waiver. For example, TennCare has not issued specific policies and procedures for the waiver program, and has allowed DMR to develop procedures for the program without TennCare's oversight and supervision. Furthermore, DMR developed policies without regard to Medicaid rules.

In addition, TennCare's monitoring of the program has not been adequate to provide sufficient supervision of the program. See finding 99-TDH-09 for information concerning monitoring. Also, DMR has developed a payment methodology that appears to contradict specific requirements of a Health Care Financing Administration (HCFA) Transmittal letter stating leave days are not allowable under the Medicaid program for home and community based services. See finding 99-TDH-11 for further information concerning this payment methodology. DMR's current payment methodology results in TennCare ultimately paying for services under the waiver that exceed actual costs of the services provided, which is unallowable under *Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*.

Without adequate authority, supervision, and effective monitoring of the HCBS waiver, TennCare cannot ensure that all applicable federal regulations are met, and that appropriate costs are passed on to the federal grantor.

Recommendation

The Director of TennCare should establish TennCare's authority over the waiver program and not permit DMR administrative discretion over the waiver. The Director of TennCare should develop policies and procedures, and appropriate rules for the waiver. If eligibility determinations are to continue under DMR, then TennCare should perform the approval function for eligibility. Adequate monitoring of the waiver should be performed by TennCare to allow adequate supervision of administrative functions performed by DMR for the waiver.

Management's Comment

We partially concur. We continue to disagree with the audit report's interpretation of Medicaid requirements as stated below. TennCare hasn't improperly delegated authority to the Division of Mental Retardation Services (DMRS). TennCare has appropriate interagency agreements with DMRS under which DMRS performs specified functions for TennCare. Although DMR has policies and procedures in place for the HCBS Waiver, we do recognize that improvements and updates are necessary and that TennCare should have an approval role in the process. We also recognize that TennCare needs to strengthen its own policies, procedures and rules relative to this

waiver. TennCare fully recognizes its responsibility to supervise and monitor the waiver program. We agree that our monitoring efforts must be improved and will review the current process for necessary changes. We do not concur relative to the delegation of eligibility determination to DMRS. DMRS makes no Medicaid financial eligibility determinations, which is performed by the Department of Human Services. DMRS does perform pre-admission clinical evaluations for DMRS waiver clients but we feel HCFA allows this and will confirm our understanding.

Auditor's Comment

TennCare has delegated authority to DMR. The requirements set forth for the single state Medicaid agency in the *Code of Federal Regulations (CFR)* are very specific. The single state Medicaid agency may not delegate administrative discretion or allow others to issue policies, rules, and regulations on program matters. TennCare has allowed DMR to issue policies and procedures concerning the HCBS waiver program without TennCare approval. In allowing DMR to create its own policies and procedures without TennCare approval, TennCare is not in compliance with *CFR*, Title 42, Part 431, Section 10, requirements. In addition, DMR substituted their own judgment in devising a claims payment system not in compliance with federal requirements.

TennCare concurred with a finding concerning TennCare's inadequate monitoring of the program. Monitoring of DMR would have allowed TennCare to adequately supervise DMR's administration of the HCBS waiver.

Furthermore, the single state Medicaid agency is responsible for eligibility determinations in the Medicaid program; however, the state agency responsible for SSI determination under the CFR may also make Medicaid financial eligibility determinations. The Department of Human Services is the state agency responsible for Medicaid financial eligibility determinations in the state of Tennessee. Entry into areas of the Medicaid program requiring medical determination to receive specific Medicaid services for disability would still require determination of the single state Medicaid agency.

The HCBS waiver has eligibility requirements for medical necessity beyond those of the regular Medicaid program. As well as meeting standard Medicaid requirements, the recipient must be mentally retarded and developmentally disabled. *CFR*, Title 42, Part 431, Section 10, requirements specifically state the types of agencies that can determine disability. DMR is not one of the types of agencies listed.

TennCare's Long Term Care unit determines eligibility for all other long term care services offered under the State Medicaid plan. The other long term care services include services for home and community based waivers for elder and disabled care, skilled nursing and intermediate care services for the elderly and disabled, and intermediate care services for the mentally retarded and developmentally disabled. These other long term care options require eligibility determinations beyond Medicaid

eligibility to obtain Medicaid long term care services. Clearly all eligibility determinations for the long term care services should remain with the TennCare program, as the single state Medicaid agency, to remain in compliance with the provisions of *CFR*, Title 42, Part 431, Section 10 concerning determination of disability.

Finding Number	99-TDH-09
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Special Tests and Provisions
Questioned Costs	None

TennCare's Monitoring Of The Medicaid Waiver For Home And Community Based Services For The Mentally Retarded Has Not Been Adequate

Finding

The TennCare Bureau's monitoring of the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled under Section 1915(c) of the Social Security Act (HCBS waiver) is inadequate to provide the federally required assurances of health and welfare and of financial accountability. TennCare has not developed a formal monitoring plan (including the necessary policies and procedures) to ensure all the required areas are adequately monitored and other procedures are performed to provide the required federal assurances. TennCare has not reported the required assurances in a timely manner nor adequately documented the support for the health, welfare, and financial accountability section of the report. Furthermore, TennCare has not performed adequate monitoring of the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration, which oversees the program for TennCare and is contractually required to monitor the HCBS waiver's Medicaid service providers. (See finding 99-TDH-10 for information concerning DMR's monitoring activities.)

Section 1915(c)(2)(A) of the Social Security Act requires that

> necessary safeguards (including adequate standards for provider participation) have been taken to protect the health and welfare of individuals provided services under the waiver and to assure financial accountability for funds with respect to such services.

The Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver requires TennCare, the single state Medicaid agency, to have a formal plan of monitoring in place to ensure the health and welfare of individuals on the waiver. TennCare further assures that all problems identified by the monitoring process will be addressed in an appropriate and timely manner, consistent with the severity and nature of deficiencies. This monitoring process is also intended to support required assurances of health and welfare. The HCBS waiver also requires TennCare to provide assurances of financial accountability for funds expended for home

and community based services provided under the State Medicaid Plan. The monitoring plan must include filing the required federal reports.

TennCare does not appear to have adequate personnel to perform the monitoring needed to support the federally required assurances. The TennCare Bureau had one monitor for the 4,315 recipients of waiver services, 330 service providers, and DMR during the year ended June 30, 1999. The one monitor was a registered nurse. No fiscal personnel were provided to perform fiscal monitoring for assurance of financial accountability.

Section 1915(c)(2)(E) of the Social Security Act requires the state to provide the Secretary of the Department of Health and Human Services (HHS) with an annual report, the Health Care Financing Administration (HCFA) 372 report, on the impact of the Mental Retardation Home and Community Services Based Waiver (HCBS waiver) on the type and amount of medical assistance provided under the State plan and on the health and welfare of the recipients, including TennCare's assurances of health and welfare and of financial accountability under the waiver.

For the years ended June 30, 1998, and June 30, 1997, TennCare has not submitted the HCFA 372 Report within 181 days after the last day of the waiver period as required by the HCFA *State Medicaid Manual* Section 2700.6 E. Submittal Procedures for Due Date. The reports were 57 days and 230 days late, respectively. In addition, TennCare could not provide adequate documentation to support the health and welfare information in the HCFA 372 report. Without adequate documentation of the work performed in the monitoring process, auditors could not determine if monitoring was adequate to support health and welfare assurances and to support financial accountability assurances in the report.

Furthermore, TennCare has not performed adequate monitoring of the waiver. The contract between the Tennessee Department of Health (TDH) and DMR allows DMR to administer the HCBS waiver under the supervision of TennCare. While TennCare has no formal monitoring policies and procedures, TennCare does have monitoring responsibilities for the HCBS waiver in its contract with DMR. The contract specifically includes the following responsibilities for TennCare:

1. TennCare is to review a random sample of Preadmission Evaluations prepared by DMR during the annual state assessment period. TennCare has not performed this review during the contract period.

2. TennCare is to monitor the plan of care for persons receiving waiver services by reviewing a sample of the plans of care for recipients in the program during the state assessment. Testwork revealed that the TennCare monitoring staff did monitor plans of care plans of care during the annual state assessment period.

3. TennCare is required to monitor the DMR's policies for implementation and coordination of the waiver services approved by HHS. However, TennCare has not monitored DMR's implementation and coordination of the waiver services.

4. Per the contract, TennCare is to provide quality assurance monitoring to evaluate performance of the DMR. However, TennCare has not performed adequate quality assurance monitoring of DMR.

5. TennCare is to perform periodic audits of client records to validate the findings of the DMR Quality Enhancement review, and report the results to DMR with action required or needed to rectify deficiencies in a timely manner. This report is an annual statewide assessment of DMR's overall performance in the waiver. TennCare has no mechanism to perform audits of client records. Furthermore, TennCare has not provided DMR with timely statewide assessment reports. Statewide assessment reports for years ending June 30, 1996, and June 30, 1995, were not submitted to DMR for action until November 3, 1998. The statewide assessment reports performed for years ending June 30, 1998, and June 30, 1997, have not been submitted to DMR as of December 10, 1999.

6. TennCare is to assure the health and welfare of the individuals served in the waiver, through monitoring of quality control procedures described in the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled. TennCare does not have adequate documentation to indicate this was performed.

Only one of the six responsibilities has been fulfilled. In addition, these contractual requirements do not include specific responsibility for assurances of financial accountability. As a result, TennCare cannot support the required federal assurances for health and welfare and for financial accountability. Also, TennCare's inadequate monitoring increases the risk that federal requirements are not met.

Recommendation

The Director of TennCare should develop waiver monitoring policies and procedures to ensure a formal monitoring plan exists to provide the required health and welfare and financial accountability assurances to HCFA. The Director should ensure that the HCFA 372 reports and contractually required reports are submitted in a timely manner. The Director should monitor the process to ensure adequate assurances of health and welfare and of financial accountability are made to HCFA. The Director should ensure an adequate number of appropriately trained staff is available to perform monitoring.

Management's Comment

We concur. Efforts will be made to ensure timely submission of the HCFA 372 Reports and the timely submission of monitoring reports as required in the inter-agency agreement. TennCare will update policies and procedures for monitoring the HCBS Waiver and will evaluate staffing resources in this area or other monitoring options that may be available.

Finding Number	99-TDH-10
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Special Tests and Provisions
Questioned Costs	None

TennCare should ensure the Division of Mental Retardation Services in the Department of Finance and Administration provides adequate monitoring of the Medicaid Home and Community Based Services

Finding

The TennCare Bureau did not ensure that the Division of Mental Retardation Services (DMR) complied with its contract monitoring requirements for the Medicaid Home and Community Based Services (HCBS) for the Mentally Retarded and Developmentally Disabled waiver. The contract between the TennCare Bureau and DMR requires DMR to give assurance that necessary safeguards will be taken to protect the health and welfare of the recipients of home and community based services and assurance of financial accountability for funds expended for home and community based services.

Testwork revealed that DMR is adequately monitoring to ensure that the traditional long-term care providers have the necessary safeguards in place to protect the health and welfare of waiver recipients. However, testwork revealed that DMR has not adequately monitored the waiver's alternative providers. Alternative providers are home health agencies and individual providers such as dentists, behavioral therapists, nutritionists, physical therapists, etc.

In addition, DMR is not providing necessary assurance of financial accountability for funds expended for all providers. Furthermore, DMR's current monitoring policies have not been revised to include the monitoring process for the alternative providers and do not include the fiscal monitoring process for the financial accountability assurances.

DMR relies on programmatic personnel at the regional offices to perform monitoring for health and welfare assurances of the traditional long-term care providers. DMR and the Department of Mental Health and Mental Retardation share responsibility for fiscal monitoring. Although fiscal monitors were employed for the Middle Tennessee Regional Office – Nashville and in the East Tennessee Regional Office – Knoxville during the year ended June 30, 1999, the West Tennessee Regional Office – Memphis did not have a fiscal monitor during this period. During June 1999, the fiscal monitor at the Middle Tennessee Regional Office left, leaving this position vacant. In the absence of

fiscal monitors, DMR programmatic monitors have performed fiscal monitoring tasks; however, on a statewide basis, monitoring may not be effective for financial accountability because the programmatic staff performing fiscal monitoring may not be adequately trained to perform fiscal monitoring.

Furthermore, the Middle and West Tennessee Regional offices did not maintain back-up documentation for fiscal monitoring activities and the West Tennessee Regional office did not maintain back-up documentation for health and welfare monitoring. Survey results were documented and final reports disseminated and these are the records that were maintained. However, without all documentation of the monitoring activities, TennCare cannot be certain contract requirements regarding assurances of health and welfare and of financial accountability were met.

Recommendation

The Director of TennCare should ensure DMR complies with contractual requirements for assurances of health and welfare and of financial accountability. TennCare should also provide DMR with adequate monitoring policies and procedures to ensure all federal requirements are met.

Management's Comment

We concur. TennCare will work with DMRS to ensure compliance with the interagency agreement and will provide adequate monitoring policies and procedures to ensure all federal requirements are met.

Finding Number	99-TDH-11
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	None

Claims for services provided to the mentally retarded and developmentally disabled have not been paid in accordance with the Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver

Finding

TennCare has allowed other state departments to contract with and to pay Medicaid providers in violation of the terms of the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver (HCBS waiver). The *Code of Federal Regulations* Title 45, Part 431, Section 10 (e) (3) allows other state and local agencies or offices to perform services for the single state Medicaid agency. As a result, TennCare has contracted with the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration to oversee the HCBS waiver program. In addition, DMR relies on the Department of Mental Health and Mental Retardation to perform certain fiscal responsibilities under the waiver.

Although the state Medicaid agency can use other state departments to perform services, Sections 1905 (a) and 1902 (a) (32) of the Social Security Act and the HCBS waiver require the Tennessee Department of Health (including TennCare), the single state Medicaid agency, to make direct payments to providers of services covered by the waiver. In addition, the waiver agreement requires provider claims to be processed on an approved TennCare/Medicaid Management Information System (TCMIS) and provider payments to be issued by the fiscal agent for TennCare, Electronic Data Systems (EDS). However, TennCare has allowed DMR to process claims on its own system and make payments through the State of Tennessee Accounting and Reporting System (STARS) directly to providers.

Section 1902 (a) (27) of the Social Security Act and the HCBS waiver also require TennCare to contract directly with the providers. However, TennCare has allowed DMR to contract with the Medicaid providers directly. Furthermore, TennCare has inappropriately paid DMR as a Medicaid provider. DMR in turn has treated the actual Medicaid providers of services as DMR vendors. According to Medicaid principles, as described in the Provider Reimbursement Manual Part I Section 2402.1, DMR is not a Medicaid provider because it does not perform actual Medicaid services.

DMR has paid waiver claims outside the prescribed waiver arrangement. The waiver is designed to afford eligible individuals access to home and community based services as authorized by Section 1915 (c) of the Social Security Act. Typically, any claims submitted by providers for services performed to waiver recipients would be processed in accordance with all applicable federal regulations and waiver requirements. In addition, the state would receive the federal match funded at the appropriate federal financial participation rate. However, DMR and TennCare have not processed waiver claims within federal requirements. As a result, the state contributed state funds for the waiver services, without maximizing federal financial participation. For example, DMR has paid providers for services that cannot be charged to the federal grantor because they are not allowable under the waiver regulations.

Per *Office of Management and Budget* (OMB) *Circular A-133*, for costs to be allowable Medicaid costs, claims must be for allowable services rendered that are supported by records or other evidence indicating the services were provided and consistent with a recipient's plan of care for HCBS waiver services. In addition, the *Code of Federal Regulations* Title 42, Part 1003, Section 102, states that penalties or assessments may be imposed by the Office of the Inspector General (OIG) of the U.S. Department of Health and Human Services (HHS) if an item or service was not provided as claimed. Furthermore, the Federal Register: August 10, 1995 Volume 60, Number 154 Notices *OIG Special Fraud Alerts* states that claiming unperformed or excessive services is fraud and may be prosecuted by the OIG.

The HCBS waiver requirements prohibit services for recipients when they are absent from their homes. In addition, the HCBS waiver does not permit recipient leave days because care is home based and not performed in a residential facility. TennCare forwarded DMR a transmittal letter from the Health Care Financing Administration (HCFA) of HHS dated October 31, 1994, stating that leave days could not be paid for by the HCBS wavier. However, DMR implemented a system that would, in essence, permit patient leave days. For example, providers performing services for 300 days are paid the same amount as providers performing services for 365 days. DMR has also paid the providers rates that exceed the TennCare rates. In addition, the DMR payment system has no controls to prevent payment for unperformed services and TennCare has no controls to detect if DMR were to bill for unallowable leave days and unperformed services.

The current billing and payment process is as follows:

1. Medicaid services providers perform services for waiver recipients.
2. Providers bill DMR for services.
3. DMR pays providers based on rates established by DMR, but not the rates calculated in the waiver by TennCare. TennCare's rates are based on average cost per service. DMR's uses the Community Services Tracking System and the State of Tennessee Accounting and Reporting System to pay the providers.
4. DMR bills TennCare as if DMR was a provider based on the TennCare rates.

5. TennCare pays DMR as if DMR was a provider the TennCare rates using the TCMIS system.
6. Per the agreement with TennCare and DMR, at year end TennCare and DMR intended to cost settle so that DMR could receive the difference between its full payment for services paid to providers and the amount which has been reimbursed by TennCare based on the TennCare rates.

Although TennCare management intended to cost settle with DMR, as described above, discussions with management subsequent to field work revealed that management will seek guidance from the grantor prior to proceeding with any cost settlement.

Because TennCare has not ensured DMR complied with the waiver and federal regulations, DMR has paid Medicaid providers more than the TennCare rates, and in some cases has paid for unallowable leave days and unperformed services. DMR requires providers to bill using a standardized form generated by DMR that allows the providers to bill for total authorized services rather than for services that are actually performed. Because DMR does not provide a mechanism that allows providers to report/bill actual services performed, DMR has paid providers for all authorized services when actual services performed were less than those authorized. Testwork revealed that in one of 33 claims tested, a provider billed for more staff than was actually present for 21 of 28 days in the July 1998 billing period. Testwork also revealed that DMR used a payment and rate methodology that allowed providers to be paid for days (leave days) in which waiver recipients were not receiving services. In 8 of 33 claims tested, DMR paid Medicaid service providers for a full month service when less than a full month of service was actually performed.

Because TennCare and DMR have administered the waiver outside the federal regulations, if an exception is not granted by HCFA, the state will have forgone $30,631,388 of federal financial participation.

Recommendation

The Director of TennCare should take immediate action to comply with all federal requirements including those in the waiver, so as to maximize all federal financial participation. The Director must also inform DMR of all federal requirements including those in the waiver and ensure that DMR complies with all requirements. The Director should ensure that TennCare pays providers in accordance with the waiver and only for allowable services that are actually performed. TennCare should process claims on an approved Medicaid (TennCare) Management Information System and pay providers directly. DMR provider billings to TennCare should reflect only the actual level of services performed. The Director of TennCare should ensure staff performs fiscal monitoring of providers to ensure payments are for services actually provided.

Management's Comment

We concur. We will work with HCFA to ensure that our waiver procedures are in compliance with all federal requirements for the waiver and will work with DMRS to ensure their compliance with all waiver requirements. Any procedures necessary to ensure maximum federal participation will be pursued. Provisions will be implemented that allow the provider voluntary reassignment of their service payment to a government agency, ie.DMRS, with the ability to cancel the arrangement should he choose to receive direct payment from the Medicaid agency. As a long-term goal, we will work toward the federal requirement that the Medicaid agency make payments directly to the provider of services. This effort will not be completed for several years due to computer system limitations.

Finding Number	99-TDH-12
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Activities Allowed or Unallowed
Questioned Costs	$4,097,126.00

The TennCare Bureau should amend its cost allocation plan

Finding

The state has a Medicaid cost allocation plan to provide for the recovery of administrative costs. However, the plan has not been amended to cover the administrative costs associated with the Home and Community Based Services (HCBS) for the Mentally Retarded and Developmentally Disabled Waiver program. Currently the Department of Finance and Administration's Division of Mental Retardation Services (DMR) has the responsibility for day–to–day management of the HCBS waiver program. The audit revealed that the Bureau of TennCare has paid the Division of Mental Retardation Services administrative costs based on 7 percent of HCBS paid claims without an approved amended cost allocation plan. For the year ended June 30, 1999, this amount totaled $6,193,035, consisting of $4,097,126 in federal questioned costs and $2,095,909 in state matching funds. This practice has been occurring since fiscal year 1997.

Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment D, Public Assistance Cost Allocation Plans requires an approved cost allocation plan for all direct and indirect administrative costs for public assistance programs. Without an appropriately amended and approved plan, the TennCare Bureau is not eligible to recover these costs from the federal grantor.

Recommendation

The TennCare Director should immediately develop and submit an amended cost allocation plan in accordance with *OMB Circular A-87*.

Management's Comment

We concur. The Bureau is currently in the process of developing a cost allocation plan to be submitted for approval as determined necessary.

Finding Number	99-TDH-13
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Activities Allowed or Unallowed
Questioned Costs	$27,328.00

TennCare has not ensured an adequate process is in place for approval and review of services for the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver

Finding

TennCare has not ensured the Division of Mental Retardation Services (DMR) appropriately reviews and authorizes allowable services for recipients of the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled Waiver (HCBS waiver). In addition, DMR does not adequately document the review and approval of services on the Individual Service Plan (ISP).

Section 13 of the HCBS waiver states services under the waiver will be furnished pursuant to a approved plan of care. Documentation of approval of plan of care services is performed on the ISP based on appendix E of the HCBS waiver document. DMR's *Operation Manual for Community Providers*, chapter two, requires ISPs to be authorized before entry into DMR's Community Service Tracking System as approved. In addition, *Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*, states costs must be documented.

Auditors tested a sample of claims totaling $42,311. Testwork revealed that for 31 of 33 claims tested (93.9%), the ISPs were not signed and dated by anyone authorizing and approving services under the HCBS waiver. Discussion with auditee personnel concerning these ISPs revealed that they were not reviewed. The auditor could not determine the services were properly authorized. Federal questioned costs totaled $27,328. An additional $13,980 of state matching funds was related to the federal questioned costs. The total claims paid by TennCare for the year ended June 30, 1999, was $82,278,890.

Without approved plans of care, Medicaid providers of HCBS waiver services may be paid for unallowable services.

Recommendation

The Director of TennCare should ensure that DMR adequately documents approval of services under the HCBS waiver and reviews approvals for allowability. The approval and review should be appropriately documented on the ISP. The Director should ensure TennCare monitors this process for compliance.

Management's Comment

We concur. Although the ISP (Individual Service Plan) was not signed as stated in the finding, there was a signed individual cost plan that is prepared as a direct result of the ISP. The current service authorization process will be reviewed by TennCare staff and if determined appropriate, an amendment to the HCBS Waiver will be submitted to HCFA to clarify the process that will be used to provide documentation of services authorized and approved for waiver participants. During the required annual state assessment, the TennCare monitor will review for the proper signatures.

Finding Number	99-TDH-14
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Eligibility
Questioned Costs	$597,645.88

TennCare should develop adequate controls to prevent capitation payments on behalf of enrollees who become incarcerated and amend its policies to permit full recovery of related overpayments

Finding

TennCare does not have adequate controls in place to prevent capitation payments to managed care organizations and behavioral health organizations when enrollees become incarcerated. In addition, TennCare does not have a process to retroactively recover all capitation payments from the MCOs when enrollees are incarcerated.

The capitation payments are made to the MCOs and BHOs on behalf of TennCare enrollees to cover medical and mental health services. These payments are generated electronically each month by the TennCare Management Information System (TCMIS) based upon the recipient eligibility information contained in the system. If the eligibility information in TCMIS is not updated timely, then erroneous payments will be made.

TennCare personnel stated that data received from the Tennessee Department of Correction is often incomplete and/or inaccurate. Prisoners are often not willing to give complete and/or accurate information regarding their identity (name, social security number, date of birth, etc.). These problems can often cause delays in identification of prisoners and stopping of benefits.

Using computer-assisted audit techniques, a search of TennCare's paid claims tapes revealed that TennCare made capitation payments totaling $1,125,283.81 from July 1, 1998, to June 30, 1999, for over 600 adult inmates in state prisons. Of this amount, $946,278.56 was paid to MCOs, of which $597,645.88 is federal questioned costs. An additional $348,632.68 of state matching funds was related to the federal questioned costs.

BHOs are not to be reimbursed for costs associated with incarcerated adults. The total payments to the two BHOs are based on a predetermined budget for mental health services approved by HCFA. These payments are allocated between the BHOs based on the number of eligible clients. Eligibility includes not being incarcerated. When a BHO has included ineligible clients in its population of TennCare eligible clients, the portion of

the money budgeted for that BHO should be reduced to that extent and awarded to the other BHO. The total amount paid to the BHOs is not affected. Thus, the total amount paid to the BHOs is not a questioned cost in this audit.

Although the total amount paid to the BHOs is not affected, future funding might be affected. When ineligible individuals are included in the population, then the population is skewed and could affect assumptions made when determining the amount of the global budget paid to the BHOs in the future.

Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), the state, not the federal government, is responsible for the health care costs of adult inmates.

Based on discussions with TennCare's Director of Information Services, management's current policies do not always prevent capitation payments from being made when enrollees are incarcerated. Current policy also prevents TennCare from fully recovering from the MCOs all capitation payments made since the date of incarceration. The policies include:

- Management's policy decision not to disenroll any SSI (Supplemental Security Income) enrollees, until notification of death or proof the individual has elected Medicaid coverage in another state.

- Management's policy decision to use date of notification of incarceration rather than exact date of incarceration. For example, if a person was incarcerated in June 1998 and TennCare was notified in September 1998, TennCare would only recover capitation payments made beginning September 1998, rather than going back to the exact date of incarceration in June.

In addition to TennCare's policy, it is also possible that current MCO contract language might prevent total recovery of all capitation payments made to them in error. Current contract language allows TennCare to recover payments retroactively in cases of an enrollee's death or if there has been fraudulent enrollment committed by the enrollee.

Recommendation

Under the leadership of the Director of TennCare, management should determine which capitation payments, made on behalf of incarcerated adults, can legally be recovered and take the necessary steps to recover all such payments. The Director of TennCare should ensure that the Director of Information Services continues to monitor it's methodology to detect incarcerated adults and to prevent future payments for adult inmates. Management should also consider whether any action is necessary regarding the monthly allocation of funds between the BHOs.

TennCare should consider changes in the MCO contract language to clearly allow full recovery of capitation payments for ineligible enrollees. Otherwise, TennCare should develop a mechanism to identify these payments and use only state dollars to pay for incarcerated enrollees.

Management's Comment

We concur. TennCare will continue to review and monitor its procedures for identifying incarcerated adults and determine which capitation payments can legally be recovered. If capitation payments can not be recovered to the time of incarceration, the State will determine if State dollars should be used to fund the un-recovered dollars.

Finding Number	99-TDH-15
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Eligibility
Questioned Costs	$65,555.03

Deceased enrollee payment recovery procedures need improvement

Finding

As noted in the prior audit, procedures for deceased enrollee payment recovery need improvement. Although management concurred with the prior finding and improvements have been made, testwork revealed the following weaknesses.

TennCare Management Information System (TCMIS) recovers previous payments for only one year before the date of discovery of death

According to TennCare staff, often there can be delays in obtaining information about deceased individuals. Thus it is important to retroactively recover payments when there is a delay in the death notification. However, the TCMIS is currently set up to recover payments retroactively to 12 months before the date of death notification. When it takes over a year to detect an enrollee's death, TennCare does not recover all of the previous capitation payments made for deceased individuals.

A manager in the Division of Information Services stated that TCMIS is capable of recovering beyond the 12 months but that management has not authorized recovery beyond 12 months. In addition, a manager in the Contract Compliance Division stated that TennCare could contractually recover all payments made to the MCOs since the date of death of the enrollee. Furthermore, MCO contract language indicates that TennCare can retroactively recover payments for deceased individuals without limitation.

Untimely detection of deceased enrollees

Computer-assisted audit techniques revealed that there were 41 enrollees that were deceased before January 1, 1997, that TennCare had not removed from the TennCare rolls as of November 12, 1999. A total of $103,796.11 was paid for the year ended June 30, 1999, to Managed Care Organizations (MCOs) and $8,374.62 to Behavioral Health Organizations (BHOs) for these enrollees. Federal questioned costs related to MCOs totaled $65,555.03. An additional $38,241.08 of state matching funds was related to the federal questioned costs. The amount paid to the BHOs will not be questioned because, as explained in finding 99-TDH-04, the total contract payments to the BHOs collectively will not change regardless of the number of enrollees.

Recommendation

Under the direction of the Director of TennCare, TennCare management should take the necessary steps to recover all capitation payments made on behalf of deceased recipients since the inception of TennCare. Management should recover all capitation payments for deceased enrollees back to the date of death. The Director of TennCare should ensure that procedures are adequate to timely detect deceased enrollees.

Management's Comment

We partially concur. Retroactive capitation payments beyond 12 months of the date of death notification to TennCare has not occurred. Procedures will be established to allow recoveries for capitation payments that exceed the twelve-month reconciliation for identified deceased enrollees. We do not concur that the 41 enrollees referenced in the audit finding were not processed timely by TennCare. Our research of the 41 records utilizing TennCare existing procedures for date of death validation indicated that only five enrollees were shown as deceased in the SSA/SOLQ database.

Auditor's Comment

For the 41 individuals in question, auditors obtained the date of death information from the department's Office of Vital Records.

Finding Number	99-TDH-16
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Activities Allowed or Unallowed
Questioned Costs	None

TennCare continues to disregard its own rules regarding overpayments to providers and needs to improve processing of Medicare cross-over claims

Finding

As noted in the three prior audits, TennCare has not complied with departmental rules resulting in overpayments to providers caring for enrollees who are both TennCare and Medicare recipients. Management concurred with the prior finding and stated that TennCare staff will work to bring payment methods into compliance with departmental rules. According to the Director of Fiscal Services as of November 1999, TennCare is still researching the rules and has not determined whether or not it is more appropriate to change the rules or the computer system. As noted in the prior two audits, TennCare has not improved control weaknesses in processing the Medicare cross-over claims. Management concurred with the prior findings and stated it would examine its process for updating policies, procedures, and computer systems for changes necessary to reflect new developments. However, no changes to the computer system have been made.

Medicare recipients are required to pay coinsurance and a deductible to the provider for services received. If the patient is also eligible for Medicaid, Medicare bills TennCare instead of the patient for the coinsurance and deductible. According to the *Rules of the Tennessee Department of Health*, Chapter 1200-13-1.05, the total amount paid by all parties (Medicare, patient, and TennCare) cannot exceed the fee limitations set by TennCare. This rule seems appropriate. Therefore, it appears the systems rather than the rule should be changed. However, TennCare's computer system always pays the entire deductible billed for outpatient hospitalization services regardless of how much Medicare or the patient paid or any limitations set by the Medicaid fee schedule.

In addition, there were several control weaknesses in the processing of Medicare professional and institutional cross-over claims (claims paid partially by both Medicare and Medicaid). The TennCare Management Information System (TCMIS) used to process these claims has not been modified and updated as needed to ensure claims are paid in compliance with state and federal laws. As noted above, the *Rules of the Tennessee Department of Health*, Chapter 1200-13-1.05, require that the total amount paid by all parties not exceed the fee limitations. However, TCMIS does not always ensure that claims from psychologists and social workers comply with this rule. The

amount of expenditures for professional and institutional cross-over claims during the year ended June 30, 1999, was approximately $72 million.

The following control weaknesses were noted:

- Although professional cross-over claims from psychologists and social workers have been Medicaid-eligible since the late 1980s, these claims are to be denied if the recipients have other insurance (third-party resources). However, TCMIS has not been updated to detect third-party resources on these cross-over claims. It is very likely that TennCare has paid claims that should have been denied because other insurance was available.

- Despite the complex nature of the claims processing, bureau staff does not routinely perform manual pricing tests to determine if the system is paying claims properly.

- TennCare's policies and procedures regarding fee-for-service claims are not adequate.

- Auditor inquiry revealed that the TennCare Bureau did not have sufficient knowledge of the rules and regulations pertaining to TennCare's financial obligation and responsibility for Medicare cross-over claims to develop effective policies and procedures. In addition, no staff at the TennCare Bureau was assigned responsibility to monitor changes in laws and regulations regarding Medicare cross-over claims.

Recommendation

The Director of TennCare should decide what action is necessary to ensure compliance and then make the necessary changes to the TennCare Management Information System to bring the method of payment into compliance with departmental rules. The Director of TennCare should ensure TCMIS has been updated to detect third-party resources on cross-over claims and should ensure that TennCare's policies and procedures regarding fee-for-services claims are adequate. Management and staff should keep abreast of new and changing program requirements and should ensure the bureau's policies, procedures, and computer systems are updated timely to reflect new developments. Also, the Director of TennCare should ensure the claims pricing and payment subsystem of TCMIS is routinely tested.

Management's Comment

We concur. TennCare is continuing to review payment procedures that are not in accordance with departmental rules. As determined appropriate, the rules or the procedures will be modified accordingly. Procedures will be implemented to ensure the claims pricing and payment subsystem is routinely tested.

Finding Number	99-TDH-17
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Special Tests and Provisions
Questioned Costs	None

Controls over access to the TennCare Management Information System need improvement

Finding

As noted in the prior audit, one of the most important responsibilities, if not the most important, for the official in charge of an information system is security. The Director of TennCare is responsible for, but did not ensure that, adequate TennCare Management Information System (TCMIS) access controls were in place throughout the audit period. As a result, deficiencies in controls were noted during system security testwork.

The TCMIS contains extensive recipient, provider, and payment data files; processes a high volume of transactions; and generates numerous types of reports. Who has access, and the type of access permitted, is critical to the integrity and performance of the TennCare program. Good security controls provide that access to data and transaction screens be limited to a "need-to-know, need-to-do" basis. When system access is not properly controlled, there is a greater risk that individuals may make unauthorized changes to the TCMIS or inappropriately obtain confidential information, such as recipient social security and Medicaid identification numbers, income, and medical information. Audit testwork revealed the following discrepancies.

No Standardized Security Authorization Forms

Access to TCMIS is controlled by Resource Access Control Facility (RACF) software. The purpose of RACF is to prohibit unauthorized access to confidential information and system transactions. The TennCare Security Administrator in the Division of Information Services is responsible for implementing RACF, as well as other, system security procedures.

The Security Administrator assigns a "username" ("RACF User ID") and establishes at least one "user group" for all TennCare Bureau and TCMIS contractor users. User groups are a primary method by which RACF controls access. Each member of a user group can access a set of TCMIS transaction screens.

Throughout the audit period, the security administrator did not require users to fill out security access forms documenting the level of access requested. Failure to require signed security authorization forms with proper supervisory approval makes it more difficult to monitor user access. For example, it is not possible to compare the type and level of access needed and requested with the type and level of access given. On July 12, 1999, TennCare started requiring standardized justification forms to be filled out by all new users to TennCare's system. For a portion of the year, TennCare required users to justify their reasons for access to TennCare's system; however, this form did not document the level of access requested.

Unnecessary Access to TCMIS

User access testwork revealed that all users in the default group had the ability to update at least two screens. This could be accomplished by typing over the "function" field and replacing INQ (inquiry) with CHG (change). Then the user could make changes to the screens and press a particular function key to update. Management sent a work request to the contractor, EDS, on August 11, 1999, to explore the problem. As of October 25, 1999, the EDS had not completed the work.

Transaction Screens Not Protected

As discussed earlier in this finding, typically users must have a RACF user ID to sign on to TCMIS and access TennCare transaction screens. The auditors discovered that two transaction screens "long-term care history inquiry" and "TennCare master application" could be accessed without a user ID. This could occur if a user pressed a particular function key during the sign-on process. The function key enabled the user to bypass the sign-on process and go directly to the transaction command screen. At that point, the user could enter one of the transaction screen commands and obtain unauthorized access.

This condition apparently existed because security levels for many screens were set to minimal values to facilitate a quick switchover when the old Medicaid system was modified for TennCare purposes in 1994. Management corrected other screens noted in the last audit where this problem occurred. However, management failed to adequately review the screens and ensure that all screens were protected.

Security Administration Not Centralized

Testwork also revealed that the Security Administrator for the Department of Health, who is separate from TennCare's Security Administrator, has the ability to give users access to TCMIS. Management stated that the Department of Health's Security Administrator is required to notify the TennCare Security Administrator when users are given access to TCMIS. However, an examination of usage logs revealed that there were at least two occasions where the Department of Health administrator acted before consulting TennCare.

Furthermore, if users' RACF user names expire, the TennCare Security Administrator can reinstate the access of users given by the department's Security Administrator, and vice versa. When access to TCMIS is decentralized, it is more difficult to monitor and control.

Recommendation

The Director of TennCare should ensure that the standardized authorization forms are obtained for all users that have access to TCMIS. In addition, the director should ensure that these forms are collected from all existing users. The director should ensure that all transaction screens are properly secured from unauthorized access. Access levels for all screens should be reviewed to guarantee that only authorized users have the ability to make changes. Responsibility for TCMIS security should be centralized under the TennCare Security Administrator.

Management's Comment

We concur. Security Authorization Forms were initially implemented in November of 1993. All users were required to sign the agreement forms, which were maintained by Information Services. As referenced in the finding on July 12, 1999, the security authorization form was revised to include a section for manager written approval and a section for designated level of access.

Information Services is currently in system testing with the Facilities Manager Contractor to correct function deficiency which allows inappropriate access.

Effective immediately, only the TennCare Security Administrator can now authorize access to the TCMIS.

Finding Number	99-TDH-18
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Controls over the administration and monitoring of contracts should be improved

Finding

The Department of Health, Bureau of TennCare, needs to strengthen controls over the administration and monitoring of contracts. In accordance with the TennCare Waiver, the Department of Commerce and Insurance, TennCare Examiners Division, is responsible for conducting examinations of Managed Care Organizations (MCOs) and Behavioral Health Organizations (BHOs) that contract with the Bureau of TennCare. Commerce and Insurance conducts these examinations of MCOs and BHOs to ensure financial viability and compliance with statutory and contractual provisions, and rules and regulations. The scope of services provided by Commerce and Insurance includes financial review, complaint negotiation, claims process monitoring, and assessments of financial position. Although Commerce and Insurance is performing these services, which are completely funded by the TennCare program, testwork revealed that the Bureau of TennCare has not initiated an interdepartmental contract with the Department of Commerce and Insurance.

The Department of Health also has a cooperative agreement with the Department of Human Services for the determination of Medicaid eligibility. This agreement has not been revised or amended since October 1969, when the original agreement started. The TennCare program was implemented in January 1994 after the state obtained a waiver from the federal Health Care Financing Administration, which allowed the state to replace its basic Medicaid program (Medical Assistance Program) with a managed care system. Since the agreement has not been revised or amended since 1969, the TennCare program is not included in the agreement. Furthermore, the cooperative agreement does not provide sufficient detail to ensure all parties are fully informed of the scope of services and related responsibilities. The agreement states that the Department of Public Welfare [currently known as the Department of Human Services (DHS)] assumed responsibility of " the determination of eligibility" for Medicaid recipients. However, the agreement does not provide detail of which policies, standards, or methods should be used to make the eligibility determinations.

Testwork also revealed that the Bureau's controls over the monitoring of contracts is inadequate. The Bureau has not implemented written policies and procedures to

monitor all of the Bureau's contracts. In addition to the Commerce and Insurance arrangement, the Bureau contracts with other entities, including state departments, to assist with the TennCare program. As noted in other findings, the Bureau does not have effective monitoring procedures to ensure contract compliance. Examples of these contracts include the following:

- a contract with the Department of Commerce and Insurance to conduct examinations of the MCOs and BHOs to ensure financial viability and compliance with statutory and contractual obligations;

- a contract with the Comptroller of the Treasury, Medicaid/TennCare Division, to establish reimbursable cost rates for the Tennessee Medicaid Title XIX and the TennCare Waiver Programs;

- a contract with First Mental Health Incorporated to provide external reviews to monitor quality assurance;

- a contract with the Department of Children's Services to provide non-medical treatment and case management services;

- a contract with the Department of Human Services to provide Medicaid eligibility determinations; and

- a contract with the Department of Health's Office of Health Licensure and Regulation to certify healthcare facilities.

Without effective monitoring procedures, the Bureau cannot ensure that compliance requirements of the contract are met.

Recommendation

The Department of Health, Bureau of TennCare, should establish an interdepartmental contract with the Department of Commerce and Insurance to formally document the existing agreement between the two departments. The Director of TennCare should revise the cooperative agreement to ensure all parties are fully informed of the scope of services and specific responsibilities. In addition, the agreement should be revised to reflect the TennCare program and the rules that govern the program. The Director of TennCare should also develop and implement written policies and procedures to monitor contracts.

Management's Comment

We concur. TennCare will work with Commerce and Insurance in establishing a formal interdepartmental contract for the examinations of the MCOs and BHOs.

TennCare will also update other interagency agreements between state agencies to reflect the needs of the current program. TennCare will continue to review those contracts that have not been monitored and will determine the most appropriate monitoring efforts. The Department of Health submitted its Contract Monitoring Plan for FY 1999-2000 contracts by September 30, 1999 as required by Policy # 22. At that time, TennCare was still part of the Department of Health. Through this, process contracts were identified as low, medium or high risk for monitoring prioritization purposes. Consistent with the results of this assessment, monitoring schedules were developed to allow fiscal and program monitoring of all contractors to be accomplished on a three year schedule at a minimum.

Finding Number	99-TDH-19
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Subrecipient Monitoring
Questioned Costs	None

TennCare has not monitored the graduate medical schools

Finding

As noted in the previous audit, TennCare has not monitored the graduate medical schools to ensure requirements related to graduate medical education (GME) payments are met, nor has TennCare advised the graduate medical schools of the audit requirements of subrecipients. Management concurred with the previous year's audit finding and stated that the Bureau would advise the subrecipients of the audit requirements for subrecipients of federal funds. Management also stated that the medical schools were included in the contract-monitoring plan submitted to the Department of Finance and Administration in accordance with Policy 22. However, the Bureau did not advise the subrecipients of the audit requirements. The Bureau also did not do what they said they would do in the monitoring plan.

GME payments are made to the state's four graduate medical schools: (1) the University of Tennessee at Memphis, (2) Vanderbilt University, (3) Meharry Medical College, and (4) East Tennessee State University. The GME payments consist of three components: a hospital pass-through component, a primary care allocation component, and a resident stipend component. The hospital pass-through funds are paid to the medical schools, which are required to allocate the funds to the hospitals designated in the GME plan. Under the primary care allocation, the GME dollars are supposed to follow the residents to their sites of training. The amount of each school's primary care component is awarded to a resident in family practice, internal medicine, pediatrics, or obstetrics during the year of residency for which the resident agrees to participate and to serve TennCare enrollees in a "Health Resource Shortage Area" of Tennessee. During the year ended June 30, 1999, GME expenditures were approximately $48 million.

TennCare does not monitor the graduate medical schools to ensure the following:

- The hospital pass-through component dollars paid to the hospitals designated in the GME plan are properly allocated.

- The lists of residents used to determine the primary care component are valid.

- The graduate medical schools have taken appropriate action to correct federal compliance audit findings.

TennCare relies on the graduate medical schools to comply with the terms of their agreement and does not monitor the graduate medical schools to ensure requirements are met.

Office of Management and Budget (OMB) Circular A-133 also requires the department to monitor subrecipients' activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements. *OMB Circular A-133* also requires the department to ensure that required audits are performed and that subrecipients take prompt corrective action on any audit findings.

Finance and Administration (F&A) policy 22 also requires the departments to monitor subrecipients. Policy 22 establishes a guideline for the monitoring of subrecipients of state agencies. The policy requires the departments to submit monitoring plans each fiscal year beginning after June 30, 1998. TennCare submitted a monitoring plan but did not do what they said they would do in the plan.

The department cannot determine subrecipients' compliance with applicable regulations if appropriate monitoring procedures are not performed and required audits are not obtained. Furthermore, funds could be used for objectives not associated with the grant and subrecipient errors and irregularities could occur and not be detected.

Recommendation

TennCare should immediately advise the graduate medical schools of the audit requirements for subrecipients of federal funds. The Director of TennCare should establish a monitoring program to monitor the graduate medical schools to ensure compliance with grant requirements. All monitoring should be sufficiently documented and deficiencies should be promptly reported to the graduate medical schools. TennCare should also require the schools to submit corrective action plans.

Management's Comment

We concur. The monitoring of the graduate medical schools is included in the department's Policy 22 monitoring plan. The FY99 GME contracts will be included in the interdepartmental agreement with F&A to perform the contract monitoring during FY2000. TennCare will advise the graduate medical schools of the audit requirements for subrecipients of federal funds.

Finding Number	99-TDH-20
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Program Income
Questioned Costs	None

TennCare needs to improve policies and procedures for accounts receivable

Finding

As noted in the prior audit, TennCare has not established adequate overall policies and procedures for accounts receivable. Management concurred and stated it would begin the process of developing policies and procedures for monitoring, collecting, and recording in the State of Tennessee Accounting and Reporting System (STARS), and writing off TennCare's accounts receivable.

Testwork revealed that TennCare's management is still in the process of developing written policies and procedures for recording all accounts receivable in STARS and for monitoring, collecting, and writing off accounts receivable. TennCare's receivables consist mainly of cost settlements, drug rebates, and enrollee premiums. Management considers many of these receivables to be uncollectible. The total uncollectible amount for the three categories is approximately $31 million. Since TennCare does not have policies and procedures for attempting to collect or writing off the uncollectible balances, the uncollectible balances continue to increase.

Testwork also revealed several discrepancies in the controls over enrollee premiums receivable. Premiums are collected from enrollees who are classified as uninsured and uninsurable. These enrollees are required to pay premiums in order to receive health services under the program. TennCare is responsible for maintaining the enrollee's premium account and for determining the applicable monthly premium amount based on an enrollee's income and family size.

Testwork revealed that TennCare was not properly verifying and reverifying eligibility for the purpose of cost sharing (premiums) (see finding 99-TDH-03 for more information). Therefore, proper premiums may not be charged to enrollees.

In addition, TennCare did not comply with the *Rules of the Department of Finance and Administration*, Division of Accounts, Chapter 0620-1-9, for writing off accounts receivable. According to this policy and procedure, "any write-off of any account of one thousand dollars or greater or accounts aggregating five thousand dollars ($5,000) or more must have the prior written approval of the Commissioner of Finance

and Administration and the Comptroller of the Treasury." For the year ended June 30, 1999, in response to a court case, TennCare wrote off approximately $34.8 million of outstanding premiums without proper approval. In addition, management could not provide written approvals by their own agency officials as is required by the policy.

Furthermore, testwork revealed inadequate controls to ensure the accuracy of premium reporting. The TennCare Bureau prepares a cumulative premium report each month to track the total premiums billed to enrollees, the total amount remitted by enrollees, the total amount due from enrollees, and the total premium statements mailed to enrollees for each month. Management uses this report to develop premium estimates for financial reporting purposes. Our review of this cumulative report revealed several inconsistencies that jeopardize the reliability of this report. The report provided to the auditors during this audit period contained differences from the report used in the prior audit. For example, the amount of premiums billed for the month of January 1994 was different on the two reports. Although the amount should not have changed, the report auditors received in 1999 showed January 1994 billings as $485,645.03 and the 1998 report showed January 1994 billings as $487,046.29. In addition, the column that summarizes total due from enrollees reported balances when in fact these receivable balances had been written off by management. Management could not provide any explanation for the inconsistencies but stated that the discrepancies resulted from computer programming errors. As a result, auditors could not rely on the reports as evidence of TennCare's controls over premium reporting or for developing premium estimates.

The Division of Budget and Finance prepares deposit slips and records the deposits in STARS for the enrollee premiums collected. However, responsibility for the premium billing and collection process has been assigned to the Division of Information Services. It may be more appropriate if the Division of Budget and Finance is given responsibility for billing, and collecting enrollee premiums. This would place the billing and collection duties in a more logical location and allow the Division of Information Services to focus on Information Services functions.

Recommendation

The Director of TennCare should ensure that policies and procedures for overall accounts receivable functions are completed and implemented. Furthermore, the Director of TennCare should strengthen controls over premiums for the uninsured and uninsurable enrollees. Controls should include accurate premium reporting and proper write-off of uncollectible premium receivables. In addition, the TennCare Director should consider assigning responsibility for controls over premiums entirely to the Division of Budget and Finance.

Management's Comment

We concur. Policies and procedures are being developed to include monitoring, collecting writing off and recording in STARS the TennCare accounts receivable, which includes premium collections. TennCare staff will work with other state agencies to document the establishment of accounts receivable at year end. TennCare will review the current controls and procedures relative to premium collections and determine if the responsibility should be in the Division of Budget and Finance.

Finding Number	99-TDH-22
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

Controls over checks should be strengthened

Finding

The TennCare Bureau needs to improve controls over manual and system checks. For the year ended June 30, 1999, these checks totaled over $3.6 billion.

Electronic Data Systems (EDS), the fiscal agent, is responsible for preparing the checks. However, EDS has not established adequate controls over checks. In addition, existing controls are not adequately documented in the fiscal agent's policies and procedures. The following deficiencies were noted:

- Manual and system check stock is kept in a locked room. Procedures require two EDS employees to be present when retrieving the check stock. For the manual checks, this is to be documented by both employees signing the manual check log before obtaining the key to the room to retrieve check stock. For 3 of 53 times (5.7%) that manual checks were drawn, the manual check log was only signed by one individual. Prior to May 1999, the fiscal agent did not maintain a system check log to ensure all system checks were accounted for properly. In addition, EDS does not record receipt of blank system checks for accountability.

- Physical security over the manual and system check stock is compromised because the room key and the key logs are not kept together. Thus, the keys could be obtained without anyone signing the log.

- The rubber stamp used to sign manual checks, signature plates used to sign system checks, and completed checks are kept in a locked box located in a locked room along with partially completed checks. Before obtaining any one or more of these items, two individuals from EDS should sign the key log. For 153 of 595 times (25.7%) the key was used, the log was signed by only one individual.

- Although EDS began system check logs in May 1999, systems check logs were not reconciled to the TennCare Management Information System (TCMIS) to ensure all checks were accounted for properly.

- EDS does not reconcile between the manual check log to checks that are completed to ensure all checks were accounted for.

These weaknesses in the controls over checks could permit an individual to gain access to checks without detection. In addition, these weaknesses in controls could permit an individual to control the whole check process and issue a check for unauthorized purposes.

The only compensating control used was a reconciliation of checks issued and cleared each month. This reconciliation involves records from the Department of the Treasury (Treasury), the Department of Finance and Administration's Division of Accounts, and TennCare. This reconciliation ensures that TennCare's and Treasury's records of checks issued and cleared correspond to State of Tennessee Accounting and Reporting System (STARS). However, this control is not entirely effective because reconciliations were not always completed in a timely manner. For example, the December 1998, January 1999, February 1999, March 1999, and April 1999 Treasury ARP reconciliations were not given to TennCare until June 1999.

Effective internal controls require that no one person have the ability to control the entire check-issuance process and that reconciliations of accounting records to bank activity are timely.

Recommendation

The Director of TennCare should ensure the fiscal agent has adequate controls over access to manual and system checks. In addition, each month the Department of the Treasury, the Division of Accounts, and TennCare should promptly reconcile checks issued and cleared with Account Reconciliation Package (ARP), STARS, and TCMIS records. Check logs should be reconciled to checks issued to ensure accountability. In addition, manual check logs should always be used to record the receipt and issuance of manual checks.

Management's Comment

We concur. The reconciliation process between STARS, TCMIS and Treasury is now current. We continue to monitor the Fiscal Agent to insure adequate segregation of duties and have taken action to notify EDS management of the weakness.

Finding Number	99-TDH-23
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Special Tests and Provisions
Questioned Costs	None

The Bureau's Overall Compliance with the Special Terms and Conditions of the TennCare Program need improvement

Finding

The TennCare Bureau has not complied with all of the TennCare waiver's Special Terms and Conditions (STCs). There are 37 special terms and conditions for the TennCare Waiver; however, only 24 were applicable for the audit period. These special terms and conditions required by the Health Care Financing Administration describe in detail the nature, character, and extent of anticipated federal involvement in the TennCare waiver. HCFA's approval of the waiver and federal matching contributions are contingent upon the Bureau's compliance with the Special Terms and Conditions.

A review of the Bureau's controls and procedures to ensure compliance with the Special Terms and Conditions revealed that many areas need improvement. Compliance audit procedures performed revealed instances of noncompliance for nine of the 24 applicable special terms and conditions. The nine STCs that require improvement were:

- STC 1 – All contracts and modifications of existing contracts between the State and managed care organizations must be approved by HCFA prior to the effective date of the contract or modification of an existing contract. No federal financial participation will be available for any contract or modification of an existing contract not approved by HCFA in advance of its effective date. In order to comply with this STC, the Bureau must submit a final contract or modification of an existing contract 30 days prior to the effective date of the contract. The Bureau did not provide proposed contract amendments to HCFA in a timely manner to allow HCFA the full 30 days for review.

- STC 3 – The State will conduct beneficiary surveys each operational year of the demonstration. The State shall conduct a statistically valid sample of all TennCare enrollees. Results of the survey and an electronic file containing the raw data collected must be provided to HCFA by the ninth month of each operational year. The Bureau did not include all TennCare enrollees in its sample methodology. Nursing home residents, homeless people, and the

disabled population were not included in the sample methodology. Survey results and an electronic file containing the raw data collected was not provided to HCFA by the ninth month of the operational years ended September 30, 1998, and September 30, 1999.

- STC 4 – The State must perform periodic reviews, including validation studies, in order to ensure compliance. The State shall have provisions in its contracts with health plans to provide the data and be authorized to impose financial penalties if accurate data are not submitted in a timely fashion. The STC requires validation studies to ensure accuracy. Validation of encounter data should include medical record reviews. The MCOs and BHOs did not provide encounter data in a timely manner. The Bureau did not have a written methodology and timeframe for conducting validation studies to include medical record reviews during the audit period.

- STC 5 – The State's Plan for using encounter data to pursue health care quality improvement must focus on the following priority areas: childhood immunizations, Prenatal care, Pediatric asthma and two clinical conditions based upon the population served. It appears that the Bureau has not established an exact deadline for the MCOs to submit the encounter data for the studies. The continuation of these studies is required by the STC. The Bureau did not provide written documentation to HCFA on the status of current studies, a schedule of planned studies or a timeframe for completion of the studies, to ensure compliance with the ongoing requirements of the STC.

- STC 9 – The State must develop internal and external audit plans to monitor the performance of the program. The Bureau did not have a written comprehensive plan for monitoring the TennCare program. The Bureau does have some monitoring procedures in place; however an overall plan to study the activities of the project had not been drafted as of the audit period.

- STC 19 – The State must submit quarterly progress reports to HCFA. Guidelines for these reports were provided to the Bureau in October 1995. The Bureau of TennCare did not follow report guidelines established by the grantor and did not report significant information in the HCFA quarterly progress reports.

- STC 23 – The State must continue to ensure that an adequate MIS is in place. The TCMIS needs improvement. See finding 99-TDH-02.

- STC 24 – The State must continue to ensure that its eligibility determinations are accurate. The Bureau's internal control over eligibility determinations is inadequate. See finding 99-TDH-03.

- STC 37 – Alternative monitoring approaches will be required until the State can demonstrate that it can use valid encounter data for monitoring the

demonstration. The Bureau has not provided a work plan for alternative monitoring approaches.

Without adequate controls to ensure overall compliance with the Special Terms and Conditions, TennCare may lose federal participation in the program.

Recommendation

The Director of TennCare should ensure compliance with all special terms and conditions. The Director should consider assigning responsibility to a specific individual within the Bureau to monitor compliance with the STCs.

Management's Comment

We concur. We are working with HCFA to ensure compliance with the Special Terms and Conditions.

Finding Number	99-TDH-24
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Material Weakness, Special Tests and Provisions
Questioned Costs	$1,633,332.00

Internal control over provider eligibility and enrollment was not adequate to ensure compliance with Medicaid provider regulations

Finding

The TennCare program did not have adequate internal control for provider eligibility and enrollment to ensure compliance with Medicaid provider regulations. As noted in the prior audit, TennCare did not reverify licensure for Medicare cross-over providers or monitor the enrollment of Medicaid providers by the Department of Children's Services (Children's Services). Management concurred with the finding and stated that, "An aggressive approach for verification and reverification is a key element of the Bureau's strategic plan." However, no procedures were developed to reverify licensure.

In addition, management stated they had arranged for the Department of Finance and Administration (F&A) to assist in monitoring provider enrollment at Children's Services. However, F&A did not monitor Children's Services' provider eligibility and enrollment procedures. According to the Director of Financial Systems Consulting Group at F&A, the monitoring staff performed fiscal monitoring procedures at Children's Services during the last four months of the fiscal year. At that time, F&A verified that a sample of providers had a current license; however, this verification was not documented.

TennCare also had the following other internal control weakness and noncompliance issues:

- TennCare had no provider eligibility and enrollment policies and procedures manual;

- the licensure status of managed care organization (MCO) and behavioral health organization (BHO) providers was not reverified after the providers were enrolled;

- TennCare's contracts with Children's Services and the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration

did not require these departments to comply with Medicaid provider rules and regulations, and as a result, Children's Services and DMR did not comply;

- TennCare did not monitor the enrollment of Medicaid providers at DMR;
- DMR did not reverify the licensure of individual providers;
- provider agreements did not comply with all applicable federal requirements;
- not all providers had a provider agreement, as required; and
- a DMR provider was not licensed for over 10 months.

Compliance with applicable rules and regulations, as well as a system of internal control to ensure that compliance, are necessary to ensure that the providers participating in the TennCare program are qualified and that they meet all eligibility requirements.

Responsibility for TennCare provider eligibility and enrollment is divided among the Provider Enrollment Unit in the Division of Operations, Bureau of TennCare; the Division of Resource Management in Children's Services; and the East, Middle, and West Tennessee regional offices in DMR. The Provider Enrollment Unit is responsible for enrolling MCO and BHO providers; Medicare cross-over individual and group providers (providers whose claims are partially paid by both Medicare and Medicaid/TennCare); and long-term care facilities.

Children's Services is responsible for the eligibility of the providers it pays to provide Medicaid-covered services to eligible children. DMR is responsible for the eligibility of the providers it pays to provide services under the Home and Community Based Services Wavier for the Mentally Retarded (HCBS- MR waiver) program. (DMR is responsible for the daily operations of this Medicaid program. See finding 99-TDH-08.) TennCare reimburses Children's Services and DMR for payments to these providers.

No Policies and Procedures Manual

The TennCare Provider Enrollment Unit does not have a policies and procedures manual. The Provider Enrollment Unit supervisor stated that she had been working on a draft copy since January 1999. The lack of written, comprehensive provider eligibility and enrollment policies and procedures increases the risk that errors or inconsistencies may occur in this area.

Provider Licensure Not Reverified

The Provider Enrollment Unit and DMR enroll providers licensed by the Division of Health Related Boards in the Department of Health. Although the Division of Health

Related Boards does not notify the Provider Enrollment Unit and DMR when a provider's license is suspended or terminated, the Division of Health Related Boards has two systems, one on the Internet and an automated telephone system, so that the current status of a provider's license can be verified. During the year ended June 30, 1999, neither the Provider Enrollment Unit nor DMR used either system to reverify licensure.

The Provider Enrollment Unit, DMR, and Children's Services also enroll providers licensed or certified by the Board for Licensing Health Care Facilities (Health Care Facilities) in the Department of Health. Health Care Facilities notified the Provider Enrollment Unit when a provider's certification was suspended or terminated; however, Health Care Facilities did not notify Children's Services or DMR when a provider's license was suspended or terminated. Although these departments were not notified, Children's Services took the initiative to reverify licensure, but DMR did not.

The departmental *Rules for the Bureau of TennCare*, section 1200-13-12-.08, "Providers," state that participation in the TennCare/Medicaid program is limited to providers that "maintain Tennessee, or the State in which they practice, medical licenses and/or certifications as required by their practice, or licensure by the Tennessee Department of Mental Health and Mental Retardation."

Children's Services and DMR Did Not Always Comply with Medicaid Provider Rules and Regulations.

The contracts between TennCare and Children's Services and DMR do not state, as they should, that these departments are required to follow Medicaid federal and state provider rules and regulations. In addition, TennCare did not monitor the enrollment of Medicaid providers at Children's Services and DMR. As a result, Children's Services and DMR did not always comply with Medicaid provider rules and regulations. For example, Children's Services and DMR did not comply with *Code of Federal Regulations* (CFR), Title 42, Part 431, Section 107, "Required Provider Agreement." (This regulation is discussed further in the next section of this finding.)

Provider Agreements Not Adequate

Except for its agreements with long-term care facilities, TennCare's provider agreements did not comply with federal requirements. The Tennessee Medicaid state plan says, "With respect to agreements between the Medicaid agency and each provider furnishing services under the plan the requirements of 42 CFR 431.107 are met." This regulation states,

> A State plan must provide for an agreement between the Medicaid agency and each provider or organization furnishing services under the plan in which the provider or organization agrees to: (1) Keep any records necessary to disclose the extent of services the provider furnishes to recipients; (2) On request, furnish to the Medicaid agency, the Secretary, or the State Medicaid fraud control unit any information maintained under (1) and any information regarding payments claimed by the provider for

furnishing services under the plan; (3) Comply with the disclosure requirements specified in part 455, subpart B.

The agreement for individual cross-over, MCO, and BHO providers did not meet the criteria in (1), (2), and (3). The agreement for group cross-over providers did not meet the criteria in (1) and (2). However, it met the criteria in (3): 42 CFR 455, subpart B, "Disclosure of Information by Providers and Fiscal Agents," which requires providers to disclose ownership and control information and information on a provider's owners and other persons convicted of criminal offenses against Medicare or Medicaid.

The Medicare program, which is administered by the federal government, enrolls cross-over providers before the Provider Enrollment Unit enrolls them in Medicaid/TennCare. According to the manager of the Provider Enrollment Unit, Medicare providers must also meet the requirements of 42 CFR 431.107, and Medicaid/TennCare has relied on Medicare's enrollment procedures since the beginning of the Medicaid program. Auditors requested that management provide documentation from the grantor that would indicate it was permissible for TennCare to rely on Medicare in this area; however, no documentation was provided. In addition, the auditors did not find any references in the CFR or Tennessee Medicaid State Plan that indicated that reliance on Medicare is permitted.

Not All Providers Had an Agreement

The auditors tested a sample of payments to long-term care facility providers to determine if TennCare had a provider agreement on file for the dates of services for which each payment was made. TennCare issues a new provider agreement to long-term care providers after the Board for Licensing Health Care Facilities recertifies them annually. As mentioned above, the State Plan and CFR Title 42, Part 431, Section 107, require that providers have a provider agreement. TennCare paid a total of $951,724,634.88 to long-term care facilities for the year ended June 30, 1999.

Auditors tested 245 payments totaling $695,683. Testwork revealed that for 6 of 245 tested (3%) totaling $21,106, there was no provider agreement on file for the dates of service tested. Federal questioned costs totaled $13,330. An additional $7,776 of state matching funds was related to the federal question costs.

Unlicensed DMR Provider

During testwork, the auditors noted that an HCBS-MR waiver program provider was not licensed from February 1, 1998, through November 11, 1998. In March 1998, the Middle Tennessee Licensure Office in the Department of Mental Health and Mental Retardation notified DMR that the provider no longer was licensed after licensure inspectors discovered that the provider had moved to a new location earlier in the year. This was discovered when the inspectors attempted to perform the provider's annual relicensing inspection. According to licensure regulations, a facility loses its license upon relocation, and the provider did not meet all licensure requirements at its new location until November.

However, according to TennCare's records, during the year ended June 30, 1999, it reimbursed DMR $2,565,019 for services this provider performed between May 1, 1998, and November 11, 1998. As a result, $1,620,002 of federal costs will be questioned. An additional $945,017 of state matching funds is related to these questioned costs.

Recommendation

The Director of TennCare should ensure that adequate internal control exists for determining and maintaining provider eligibility. Management and staff should comply with all Medicaid federal and state provider rules and regulations. The Medicaid/TennCare provider eligibility and enrollment policies and procedures manual should be finalized and distributed to all parties involved in this function. The Director should ensure that procedures are implemented to reverify licensure and to prevent future payments to non-licensed providers.

All Medicaid/TennCare providers should have a provider agreement and otherwise be properly enrolled before they are allowed to participate in the program. The provider agreements should be revised to comply with the State Plan and the *Code of Federal Regulations.* Management should also consider obtaining permission from the grantor to change the State Plan to allow reliance on Medicare for cross-over provider agreements.

In addition, Children's Services and DMR should comply with all Medicaid federal and state provider rules and regulations. The Director should ensure that these departments are informed of their responsibilities for compliance, and the Director of the Division of Finance and Budget should add these requirements to the contracts with these departments. The Director should ensure that knowledgeable staff monitors the enrollment of Medicaid providers at Children's Services and DMR.

Management's Comment

We concur in part. The Bureau has taken the position and continues to take the position that our reliance on Medicare's licensure verification for crossover providers is sufficient. However, we do randomly reverify the licensure of providers. Staffing limitations prohibit the reverification of licensure of all providers. While there may be some potential for a provider's license to be revoked or suspended during the period after which Medicare has verified the provider's license and the provider is enrolled in as a cross over provider, we are not aware of an instance in which this has occurred. HCFA has also reviewed our provider agreements in the past and has not found them to be problematic. For certain types of providers, the provider application serves as an "agreement".

The MCOs and BHOs have extensive credentialling procedures, which include verification of licensure. When the Bureau "enrolls" a MCO or BHO provider who does not bill for crossover payments, the provider's number is not activated.

With respect to DCS, the agency itself is the Medicaid provider, rather than its individual contractors. DCS contracts with residential providers for a comprehensive array of services to children in its custody. These services include room and board, social services, educational services, and other kinds of services other than medical care. These agencies are licensed and monitored by DCS, and they are paid a single daily rate, which includes the treatment and the non-treatment portions of their services. The treatment portion is calculated according to a cost allocation plan approved by HCFA and is billed to TennCare by DCS. Treatment services must be delivered according to requirements outlined in the Medicaid/Title V agreement.

We will work to develop, finalize, and distribute a written provider eligibility and enrollment policies and procedures manual.

Auditor's Comment

In the previous audit report, management stated,

> We concur. We will examine the procedures for enrollment verification and develop remedies for the deficiencies noted. An aggressive approach for verification and reverification is a key element of the Bureau's strategic plan. We have arranged for the Department of Finance and Administration to assist us in monitoring several aspects of the Department of Children's Services and will include provider enrollment in that review.

In addition, management has stated that, currently, provider eligibility is not a priority. While it is necessary and reasonable that management set priorities for the program, these priorities do not affect the auditor's responsibility to examine controls and determine compliance with laws, regulations, contracts, and agreements, and to report instances of noncompliance, questioned costs, and weaknesses in internal control.

As noted in the finding, TennCare is responsible for ensuring that the providers that participate in the Medicaid/TennCare program (*i.e.*, the providers that are paid for providing services to Medicaid/TennCare recipients) are properly licensed or certified, as required. The *U.S. Office of Management and Budget A-133 Compliance Supplement* specifically requires the auditors to review and test controls and compliance in the area of "Provider Eligibility" (see section/page 4-93.778-16).

During the audit, the auditor discussed with management, at length, the TennCare provider enrollment unit's policies and procedures. We agree that reliance on Medicare may be acceptable for initial enrollment of cross-over providers. However, it would

appear that controls could be strengthened and information received more quickly if TennCare's provider enrollment unit received notice of suspended licenses of providers from the Department of Health's Division of Health Related Boards. This way, rather than having to systematically reverify the licensure status of every provider, the provider enrollment unit could rely on updates received.

With regard to provider agreements, during audit fieldwork the auditor was not informed that the Health Care Financing Administration (HCFA) had reviewed the provider agreements and had "not found them to be problematic." During fieldwork the auditors compared the provider agreements currently in use to the requirements stated in Title 42 of the *Code of Federal Regulations* (CFR) and, as noted in the finding, several instances of noncompliance were noted. It is the auditor's understanding that any form of provider agreement (application, contract, etc.) should meet all of the requirements stated in the federal regulations.

On numerous occasions during fieldwork the auditors asked management for any documentation that would exempt providers of Medicaid services enrolled by the Department of Children's Services (Children's Services) and the Division of Mental Retardation Services (DMR) in the Department of Finance and Administration from being considered Medicaid providers. No such documentation was provided. We believe the entities providing the direct services for treatment are Medicaid providers and should be enrolled as providers under Medicaid regulations. Since Medicaid/TennCare funds are used to reimburse Children's Services and DMR for Medicaid-covered services provided to Medicaid-eligible recipients, Children's Services and DMR providers should be subject to the Medicaid provider requirements? like the providers enrolled by TennCare's provider enrollment unit. Also, because of the decentralized nature of provider enrollment it is important for TennCare to adequately monitor Medicaid provider eligibility and enrollment procedures at Children's Services and DMR.

In regard to the MCO and BHO providers, according to the supervisor of the provider enrollment unit, providers that wish to provide TennCare services through an MCO or BHO must first be determined eligible and enrolled by the TennCare provider enrollment unit. The provider enrollment unit follows its standard eligibility and enrollment procedures for these providers. After a provider has been determined eligible and has been enrolled at TennCare, the provider then may enter into an agreement with an MCO or BHO.

In addition to these matters, management did not address the following items discussed in the finding:

- not all providers had a provider agreement, as required, which resulted in federal questioned costs;

- an unlicensed provider was paid over $2.5 million resulting in questioned costs of over $1.6 million; and

- the auditor's various concerns pertaining to Medicaid providers used by DMR for the Medicaid Home and Community Based Services Waiver Program for the Mentally Retarded and Developmentally Disabled.

Finding Number	99-TDH-25
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Special Tests and Provisions
Questioned Costs	None

TennCare did not comply with federal regulations and the Tennessee Medicaid State Plan concerning unnecessary utilization of care and services and suspected fraud

Finding

The Bureau of TennCare has not complied with federal regulations and the Tennessee Medicaid State Plan concerning unnecessary utilization of care and services and for suspected fraud for areas of the program that are still under the fee-for-service arrangement. In 1994, the state received a waiver from the Health Care Financing Administration to implement a managed care demonstration project. However, the services provided in the long-term care facilities, services provided to children in the state's custody, and services provided under the Medicaid Home and Community Based Waiver for the Mentally Retarded and Developmentally Disabled are still processed on a fee-for-service basis. Discussions with key TennCare management and the supervisor of the Program Integrity Unit in the Department of Health revealed that

- TennCare has no "methods or procedures to safeguard against unnecessary utilization of care and services," except for long-term care institutions;

- for all types of services, including long-term care, there are no procedures for the "ongoing post-payment review . . . of the need for and the quality and timeliness of Medicaid services"; and

- there are no methods or procedures to identify suspected fraud related to "children's therapeutic intervention" claims and claims for the Home and Community Based Services waiver for the mentally retarded.

According to the Office of Management and Budget "A-133 Compliance Supplement," which references the *Code of Federal Regulations,* Title 42, parts 455, 456, and 1002,

> The State Plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria

> for identifying suspected fraud cases; (2) methods for investigating these cases; and, (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials. . . .
>
> The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services.

In addition, the TennCare Bureau has told the federal grantor in the Tennessee Medicaid State Plan that

> A Statewide program of surveillance and utilization control has been implemented that safeguards against unnecessary or inappropriate use of Medicaid services available under this plan and against excess payments, and that assesses the quality of services.

However, audit testwork revealed there is no statewide program of surveillance and utilization control.

Management stated that the program-wide surveillance and utilization control program was eliminated when the state began the managed care program under the TennCare waiver. Auditors requested that management provide documentation from the grantor that would indicate that the federal regulations concerning utilization control and fraud were not applicable to the fee-for-service based areas of the TennCare program. However, no documentation was provided. Although much of the TennCare program operates differently than the former Medicaid fee-for-service program, auditors believe that, for areas that still operate under the Medicaid fee-for-service program, program-wide surveillance and utilization control and identification of suspected fraud, effort is needed to help ensure that state and federal funds are used only for valid medical assistance payments.

It should be noted that the Medicaid Fraud Control Unit (MFCU) in the Tennessee Bureau of Investigation is responsible for investigating suspected cases of provider fraud referred to them by TennCare or other sources. The MFCU is not responsible for performing utilization control procedures or trying to locate and identify fraud in the TennCare/Medicaid program. In a letter to the Director of State Audit dated April 5, 1999, the Special Agent-in-Charge of the MFCU wrote that, prior to TennCare, the MFCU had relied on the former Surveillance and Utilization Review System Unit "to refer suspected activities to the MFCU for follow up."

In addition to the matters discussed in this finding, a March 1999 Performance Audit report by this office contains the finding "MCOs *(managed care organizations)*

and BHOs *(behavioral health organizations)* have not made sufficient effort to detect fraud and abuse."

Recommendation

The Director of TennCare should either take the appropriate steps to ensure compliance with the federal regulations and State Plan provisions concerning utilization control and identification of fraud for the areas of the program that are still fee-for-service based or obtain documentation from the grantor that compliance is not required and amend the State Plan.

Management's Comment

We concur. TennCare will review current procedures for compliance with federal regulations and the Tennessee Medicaid State Plan relative to unnecessary utilization of care and services and suspected fraud. As determined necessary, amendments to the Tennessee Medicaid State Plan will be submitted to HCFA for approval to address changes in procedures that have occurred to the Medicaid/TennCare Program.

Finding Number	99-TDH-26
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Special Tests and Provisions
Questioned Costs	None

TennCare did not comply with audit requirements for long-term care facilities

Finding

The Bureau of TennCare has not ensured that audits of long-term care facilities are performed as required by the Tennessee Medicaid State Plan and the departmental Rules for Medicaid. According to the State Plan, "Each cost report [of the long-term care facilities] submitted in accordance with the Plan shall be audited by a Certified Public Accountant or a licensed Public Accountant, engaged by the provider, and shall include the auditor's report." The departmental *Rules for Medicaid* (Rule 1200-13-6-09, item 32) state, "It is the responsibility of the management of the facility to engage an independent certified public accountant or public accountant to audit the facility. . . . The audit must be completed in accordance with the agreed upon procedures explained in the auditor's report which is a part of the cost report." The Bureau of TennCare has not required these audits for several years but has not amended the State Plan or the Rules for Medicaid.

Audits of long-term care facilities are required by the *Code of Federal Regulations*, Title 42, Part 447, Section 253(g), which states, "The Medicaid Agency must provide for periodic audits of the financial and statistical records of participating providers." The April 1999 Office of Management and Budget *Compliance Supplement* references this citation and states, "The specific audit requirements will be established by the State Plan. . . . Such audits could include desk audits of cost reports in addition to field audits. These audits are an important control for the State Medicaid agency in ensuring that established payment rates are proper."

According to the State Plan,

> on-site audits of the financial and statistical records will be performed each year in at least 15% of the participating facilities. At least 5% of these shall be selected on a random sample basis and the remainder shall be selected on the basis of the desk review or other exception criteria. The audit program shall meet generally accepted auditing standards. This program shall provide procedures to certify the accuracy of the financial and statistical data on the cost report and to insure that only those

expense items that this Plan has specified as allowable costs have been included by the provider.

The Bureau of TennCare contracts with the Medicaid/TennCare Section of the Comptroller's Office for the provision of these auditing services and establishment of reimbursable cost rate(s) for the Tennessee Medicaid Title XIX and TennCare Waiver Programs.

The Medicaid/TennCare Section of the Comptroller's Office performs desk reviews of all long-term care facility cost reports. However, 15% of the long-term care facilities do not receive field audits as indicated in the State Plan. Only one audit report, for the field audit of one intermediate care facility for the mentally retarded (ICF/MR), was released in the year ended June 30, 1999.

There are 323 long-term care facilities (including intermediate care facilities for the mentally retarded) in Tennessee that receive Medicaid funds. During the year ended June 30, 1999, TennCare paid approximately $950 million to these facilities for long-term care services. The cost reports are used to set the rates that the facilities are paid. If the cost information is not verified through the required audit process, errors, fraud, illegal acts, and other noncompliance may not be detected. Potentially a facility could record inaccurate information on its cost report in order to receive a higher rate. The result of inaccurate cost reports of the intermediate care facilities for the mentally retarded could be added cost for the TennCare program. Other types of long-term care facilities could benefit from incorrect cost reports, but at the expense of the other facilities rather than the TennCare program.

Recommendation

The Director of TennCare should take the appropriate steps to ensure compliance with the provisions of the State Plan and the Rules for Medicaid concerning audits of long-term care facilities. Otherwise, the Director should obtain permission from the grantor to amend the State Plan and change the applicable Medicaid Rule through the state's rule-making process.

Management's Comments

Bureau of TennCare

We concur. TennCare will submit a state plan amendment to delete the requirement for independent CPA audits of nursing home cost reports and require audits as determined reasonable and necessary. The Comptroller will continue to perform desk reviews and field audits as determined reasonable and necessary.

Medicaid/TennCare Section

We are not in compliance with the current state plan provision requiring 15% annual audit coverage of Medicaid long-term care providers. We would request that the TennCare Bureau apply for a change in the plan to delete the 15% requirement which is no longer federally mandated, and replace it with language that refers to a level of auditing necessary to assure reasonable compliance with program rules.

Since the TennCare waiver began in 1994, we have focused audit resources on the managed care organizations (MCOs) and relied mostly on an aggressive desk review process to verify the accuracy of cost reports submitted by long-term care providers. The MCOs do not file cost reports, and represent a greater risk of noncompliance with program requirements. Regardless of the 15% provision in the present state plan, we recognize the need to increase the number of long-term provider audits that are conducted and are now working in that direction.

About three years ago, we requested that the department promulgate a rule change deleting the independent CPA audits of nursing home cost reports. Our desk review process was showing that those audits were not accomplishing their intended purpose. There was a projected savings to the program of about $1.5 million for this change. The rule making hearing was held and there were no objections to the rule change. For some reason, however, the rule was never completed. The rule is now being moved through the remaining steps necessary to make it final. We would request that the TennCare Bureau, in addition to completing that rule, also apply for an amendment to remove the provision from the state plan.

Our commitment at this time is to add at least 3 more staff to long-term care audits and allocate some current resources back to this area without affecting the level of work needed on TennCare MCOs. By 2001, field audits of long-term care providers should be restored to a level that will comply with an amended state plan to assure that reimbursement rates are proper.

Finding Number	99-TDH-27
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition; Special Tests and Provisions
Questioned Costs	None

TennCare has not established a coordinated program for ADP risk analysis and system security review

Finding

As noted in the prior two audits, TennCare does not have a coordinated program for ADP (automated data processing) risk analysis and system security review of the TennCare Management Information System (TCMIS). Management concurred with the prior-year findings and stated that the bureau was seeking guidance from the Health Care Financing Administration (HCFA) regarding its expectations for this regulation and would take steps to comply with HCFA's guidance. Currently, the Bureau has received no guidance from HCFA. The Bureau has relied on the Department of Finance and Administration's Office for Information Resources (OIR) for security of TCMIS, and the system operations are being analyzed and reviewed for the Year 2000 project; however, the Bureau has been unable to comply with federal regulations which require establishing a program for ADP risk analysis and system security review.

According to *Office of Management and Budget (OMB) Circular A-133* and the *Code of Federal Regulations*, Title 45, Subtitle A, Section 95.621, such an analysis and a review must be performed on all projects under development and on all state operating systems involved in the administration of the Department of Health and Human Services' programs. TCMIS is such an operating system and is one of the largest in the state.

The risk analysis is to ensure that appropriate, cost-effective safeguards are incorporated into the new or existing system and is to be performed "whenever significant system changes occur." The system security review is to be performed biennially and include, at a minimum, "an evaluation of physical and data security operating procedures, and personnel practices." This review is to be followed by a "written summary of the State's findings and determination of compliance with these ADP security requirements." These reports are to be produced by TennCare along with supporting documentation to be available for federal onsite reviews.

If TennCare is to rely on TCMIS for the proper payment of benefits, a security plan, which includes risk analysis and system security review, must be performed for this

extensive and complex computer system. *OMB Circular A-133* requires the plan to include policies and procedures to address the following:

- Physical security of ADP resources
- Equipment security to protect equipment from theft and unauthorized use
- Software and data security
- Telecommunications security
- Personnel security
- Contingency plans to meet critical processing needs in the event of short- or long-term interruption of service
- Emergency preparedness
- Designation of an agency ADP security manager

Recommendation

The Commissioner and the Assistant Commissioner for TennCare should ensure that the Director of Information Services promptly develops and implements procedures for ADP risk analysis and system security review. The Assistant Commissioner should look to staff to take the initiative in analyzing and reviewing these important areas with or without guidance from HCFA. Once procedures are in place, the Assistant Commissioner for TennCare should monitor the procedures implemented and ensure that the appropriate actions have been taken.

Management's Comment

We concur. TennCare has confirmed with HCFA Regional Office Staff Analyst that the procedures described as follows is a coordinated program for ADP analysis. In addition HCFA and their Y2K Independent Validation and Verification team assessed the TCMIS to be at low risk on TCMIS system and Business Continuity and Contingency Plan (BCCP) readiness. A timetable will be developed for future reviews and procedures will be implemented monitor the process and ensure that the appropriate actions have been taken.

During the Year 2000 Project, the Bureau of TennCare focused on managing risks by identifying them, evaluating their consequences and preventing them from happening. Ultimately, our risk management approach was by problem identification followed by problem solving. Each agency within the TennCare Bureau conducted its own risk

management and impact analysis study by assessing their daily operations and critical business functions. Information derived from each unit within the TCMIS was then used to assess the operation and determine mission critical areas that were potentially vulnerable to operational failure. The critical process, systems and equipment within each are was evaluated in support of each critical function. The detailed risk analysis focused on areas having the greatest negative impact on the Bureau's critical services and functions. Resultant was the projected restoration of normal operations if operational problems were encountered, giving likelihood of success along with the degree of risk. The detailed information has been included in the TennCare Business Continuity and Contingency Plan.

During the risk analysis and the development of the TennCare BCCP, all personnel were trained in the implementation and utilization of the plan. The plan was also tested to adequately allow for the continuation of business operations in both short and long term.

At the enterprise level, TennCare operations includes the utilization of a group of 8 managed care organizations (MCO's) and 2 behavioral health organizations (BHO's) whose functions are monitored by the state. Each of the MCO's and BHO's associated with the TennCare system have submitted their BCCP to TennCare.

TennCare realizes that the BCCP is not a static document and will require maintenance as conditions dictate. The Director of Information Services will appoint a person whose responsibility will be to update and redistribute the BCCP as changes become necessary. BCCP changes include, but are not limited to; software changes, staffing changes, management changes and hardware changes.

Auditor's Comment

Although management concurred, we do not believe their proposed actions are adequate. Furthermore, we do not believe the actions described by management qualify as a coordinated program for ADP risk analysis and system security review. The proposed actions do not include establishing and maintaining a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems as required by *OMB Circular A-133.*

Finding Number	99-TDH-28
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Activities Allowed or Unallowed
Questioned Costs	$2,516.89

TennCare approved a pre-admission evaluation that did not contain the signature of a physician

Finding

TennCare inappropriately approved a pre-admission evaluation (PAE) and allowed an individual to receive services without a physician's order. TennCare's registered nursing staff approves or denies PAEs of persons applying for Medicaid reimbursements for covered services at long-term health care facilities. The PAEs are either approved or denied based on the *Rules of the Tennessee Department of Health*, Chapter 1200-13-1.10, which state that: "all care rendered must be pursuant to the order of a physician. . . ."

During the year ending June 30, 1999, TennCare paid approximately $950 million to long-term health care facilities. Testwork revealed that for a sample of 60 PAEs totaling $156,753.01, one did not contain a physician's signature, which is required to certify that the requested level of care is medically necessary, and that the patient's medical needs can be met in a long-term health care facility. The PAE without adequate documentation should have been denied and returned to the facility with a notice of denial; however, it was approved incorrectly and services were provided. The cost of the claim was $3,985.10. Federal questioned costs totaled $2,516.89. An additional $1,468.21 of state matching funds was related to the federal questioned costs. We believe likely questioned costs associated with this condition could exceed $10,000.

Recommendation

The Director of Long-Term Care should ensure the assessments of the PAEs are accurate and in compliance with established rules.

Management's Comment

We concur. TennCare will continually emphasize to the nurses who do the PAE review of the requirement that all PAE's have the appropriate signatures before approval is granted.

Finding Number	99-TDH-29
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition
Questioned Costs	None

TennCare did not follow its own rules and has not revised its rules

Finding

As noted in the prior three audits, the Bureau of TennCare has not followed several of the departmental rules it created. Among the reasons cited for bypassing the rules were that some rules were out-of-date and no longer addressed the situation and that adherence to some of the rules was not feasible. Management concurred with the prior three findings and stated that during 1997 the Bureau and the Office of General Counsel began an extensive review to identify rules that needed to be revised to reflect current policy. However, certain rules have not been through the complete rule making process.

Tennessee Code Annotated prescribes the method for adopting departmental rules. Except for emergency or public-necessity rules, an agency must publish its proposed rule in the Secretary of State's monthly administrative register and include the time and place of a hearing on the rule. The legality of all proposed rules, including emergency and public-necessity rules, must be approved by the Attorney General and Reporter. Emergency and public-necessity rules are effective upon filing with the Secretary of State, and other rules are effective 75 days after filing.

Testwork revealed the following discrepancies:

- The Bureau is paying some providers more than is allowed by departmental rules. The method used to calculate outpatient hospitalization payments to providers caring for enrollees who are both TennCare and Medicare recipients sometimes results in payments that exceed limits. (See finding 99-TDH-16 for more details.)

- The Bureau has not revised its rules to include changes in the method it uses to determine payments to the state's medical schools for graduate medical education.

- The rules pertaining to the Home and Community Based Services waiver program have not been revised to reflect the changes in the program. For example, TennCare no longer pays provider claims based on a per diem rate.

Generally, rules are used to state a department's position on important matters, provide standard definitions of technical words and phrases, and define regulations and policies that affect parties outside state government. Departmental rules are to be developed in an open forum, using due process, so that the interests of all parties can be considered.

Recommendation

TennCare management and staff should comply with the Bureau's rules, and the Director of TennCare should take appropriate measures, including a system for monitoring relevant program changes, to ensure that the rules are revised to remain current.

Management's Comment

We concur. The Bureau will continue to review its departmental rules and operating procedures to ensure consistency. As determined appropriate, the rules or the procedures will be modified accordingly. Monitoring efforts will be established to ensure that departmental rules are consistent with operating procedures.

Finding Number	99-TDH-30
CFDA Number	93.778
Program Name	Medical Assistance Program
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	05-9805TN5028; 05-9905TN5028
Finding Type	Reportable Condition, Activities Allowed or Unallowed
Questioned Costs	$227.16

TennCare did not adjust nursing home claims in a timely manner

Finding

TennCare did not promptly adjust nursing home claims. TennCare contracts with the Division of State Audit (DSA) Medicaid/TennCare Section to calculate nursing home payment rates based on cost reports submitted by providers each year. Typically, these rates are set annually and are effective beginning July 1 of each year. If a cost report is submitted late by a nursing home, the rate adjustment is delayed and TennCare must make retroactive adjustments to nursing home claims to reflect the new rates.

Testwork revealed that for a sample of 245 nursing home payments totaling $695,683.80, TennCare did not retroactively adjust eight nursing home claims when notified by DSA of rate changes. Of these eight payments, three nursing homes were overpaid for a total of $359.67 and five were underpaid for a total of $244.92. Federal questioned costs totaled $227.16 for nursing homes that were overpaid. An additional $132.51 of state matching funds were related to the federal question cost. TennCare spent approximately $950 million for the year ended June 30, 1999, for nursing home claims. We believe likely questioned costs associated with this condition could exceed $10,000.

Recommendation

The Director of TennCare should immediately adjust the nursing home claims and determine if there are any other nursing homes that need retroactive rate adjustments. As new rates are received from DSA, the Director of TennCare should ensure that the retroactive adjustments to nursing home claims are performed properly.

Management's Comment

We concur. TennCare has implemented a procedure to insure that nursing home claims are adjusted as necessary after notification of retroactive rate changes.

Finding Number	99-TDH-32
CFDA Number	93.959
Program Name	Substance Abuse Prevention and Treatment Block Grant
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Material Weakness
Questioned Costs	None

The department's accounting for SAPT grant expenditures is not adequate

Finding

The department's accounting for the Block Grants for Prevention and Treatment of Substance Abuse (SAPT) expenditures is not adequate. The department has not established specific cost centers in the State of Tennessee Accounting and Reporting System (STARS) for classification of expenditures for HIV services and treatment services for pregnant women and women with dependent children (women). Without these specific cost centers for HIV and for women, the required expenditure levels cannot be traced to STARS.

The United States Code (USC) and Code of Federal Regulations (CFR) require that certain expenditure levels or percentages be maintained, in relation to the SAPT grant. The USC states that the grant must be expended for HIV services, not to exceed 5% of the grant. The CFR states that the state must have a level of expenditures at least equal to the amount expended in 1994 for treatment services for pregnant women and women with dependent children. Since the expenditure amounts cannot be traced to STARS and adequate supporting documentation could not be observed, the department has not fully complied with the grant regulations.

Recommendation

The director of Alcohol and Drug Abuse Services should designate cost centers in STARS to allow tracking of expenditures for all the required level of effort categories.

Management's Comment

We concur. Between June 28, 1999 and July 2, 1999, a review was conducted by an independent contractor on behalf of the Federal Center for Substance Abuse Treatment's, Substance Abuse and Mental Health Services Administration. This review identified that the Department should establish specific cost centers in the State of Tennessee Accounting and Reporting System (STARS) for classification of expenditures

for both HIV services and treatment services for pregnant women and women with dependent children. The Department has established a separate cost center for the classification of SAPT expenditures for the HIV program. However at this time, the expenditures for the treatment of pregnant women and women with dependent children cannot be identified as such. Therefore, establishment of a cost center would not currently be beneficial. As a result, technical assistance has been requested from the Center from Substance Abuse Treatment to assist the Department in determining compliance with the SAPT Block Grant expenditure requirements for services to pregnant women and women with dependent children. The Department will strive to establish an appropriate accounting methodology to ensure compliance with all SAPT Block Grant requirements.

Finding Number	99-TDH-34
CFDA Number	93.959
Program Name	Substance Abuse Prevention and Treatment Block Grant
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Reportable Condition, Subrecipient Monitoring
Questioned Costs	None

Monitoring of subrecipients' audit reports is not adequate

Finding

As noted in the seven prior audits, the Department of Health does not adequately monitor subrecipients' audit reports. Management concurred with the prior findings and made improvements. Follow-up testwork on the prior finding revealed that 23 previously outstanding subrecipients' audit reports were filed with the department during the audit period, while 4 audit reports were still outstanding as of June 30, 1999. Reports were received from three months to over three years late.

Although improvements had been made, testwork for the current audit period revealed that there were still problems. The department still does not ensure that subrecipients' audit reports are obtained within nine months of the subrecipient's fiscal year end, as required by *Office of Management and Budget Circular A-133*. Testwork on 54 subrecipients' audit reports initially due during the audit period revealed the following:

- Twenty-six subrecipients' audit reports were not filed within the nine-month deadline but were received by June 30, 1999. Sixteen of these reports were received within 30 days of the due date. The remaining ten reports were from one to seven months late.

- Ten audit reports had not been received as of June 30, 1999. These reports were three months late as of June 30, 1999.

In addition, the department did not meet federal requirements in the following instances:

- For 26 of 29 subrecipient audit findings (90%), the department could not provide evidence that a management decision had been issued. A management decision is the evaluation by the awarding agency of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary. Two of the management decisions observed did not state whether or not the

finding was sustained, the reasons for the decision, any description of an appeal process, and the audit finding reference number. The one remaining management decision was not issued within six months of receiving the subrecipient's audit report.

- Eight of 60 subrecipients (13%) did not have the Schedule of Findings and Questioned Costs in their submitted audit reports. These required schedules were not subsequently requested by the department. According to *OMB Circular A-133*, the three required components include a summary of the auditor's results, findings relating to the financial statements, and findings and questioned costs for federal awards.

- No actions were taken against subrecipients not obtaining an audit in accordance with *OMB Circular A-133*.

OMB Circular A-133 states that it is the pass-through entity's (Department of Health's) responsibility to "issue a management decision on audit findings within six months of receipt of the subrecipient's audit report." The management decision shall include "the expected auditee action to repay disallowed costs." The circular requires that the management decision "shall clearly state whether or not the audit finding is sustained, the reasons for the decision, . . . any appeal process," and the audit finding reference numbers.

OMB Circular A-133 also states that "the auditor's report(s) shall . . . include . . . a schedule of findings and questioned costs." Furthermore, it states that "in cases of continued inability or unwillingness to have an audit conducted in accordance with this part, . . . pass-through entities shall take appropriate action using sanctions such as . . . withholding a percentage of Federal awards until the audit is completed satisfactorily" or "suspending Federal awards until the audit is conducted."

Furthermore, the department did not meet other state requirements in the following instances:

- The Office of Audit and Investigations does not request copies of audit reports from county governments who are audited by the Comptroller of the Treasury. The county governments are considered to be subrecipients, requiring audits under *OMB Circular A-133*.

- One of 60 subrecipients did not have a Schedule of Expenditures of Federal Awards in its submitted audit report and the schedule was not requested.

It is the responsibility of the audited entity to provide the Department of Health with the audits. The standard audit clause states that "copies of such audits shall be provided to the State Granting Department." The standard audit clause also states that "any such audit shall be performed in accordance with . . . the Audit Manual for Governmental Units and Recipients of Granting Department." The Audit Manual for

Governmental Units and Recipients of Grant Funds requires the Schedule of Expenditures of Federal Awards and State Financial Assistance to be included in the audit report. However, it is ultimately the department's responsibility to track its grants and ensure compliance with applicable requirements.

The department cannot comply with applicable laws and regulations if it does not adequately monitor subrecipients' audit reports.

Recommendation

The department should ensure that subrecipients' required audit reports are received no later than nine months following their fiscal year end, the management decision resolving questioned costs is issued within six months of the receipt of the audit report, and the required schedules are contained in the audit reports. The Commissioner should take appropriate action using such sanctions as withholding a percentage of funding from any subrecipient when the required audit is not conducted or the audit report is not submitted to the department timely.

Management's Comment

We concur. Previously, the Comptroller's Office along with several state agencies recognized the tracking and timely receipt of subrecipient audit reports as well as the monitoring of questioned and disallowed cost were a problem for all departments. It was determined a new system of tracking and a central collection point for audit reports was needed in order for this process to improve or work more appropriately. The Department can only request audits but can not ensure the reports are received by a certain time. The only recourse being the withholding of reimbursement due the subrecipient or termination of the contract which in either case could hinder health service delivery to the citizens of the state.

The Department will continue to work with the Comptroller's Office and Department of Finance and Administration to develop a new tracking system and a central collection point for audit reports. Until such occurs, the Department will more aggressively pursue the receipt of audit reports within the required time frames and attempt to ensure all required supporting documentation is provided. Further, the Department will put more emphasis on reviewing questioned and disallowed cost and follow-up with timely management decisions and corrective action plans as warranted and necessary.

Finding Number	99-TDH-36
CFDA Number	93.959
Program Name	Substance Abuse Prevention and Treatment Block Grant
Federal Agency	Department of Health and Human Services
State Agency	Department of Health
Grant/Contract No.	N/A
Finding Type	Reportable Condition
Questioned Costs	None

The department did not record correct grant-funding information in the state's property records

Finding

The department does not always record correct grant information (grant number and percentage of federal funds) into POST, the state's property and equipment-tracking system, for some equipment items purchased with federal funds. Testwork revealed the correct information was not entered for 7 of 57 federally funded equipment purchases. The 7 equipment items were 100% federally funded, but POST incorrectly listed the items as state funded. Incorrect funding information resulted because requesting employees did not record accurate information on the purchase request, and the property officer did not record accurate information on the purchase order.

In addition, 1 of 57 federally funded equipment purchases tested was not included on the department's property listing. Typically such errors would be discovered during the monthly reconciliation of STARS to POST. However, the property officer does not retain supporting documentation to indicate that these reconciliations were performed.

The department must be able to distinguish between state and federal property. The U.S. Department of Health and Human Services' "Public Health Service (PHS) Grants Policy Statement" states that, in certain cases, grantees should report income earned from the sale of equipment purchased with grant funds on the Federal Financial Status Report: "PHS has the right to require transfer of the equipment including title, to the Federal Government or to an eligible third party" (pages 8-14). If the equipment is damaged beyond repair, lost, or stolen, the recipient may be accountable to PHS for "an amount equal to the Federal share of the original equipment times the fair market value." If equipment purchased with federal grant funds is not correctly identified in the property records, the department's ability to transfer equipment, dispose of equipment, or reimburse the federal government in accordance with federal laws and regulations is greatly diminished. In addition, if equipment is not included on the property listing, an accurate inventory count cannot be achieved, and the department's accountability may be undermined.

Recommendation

Employees who initiate equipment purchases that are to be funded with federal funds should include correct grant information on the face of the purchase documents. Supervisors should verify that all funding information is complete and correct prior to approving the purchase documents. Also, the property officer should ensure correct grant funding information is stated on purchase orders and entered in POST, and should retain documentation of the reconciliation process between STARS and POST to ensure the department's property listing is accurate and complete. The Director of the Division of General Services should ensure that staff consistently follow the procedures developed to ensure that the appropriate grant information is entered into POST.

Management's Comment

We concur. The Department will reinforce the policy of recording accurate grant information on the face of the purchase documents. The new property officer has been instructed that the grant number and the percentage of federal funding must be reflected on all purchase orders being procured for federally funded cost centers. In addition, the STARS to POST monthly reconciliation and documentation will be retained on file in order to ensure the Department's property listing is accurate and complete.

Finding Number	99-MTS-01
CFDA Number	84.063 and 84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Middle Tennessee State University
Grant/Contract No.	Various
Finding Type	Reportable Condition, Eligibility
Questioned Costs	$10,831.00

Students' financial aid eligibility was not adequately monitored

Finding

One of the eligibility requirements related to federal student financial assistance is maintaining satisfactory academic progress based on criteria established by the institution. In the eligibility testwork that was performed, instances were noted in which the Financial Aid office awarded aid even though the university requirements had not been met.

The university's Policy III:00:11, Financial Aid Satisfactory Academic Progress, states that students must earn 66% of their cumulative credits attempted to remain eligible for financial aid. Also, the policy requires a certain grade point average (GPA) based on the hours attempted, and the required GPA will be monitored at the end of each semester. Any student failing to meet the required standard will be placed on financial aid probation for the subsequent term.

Two of 60 students whose eligibility was tested (3%) were not maintaining satisfactory academic progress and were not eligible to receive aid. One student was placed on financial aid probation for fall 1998 with the requirement that he pass all attempted hours with a "C" or better or financial aid would be suspended until he passed 12 semester hours at his own expense. Although the student did not pass all attempted hours with a "C" or better, he was sent a letter stating similar requirements for the spring 1999 semester and was awarded financial aid. He did not pass all attempted hours with a "C" or better for the spring 1999 semester, but he was awarded aid for the fall 1999 semester. The other student had not maintained satisfactory progress during the 1998 award year, and his financial aid should have been suspended for fall 1998; however, he was awarded aid for fall 1998. Costs of $7,812 are questioned. In addition, one of 60 students whose eligibility was tested (2%) did not make satisfactory progress for spring 1999 or summer 1999, but he was not placed on probation.

University policy in the *Undergraduate Catalog* states that students who do not earn any credits during a semester or withdraw from the university will have their financial aid suspended immediately. One of 60 students whose eligibility was tested (2%) had withdrawn in the prior semester and was not eligible to receive aid. The

student withdrew during the spring 1999 semester, but she received aid for summer 1999. She also received aid for fall 1999. Costs of $3,019 are questioned. In addition, one of 60 students whose eligibility was tested (2%) withdrew during the spring 1999 semester and her financial aid should have been suspended, but she received aid for fall 1999.

The Financial Aid office's failure to follow established policies resulted in the awarding of aid to ineligible students. Since available federal funds are limited, some eligible students may not have been served.

Recommendation

The Financial Aid office monitors students' status prior to awarding financial aid using a 66% per semester satisfactory progress requirement; however, the university's Policy III:00:11 as stated in the finding should be followed. The university may change the policies as long as they continue to meet federal regulations. Financial aid for all students who do not meet satisfactory progress requirements while on financial aid probation should be suspended. The Financial Aid office should require students to follow the university's established appeals process and allow the Board of Appeals to determine if a student should continue to receive financial aid.

Management's Comment

Although we concur with the finding and recommendation, we believe that the university was in compliance with federal regulations based on our interpretation of the university's policy. The policy was under revision during the audit period to mirror the actual practice used to monitor students' satisfactory progress. The new revised policy was implemented fall 1999. The old appeals process required students to appeal their financial aid if they were placed on probation. The new policy states students will be notified of their probationary status and are not required to file an appeals form with the office. The university staff will use professional judgment to allow students to remain on probation if they pass at least 75 percent of their courses each semester while on probation until their cumulative percentage reaches 66 percent. Students who fail to pass 75 percent of their classes while on probation will have their aid suspended for the subsequent semester.

Finding Number	99-TSU-01
CFDA Number	84.032, 84.063, and 84.268
Program Name	Student Financial Assistance Cluster
Federal Agency	Department of Education
State Agency	Tennessee State University
Grant/Contract No.	Various
Finding Type	Reportable Condition, Eligibility
Questioned Costs	$14,244.00

Students were awarded financial aid in excess of their eligibility

Finding

In 18 cases in the 1998-99 academic year, the university awarded the student a financial aid package that was greater than the total aid for which the student was eligible. A student's eligibility for financial aid is limited by the cost of attendance (COA) at the institution less the expected family contribution (EFC). The COA is determined by the institution and is based on factors such as number of credit hours, whether the student lives on or off campus, and the course of study. The *Federal Student Financial Aid Handbook* states that, "The school establishes the COA in compliance with federal guidelines." The Department of Education determines the EFC based on information in the student's financial aid application. The student's financial need is equal to the COA minus the expected family contribution, and is automatically calculated by the computer system based on the COA entered by the financial aid counselors. If the financial aid then awarded is greater than the calculated financial need, the computer flashes the word "overaward" on the screen.

In the 18 cases noted, staff disregarded the "overaward" warning. The overaward amount ranged from $27 to $2,820 per student and totaled $14,244. In seven cases, increasing the student's COA could have eliminated the overaward, but the increase was not entered in the student's file. In the other cases, when additional aid was awarded late in the semester, the original awards should have been reduced to accommodate the new aid by refunding appropriate amounts to the original federal programs.

Recommendation

The Financial Aid counselors should monitor award amounts to ensure they are within the maximum amounts allowed, particularly in cases of late aid awarded. The computer program should be changed to preclude awarding excess aid when the computer indicates "overaward." Management should determine the circumstances under which the "overaward" warning was ignored and take appropriate action.

Management's Comment

We concur with the finding and recommendation. We identified 14 overawards totaling $13,304 from a population of 11,824 awards totaling $47,377,572 for an incident error rate of .12% and dollar error rate of .03%. The problem of coordination of aid is significantly improved as we transferred responsibility for scholarship processing from the Office of Admissions and Records to the Financial Aid Office effective July 1, 1999. We will investigate the possibility of system modification of the on-line overaward notice. A Focus computer program has also been developed to identify overawards which may occur during processing. This program will be run each semester to better monitor awards.

Finding Number	99-UTK-01
CFDA Number	84.063
Program Name	Student Financial Assistance Cluster
Federal Agency	U.S. Department of Education
State Agency	University of Tennessee
Grant/Contract No.	E-P063P986293
Finding Type	Reportable Condition
Questioned Costs	None

Pell awards at Knoxville are not recalculated when students do not begin attendance in some of their classes

Finding

The University of Tennessee at Knoxville does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes. The 1998-1999 *Student Financial Aid Handbook*, chapter 4, page 66, states, "If the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if Pell recipients fail to begin attending each of their classes could result in an overaward to some recipients.

The university has developed procedures to determine if Pell recipients begin attending each registered class. The procedures are to be implemented in the fall semester of 1999.

Recommendation

The university should continue its efforts to implement these procedures. Pell awards should be recalculated whenever a Pell recipient fails to begin attending each class.

Management's Comment

The University concurs with the finding. For the Knoxville campus beginning Fall Semester 1999, a certification of attendance was done on the corrected 14 day class rolls. Pell awards will be recalculated whenever a Pell recipient fails to begin attending each class.

Finding Number	99-UTK-02
CFDA Number	84.007, 84.038, 84.063
Program Name	Student Financial Assistance Cluster
Federal Agency	U.S. Department of Education
State Agency	University of Tennessee
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

The University of Tennessee at Knoxville does not effectively monitor class attendance for evidence of unofficial withdrawal

Finding

The University of Tennessee at Knoxville does not monitor class attendance for evidence of unofficial withdrawal. The 1998-1999 *Student Financial Aid Handbook*, chapter 3, page 85, states, "Participating SFA [Student Financial Aid] schools are expected to monitor student attendance for the purpose of determining a withdrawal date in the case of unofficial withdrawal."

The absence of adequate procedures to monitor financial aid recipients for unofficial withdrawal could result in an overaward to some recipients. In other cases, necessary refunds may not be made.

The university has developed procedures at Knoxville to monitor unofficial withdrawal. The procedures are to be implemented in the fall semester of 1999.

Recommendation

The university should continue its efforts to implement these procedures. Refunds and repayments should be made whenever the university determines a financial aid recipient has unofficially withdrawn.

Management's Comment

The University concurs with the finding. At the end of the semester, a final check on student attendance will be made with the grade of FX, which is available for faculty to use on grade reports to identify students who failed because they ceased attending class. Refunds and repayments will be made whenever the university determines a financial aid recipient has unofficially withdrawn.

Finding Number	99-UTH-01
CFDA Number	84.063
Program Name	Student Financial Assistance Cluster
Federal Agency	U.S. Department of Education
State Agency	University of Tennessee
Grant/Contract No.	E-P063P986295
Finding Type	Reportable Condition
Questioned Costs	None

Pell awards at Memphis are not recalculated when students do not begin attendance in some of their classes

Finding

The University of Tennessee at Memphis does not recalculate Federal Pell Grant awards to students who fail to begin attendance in some of their classes. The 1998-1999 *Student Financial Aid Handbook*, chapter 4, page 66, states, "If the student does not begin attendance in all of his or her classes, the school must recalculate the student's [Pell] award based on the lower enrollment status."

The absence of a procedure to determine if Pell recipients fail to begin attending each of their classes could result in an overaward to some recipients.

The university has developed procedures to determine if Pell recipients begin attending each registered class. The procedures are to be implemented in the fall semester of 1999.

Recommendation

The university should continue its efforts to implement these procedures. Pell awards should be recalculated whenever a Pell recipient fails to begin attending each class.

Management's Comment

The University concurs with the finding. The Memphis campus has developed a process in which each Pell recipient is given a document at the beginning of the semester which will record the instructor's certification that the Pell recipients began attending each class. Financial Aid already has a module in the financial aid system which can produce , track and follow up the certification process. Pell awards will be recalculated whenever a Pell recipient fails to begin attending each class.

Finding Number	99-UTK-03
CFDA Number	Various
Program Name	Research and Development Cluster
Federal Agency	Various
State Agency	University of Tennessee
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Federal program descriptions should be communicated to subrecipients

Finding

The university's contracts with subrecipients of federal funds at the Institute of Agriculture do not communicate the Catalog of Federal Domestic Assistance (CFDA) program number or program title to the subrecipients.

The *Office of Management and Budget Circular A-133*, Subpart D, Section 400(d), states,

> A pass through entity shall perform the following for the federal awards it makes:
>
> 1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year if the award is R&D [Research & Development], and name of federal agency.

University personnel were not aware of the requirement to communicate CFDA program numbers and program titles to subrecipients.

If the university does not communicate adequate Catalog of Federal Domestic Assistance descriptions to subrecipients, the subrecipients may not be able to correctly prepare schedules of expenditures of federal awards. Also, subrecipients may not be aware of related compliance requirements which could lead to noncompliance with federal laws and regulations.

Recommendation

University management should take steps to ensure that relevant CFDA information is disclosed to each subrecipient in the subcontract. Policies and procedures pertaining to federal subcontracts at all campuses should include procedures that outline the CFDA information to be included in subrecipient agreements.

Management's Comment

The University concurs with the finding. The University will instruct all offices that prepare subcontracts to be certain that relevant CFDA information is disclosed to each subrecipient in each subcontract.

Finding Number	99-UTH-02
CFDA Number	Various
Program Name	Research and Development Cluster
Federal Agency	Various
State Agency	University of Tennessee
Grant/Contract No.	Various
Finding Type	Reportable Condition
Questioned Costs	None

Federal program descriptions should be communicated to subrecipients

Finding

The university's contracts with subrecipients of federal funds at Memphis do not communicate the Catalog of Federal Domestic Assistance (CFDA) program number or program title to the subrecipients.

The *Office of Management and Budget Circular A-133*, Subpart D, Section 400(d), states,

> A pass through entity shall perform the following for the federal awards it makes:
>
> 1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year if the award is R&D [Research & Development], and name of federal agency.

University personnel were not aware of the requirement to communicate CFDA program numbers and program titles to subrecipients.

If the university does not communicate adequate Catalog of Federal Domestic Assistance descriptions to subrecipients, the subrecipients may not be able to correctly prepare schedules of expenditures of federal awards. Also, subrecipients may not be aware of related compliance requirements which could lead to noncompliance with federal laws and regulations.

Recommendation

University management should take steps to ensure that relevant CFDA information is disclosed to each subrecipient in the subcontract. Policies and procedures pertaining to federal subcontracts at all campuses should include procedures that outline the CFDA information to be included in subrecipient agreements.

Management's Comment

The University concurs with the finding. The University will instruct all offices that prepare subcontracts to be certain that relevant CFDA information is disclosed to each subrecipient in each subcontract.

Auditee's Section

Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1999

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of Agriculture		
Direct Programs				
10.001	University of Tennessee	Agricultural Research: Basic and Applied Research		$ 2,124,995.94
10.025	Agriculture	Plant and Animal Disease, Pest Control, and Animal Care	$ 282,393.13	
10.025	University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care	36,320.79	318,713.92
10.064	Agriculture	Forestry Incentives Program		6,000.00
10.153	Agriculture	Market News		18,000.00
10.163	Agriculture	Market Protection and Promotion		11,182.57
10.206	University of Tennessee	Grants for Agricultural Research: Competitive Research Grants		24,736.26
10.214	Tennessee State University	Morrill-Nelson Funds for Food and Agricultural Higher Education		60.00
10.217	University of Tennessee	Higher Education Challenge Grants		36,829.43
10.218	Tennessee State University	Buildings and Facilities Program	$ 22,957.80	
10.218	University of Tennessee	Buildings and Facilities Program	574,186.73	597,144.53
10.220	Tennessee State University	Higher Education Multicultural Scholars Program	$ 18,000.00	
10.220	University of Tennessee	Higher Education Multicultural Scholars Program	18,831.11	36,831.11
10.224	University of Tennessee	Fund For Rural America: Research, Education, and Extension Activities		64,178.57
10.443	Tennessee State University	Small Farmer Outreach Training and Technical Assistance Program		213,032.95
10.500	Tennessee State University	Cooperative Extension Service	$ 1,996,829.25	
10.500	University of Tennessee	Cooperative Extension Service	9,725,244.44	11,722,073.69
10.550	Agriculture	Food Distribution	$ 244,070.00	
10.550	Commission on Aging	Food Distribution	1,627,151.00	
10.550	Education	Food Distribution	27,594.50	1,898,815.50
10.557	Health	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		80,684,992.00
10.558	Human Services	Child and Adult Care Food Program		29,942,996.32
10.560	Agriculture	State Administrative Expenses for Child Nutrition	$ 138,483.87	
10.560	Education	State Administrative Expenses for Child Nutrition	1,126,239.51	1,264,723.38
10.564	Education	Nutrition Education and Training Program	$ 80,123.59	
10.564	Human Services	Nutrition Education and Training Program	4,086.76	84,210.35
10.565	Health	Commodity Supplemental Food Program		3,400,718.54
10.574	Education	Team Nutrition Grants		2,460.78
10.652	Agriculture	Forestry Research	$ 117,281.28	
10.652	University of Tennessee	Forestry Research	519.69	117,800.97
10.664	Agriculture	Cooperative Forestry Assistance	$ 1,774,008.00	
10.664	Environment and Conservation	Cooperative Forestry Assistance	7,823.58	1,781,831.58
10.665	Finance and Administration	Schools and Roads: Grants to States		370,547.86
10.769	Agriculture	Rural Development Grants		75,000.00
10.855	Middle Tennessee State University	Distance Learning and Telemedicine Loans and Grants		116,896.37
10.950	Agriculture	Agricultural Statistics Reports		32,422.04
10.961	Tennessee State University	Scientific Cooperation Program		(10,040.59)
N/A	Middle Tennessee State University	Mid-Tenn TBR Network		750.00
N/A	Tennessee State University	USDA 1890 National Scholars Program		5,995.24
N/A	University of Tennessee	USDA FOREST SERV 23-9742RJVA		4,838.58
N/A	University of Tennessee	USDA FOREST SERVICE-SILER		3,654.25
N/A	University of Tennessee	USDA RURAL UTILITIES DLT GR		119,211.58
Total U.S. Department of Agriculture				$ 135,071,603.72
		U.S. Department of Commerce		
Direct Programs				
11.552	University of Tennessee	Telecommunications and Information Infrastructure Assistance Program		$ 65,376.45
11.609	University of Tennessee	Measurement and Engineering Research and Standards		2,163,931.15
N/A	University of Tennessee	NTL INSTITUTE STANDARDS&TEC 96		159,724.98
Total U.S. Department of Commerce				$ 2,389,032.58

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1999

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of Defense		
Direct Programs				
12.002	University of Tennessee	Procurement Technical Assistance for Business Firms		$ 153,502.44
12.106	University of Tennessee	Flood Control Projects		4,000.00
12.112	Finance and Administration	Payments to States in Lieu of Real Estate Taxes		326,855.64
12.113	Environment and Conservation	State Memorandum of Agreement Program for the Reimbursement of Technical Services		181,129.98
12.400	Military	Military Construction, National Guard		6,275,069.36
12.401	Military	National Guard Military Operations and Maintenance (O&M) Projects		14,761,299.04
12.431	University of Tennessee	Basic Scientific Research		5,000.00
N/A	Dyersburg State Community College	Least Term Study		20,350.16
N/A	Education	Troops to Teachers		53,462.72
N/A	Tennessee State University	AFROTC		26,527.74
N/A	Tennessee State University	AFROTC-Postage		489.81
N/A	Tennessee Wildlife Resources Agency	Mussell Study		24,697.50
N/A	University of Memphis	National Science Center Math and Science Camps		2,228.90
Subtotal Direct Programs				$ 21,834,613.29
Passed Through Academy of Applied Science				
12.431	University of Tennessee	Basic Scientific Research (B1997009)		$ 13,253.34
Passed Through Logicon Information and Systems Services				
N/A	Tennessee State University	MSRC Programming Environment and Training (DAHC94-96-G0008)		182,434.31
Subtotal Pass-Through Programs				$ 195,687.65
Total U.S. Department of Defense				$ 22,030,300.94
		U.S. Department of Housing and Urban Development		
Direct Programs				
14.228	Economic and Community Development	Community Development Block Grants/State's Program		$ 27,187,012.76
14.231	Human Services	Emergency Shelter Grants Program		1,301,519.09
14.235	Mental Health/Mental Retardation	Supportive Housing Program	$ 2,986.00	
14.235	Human Services	Supportive Housing Program	28,889.66	31,875.66
14.239	Tennessee Housing Development Agency	HOME Investment Partnerships Program		12,748,219.23
14.241	Health	Housing Opportunities for Persons with AIDS		515,963.21
14.243	State Technical Institute at Memphis	Opportunities for Youth: Youthbuild Program		339,938.46
14.400	Human Rights Commission	Equal Opportunity in Housing		215,960.00
14.511	East Tennessee State University	Community Outreach Partnership Center Program	$ 56,240.04	
14.511	University of Tennessee	Community Outreach Partnership Center Program	46,428.99	102,669.03
14.512	University of Memphis	Commuinity Development Work-Study Program	$ 72,663.83	
14.512	University of Tennessee	Community Development Work-Study Program	92,079.92	164,743.75
N/A	East Tennessee State University	Housing & Urban Development Interest Subsidies		94,636.00
N/A	Tennessee Technological University	Interest Subsidies		34,586.00
N/A	University of Tennessee	Sutherland Village Apartments		309,117.00
N/A	University of Memphis	Intergovernmental Personnel Agreement		66,748.11
N/A	University of Memphis	College Housing Debt Service Grant Program		13,864.00
Subtotal Direct Programs				$ 43,126,852.30

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1999

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through City of Jackson				
14.854	Allenton Heights Self-Sufficient Center	Public and Indian Housing Drug Elimination Program (TN-43-DEP-0070197)		$ 28,877.93
Subtotal Pass-Through Programs				$ 28,877.93
Total U.S. Department of Housing and Urban Development				$ 43,155,730.23
		U.S. Department of the Interior		
Direct Programs				
15.252	Environment and Conservation	Abandoned Mine Land Reclamation (AMLR) Program		$ 557,835.71
15.608	Environment and Conservation	Fish and Wildlife Management Assistance		12,053.45
15.612	Environment and Conservation	Rare and Endangered Species Conservation	$ 54,492.80	
15.612	Tennessee Wildlife Resources Agency	Rare and Endangered Species Conservation	2,500.00	56,992.80
15.615	Environment and Conservation	Cooperative Endangered Species Conservation Fund	$ 194.67	
15.615	Tennessee Wildlife Resources Agency	Cooperative Endangered Species Conservation Fund	6,500.00	6,694.67
15.808	Environment and Conservation	U.S. Geological Survey: Research and Data Acquisition		20,074.07
15.904	Environment and Conservation	Historic Preservation Fund Grants-In-Aid		665,884.57
15.916	Environment and Conservation	Outdoor Recreation: Acquisition, Development and Planning		83,573.52
15.921	Environment and Conservation	Rivers, Trails and Conservation Assistance		355.20
N/A	University of Tennessee	NTL FISH & WILDL 96-093-053 98		3,916.08
Total U.S. Department of the Interior				$ 1,407,380.07
		U.S. Department of Justice		
Direct Programs				
16.540	Children's Services	Juvenile Justice and Delinquency Prevention: Allocation to States	$ 77,576.57	
16.540	Commission on Children and Youth	Juvenile Justice and Delinquency Prevention: Allocation to States	1,745,672.00	$ 1,823,248.57
16.550	Tennessee Bureau of Investigation	State Justice Statistics Program for Statistical Analysis Centers		79,423.51
16.554	Finance and Administration	National Criminal History Improvement Program (NCHIP)		1,251,840.20
16.564	Tennessee Bureau of Investigation	National Institute of Justice Forensic DNA Laboratory Improvement Program		86,896.43
16.575	Finance and Administration	Crime Victim Assistance	$ 4,957,621.50	
16.575	Human Services	Crime Victim Assistance	169,327.82	5,126,949.32
16.576	Treasury	Crime Victim Compensation		1,855,000.00
16.579	Correction	Byrne Formula Grant Program	$ 739,628.83	
16.579	Finance and Administration	Byrne Formula Grant Program	10,371,863.70	11,111,492.53
16.588	Finance and Administration	Violence Against Women Formula Grants		3,130,575.90
16.589	Finance and Administration	Rural Domestic Violence and Child Victimization Enforcement Grant Program		300,362.00
16.592	Finance and Administration	Local Law Enforcement Block Grants Program		351,317.56
16.593	Finance and Administration	Residential Substance Abuse Treatment for State Prisoners		942,790.13
16.598	Finance and Administration	State Identification Systems Grant Program		172,727.00
16.610	Tennessee Bureau of Investigation	Regional Information Sharing Systems		4,806,380.00
16.710	Austin Peay State University	Public Safety Partnership and Community Policing Grants	$ 19,920.52	
16.710	East Tennessee State University	Public Safety Partnership and Community Policing Grants	45,935.52	
16.710	Middle Tennessee State University	Public Safety Partnership and Community Policing Grants	125,151.71	
16.710	Safety	Public Safety Partnership and Community Policing Grants	159,304.65	350,312.40
16.729	University of Tennessee	Drug-Free Communities Support Program Grants		26,598.00
N/A	Safety	Appalachia High Intensity Drug Trafficking Area		6,630.48
N/A	Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication		576,292.26
N/A	University of Memphis	Leadership Institute in Judicial Education		220,918.15
Subtotal Direct Programs				$ 32,219,754.44

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through Appalachia High Intensity Drug Tafficking Area				
N/A	Safety	Appalachia High Intensity Drug Trafficking Area (I8-PAPP501-14)	$ 167,071.85	
N/A	Safety	Appalachia High Intensity Drug Trafficking Area (I9-PAPP501-14)	37,201.59	$ 204,273.44
N/A	Alcoholic Beverage Commission	Appalachia High Intensity Drug Trafficking Area (I8-PAPP501-17)		34,026.15
N/A	District Attorneys General	Appalachia High Intensity Drug Trafficking Area (N/A)		81,358.87
N/A	Tennessee Bureau of Investigation	National Drug Control Policy (I8-PAPP501)	$ 689,568.76	
N/A	Tennessee Bureau of Investigation	National Drug Control Policy (I9-PAPP501)	83,851.53	773,420.29
Passed Through Shelby County Government				
16.579	State Technical Institute at Memphis	Byrne Formula Grant Program (CA992512)	$ 50,079.67	
16.579	State Technical Institute at Memphis	Byrne Formula Grant Program (CA992511)	44,256.27	94,335.94
16.592	University of Memphis	Local Law Enforcement Block Grants Program (CA982266)		14,231.06
16.593	State Technical Institute at Memphis	Residential Substance Abuse Treatment for State Prisoners (CA992559)		39,397.82
Passed Through Knoxville City Government				
16.710	University of Tennessee	Public Safety Partnership and Community Policing Grants (B13996396)		499,215.33
Subtotal Pass-Through Programs				$ 1,740,258.90
Total U.S. Department of Justice				$ 33,960,013.34
U.S. Department of Labor				
Direct Programs				
17.002	Employment Security	Labor Force Statistics		$ 923,825.24
17.005	Labor	Compensation and Working Conditions Data		97,016.98
17.203	Employment Security	Labor Certification for Alien Workers		142,431.83
17.225	Employment Security	Unemployment Insurance		377,663,566.73
17.235	Commission on Aging	Senior Community Service Employment Program		1,891,998.89
17.245	Employment Security	Trade Adjustment Assistance: Workers		17,975,164.93
17.253	Human Services	Welfare-to-Work Grants to State and Localities		2,654,443.93
17.503	Labor	Occupational Safety and Health: State Program		2,407,775.86
17.504	Labor	Consultation Agreements		641,443.95
17.600	Labor	Mine Health and Safety Grants		116,830.26
N/A	Labor	National Occupational Information Coordinating Committee		127,238.50
Subtotal Direct Programs				$ 404,641,737.10
Passed Through North Tennessee Private Industry Council				
17.253	Volunteer State Community College	Welfare-to-Work Grants to States and Localities (C0593)		$ 16,270.08
Subtotal Pass-Through Programs				$ 16,270.08
Total U.S. Department of Labor				$ 404,658,007.18
U.S. Department of Transportation				
Direct Programs				
20.005	Tennessee Wildlife Resources Agency	Boating Safety Financial Assistance		$ 1,115,756.00
20.106	Transportation	Airport Improvement Program		6,733,683.71
20.205	Transportation	Highway Planning and Construction	$ 492,993,034.26	
20.205	University of Tennessee	Highway Planning and Construction	16,862.75	493,009,897.01
20.215	Tennessee State University	Highway Training and Education		25,366.62
20.218	Revenue	National Motor Carrier Safety	$ 121,181.06	

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For the Year Ended June 30, 1999

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
20.218	Safety	National Motor Carrier Safety	1,671,286.95	1,792,468.01
20.219	Environment and Conservation	Recreational Trails Program		56,573.43
20.505	Transportation	Federal Transit: Metropolitan Planning Grants		465,762.15
20.509	Transportation	Formula Grants for Other Than Urbanized Areas		5,013,814.58
20.700	Tennessee Regulatory Authority	Pipeline Safety		233,134.50
20.703	Military	Interagency Hazardous Materials Public Sector Training and Planning Grants		99,891.69
N/A	Tennessee Regulatory Authority	Pipeline Safety One-Call Allocations		44,000.00
N/A	University of Tennessee	FHA-DTFH61-98-T-56003-TRNG PRG		25,453.65
N/A	University of Tennessee	FHA-DTFH61-98-T-56004-ZACHARIA		23,857.04
N/A	University of Tennessee	FHA-DTFH61-99-T-56006-WRK ZONE		8,782.21
Subtotal Direct Programs				$ 508,648,440.60
Passed Through South Carolina State University				
20.205	Tennessee State University	Highway Planning and Construction (N/A)		$ 28,642.10
Subtotal Pass-Through Programs				$ 28,642.10
Total U.S. Department of Transportation				$ 508,677,082.70
		Appalachian Regional Commission		
Direct Programs				
23.001	East Tennessee State University	Appalachian Regional Development	$ 37,612.98	
23.001	University of Tennessee	Appalachian Regional Development	357,955.52	$ 395,568.50
23.002	Economic and Community Development	Appalachian Area Development		458,981.04
23.011	Economic and Community Development	Appalachian State Research, Technical Assistance, and Demonstration Projects		223,169.53
Total Appalachian Regional Commission				$ 1,077,719.07
		Office of Personnel Management		
Direct Programs				
27.001	State Technical Institute at Memphis	Federal Civil Service Employment		$ 53,780.70
Total Office of Personnel Management				$ 53,780.70
		Equal Employment Opportunity Commission		
Direct Programs				
30.001	Human Rights Commission	Employment Discrimination: Title VII of the Civil Rights Act of 1964		$ 249,294.54
Total Equal Employment Opportunity Commission				$ 249,294.54
		General Services Administration		
Direct Programs				
39.003	General Services	Donation of Federal Surplus Personal Property		$ 7,792,007.00
Total General Services Administration				$ 7,792,007.00
		National Aeronautics and Space Administration		
Direct Programs				
N/A	Tennessee State University	Undergraduate Student Awards for Research		$ 28,954.96

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
N/A	University of Tennessee	NASA NAS8-97301		109,428.58
N/A	University of Tennessee	NASA NGT5-50206 SAYLER		20,066.70
Subtotal Direct Programs				$ 158,450.24
Passed Through Vanderbilt University				
43.002	Tennessee State University	Technology Transfer (NGT5-40054)		$ 41,487.26
Subtotal Pass-Through Programs				$ 41,487.26
Total National Aeronautics and Space Administration				$ 199,937.50
National Foundation on the Arts and the Humanities				
Direct Programs				
45.026	Arts Commission	Promotion of the Arts: Leadership Initiatives		$ 567,102.30
45.130	University of Tennessee	Promotion of the Humanities: Challenge Grants		1,011.90
45.149	University of Tennessee	Promotion of the Humanities: Division of Preservation and Access		108,957.89
45.310	Secretary of State	State Library Program		1,396,463.65
N/A	Middle Tennessee State University	Identity as Power: The Cultural Struggle for the Early Middle Colonies		30,000.00
Total National Foundation on the Arts and the Humanities				$ 2,103,535.74
National Science Foundation				
Direct Programs				
47.049	Tennessee State University	Mathematical and Physical Sciences	$ 839,362.86	
47.049	University of Tennessee	Mathematical and Physical Sciences	6,838.33	$ 846,201.19
47.050	Roane State Community College	Geosciences	$ 20,417.08	
47.050	University of Tennessee	Geosciences	75,792.68	
47.050	University of Memphis	Geosciences	18,846.05	115,055.81
47.074	University of Memphis	Biological Sciences	$ 15,469.45	
47.074	University of Tennessee	Biological Sciences	51,482.60	66,952.05
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences		37,601.01
47.076	Nashville State Technical Institute	Education and Human Resources	$ 390,835.77	
47.076	Northeast State Technical Community College	Education and Human Resources	6.24	
47.076	Pellissippi State Technical Community College	Education and Human Resources	9,710.28	
47.076	University of Tennessee	Education and Human Resources	138,626.55	539,178.84
47.077	University of Tennessee	Academic Research Facilities and Instrumentation		122,009.51
N/A	Tennessee Technological University	Incorporation of Computational Chemistry in the Undergraduate Curriculum		22,288.00
Subtotal Direct Programs				$ 1,749,286.41
Passed Through Lemoyne-Owen College				
47.041	State Technical Institute at Memphis	Engineering Grants (HRD-9553315)		$ 30,318.28
47.049	University of Memphis	Mathematical and Physical Sciences (HRD-9553315)		85,289.64
Passed Through Bechtel Jacobs				
47.050	Roane State Community College	Geosciences (19K-MCL67V)		1,493.68
Passed Through Lockheed Martin Energy Systems				
47.050	Roane State Community College	Geosciences (22Y-DDX49C)	$ 50,479.19	
47.050	Roane State Community College	Geosciences (49V-SV306)	2,326.60	
47.050	Roane State Community College	Geosciences (19Y-AMA11V)	5,601.13	58,406.92

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through Kentucky Science and Technology Council				
47.076	University of Tennessee	Education and Human Resources (B01991380)	$ 254,001.61	
47.076	University of Tennessee	Education and Human Resources (B01997102)	(85,601.81)	
47.076	University of Tennessee	Education and Human Resources (B01997393)	68,250.23	236,650.03
Subtotal Pass-Through Programs				$ 412,158.55
Total National Science Foundation				$ 2,161,444.96
Small Business Administration				
Direct Programs				
59.005	East Tennessee State University	Business Development Assistance to Small Business		$ 1,459.40
59.037	University of Memphis	Small Business Development Center		1,415,380.56
Total Small Business Administration				$ 1,416,839.96
Tennessee Valley Authority				
Direct Programs				
62.004	Pellissippi State Technical Community College	Tennessee Valley Region: Community Development	$ 15,361.80	
62.004	Tennessee State University	Tennessee Valley Region: Community Development	111.54	$ 15,473.34
N/A	Agriculture	Joint Project for Forest Fire Protection		31,484.00
N/A	Environment and Conservation	Tennessee Valley Authority Ocoee Trust Fund		59,468.24
N/A	Tennessee State University	Nashville Business Incubation Center		77,052.38
N/A	Tennessee State University	Weekend Academy		8,839.42
N/A	Tennessee Technological University	Business Technologies Incubator		162,335.31
N/A	Tennessee Technological University	Gift Investment Challenge		1,602.14
N/A	Tennessee Technological University	Quality Communities CD-Rom		(1,758.64)
N/A	Tennessee Wildlife Resources Agency	Chickamauga Lake Embayment Project		20,000.00
N/A	Tennessee Wildlife Resources Agency	Oak Ridge Wildlife Management Area		67,130.61
N/A	University of Tennessee	TVA 98RE3-231899		15.80
N/A	University of Tennessee	TVA 98RKW-22S781-WAGN WHL STAB		114.88
N/A	University of Tennessee	TVA TV-84900V HEARD		11,200.16
N/A	University of Tennessee	TVA TV-96BKX-185335 DISTANCE97		279,500.00
N/A	University of Tennessee	TVA TV77105A SUPP#12 BUNTING97		59,687.96
N/A	University of Tennessee	TVA-SAMAB		41,938.43
N/A	University of Tennessee	UTC/TVA TV-85683V SCHOLARSHIPS		1,000.00
Total Tennessee Valley Authority				$ 835,084.03
U.S. Department of Veterans Affairs				
Direct Programs				
64.022	East Tennessee State University	Veterans Home Based Primary Care		$ 179,685.00
64.101	Veterans Affairs	Burial Expenses Allowance for Veterans		172,950.00
N/A	Higher Education Commission	Veterans' Education		229,310.12
N/A	Roane State Community College	Veterans Administration Reporting Fees		835.00
N/A	Tennessee State University	Localization of Ventricular Arrhythmogenic Foci		31,033.84
N/A	University of Tennessee	U.S. Veterans Affairs-McCullough		16,361.30
Total U.S. Department of Veterans Affairs				$ 630,175.26
Environmental Protection Agency				
Direct Programs				
66.001	Environment and Conservation	Air Pollution Control Program Support	$ 714,742.75	
66.001	University of Tennessee	Air Pollution Control Program Support	85,740.48	$ 800,483.23
66.032	Environment and Conservation	State Indoor Radon Grants		136,310.98

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
66.419	Environment and Conservation	Water Pollution Control: State and Interstate Program Support		1,942,510.97
66.420	Environment and Conservation	Water Pollution Control: State and Local Manpower Development		54,702.73
66.432	Environment and Conservation	State Public Water System Supervision		989,836.70
66.438	Environment and Conservation	Construction Management Assistance Grants		55,360.28
66.454	Environment and Conservation	Water Quality Management Planning		382,600.71
66.458	Environment and Conservation	Capitalization Grants for State Revolving Funds		20,362,553.11
66.460	Agriculture	Nonpoint Source Implementation Grants		1,506,834.52
66.461	Agriculture	Wetland Protection: Development Grants	$ 20,289.46	
66.461	Environment and Conservation	Wetland Protection: Development Grants	136,280.75	156,570.21
66.463	Environment and Conservation	National Pollutant Discharge Elimination System Related State Program Grants		48,042.30
66.468	Environment and Conservation	Capitalization Grants for Drinking Water State Revolving Fund		2,792,802.48
66.600	University of Tennessee	Environmental Protection Consolidated Grants: Program Support		62,217.80
66.605	Agriculture	Performance Partnership Grants		527,892.77
66.606	Economic and Community Development	Surveys, Studies, Investigations, and Special Purpose Grants	$ 300.30	
66.606	Environment and Conservation	Surveys, Studies, Investigations, and Special Purpose Grants	217,080.50	
66.606	University of Memphis	Surveys, Studies, Investigations, and Special Purpose Grants	6,014.47	
66.606	University of Tennessee	Surveys, Studies, Investigations, and Special Purpose Grants	15,264.21	238,659.48
66.707	Environment and Conservation	TSCA Title IV State Lead Grants: Certification of Lead-Based Paint Professionals		54,913.76
66.708	Environment and Conservation	Pollution Prevention Grants Program		47,662.46
66.710	University of Tennessee	Environmental Justice Community/University Partnership Grants Program		4,433.13
66.713	Environment and Conservation	State and Tribal Environmental Justice		12,315.62
66.801	Environment and Conservation	Hazardous Waste Management State Program Support		1,921,662.23
66.802	Environment and Conservation	Superfund State Site: Specific Cooperative Agreements		367,227.53
66.804	Environment and Conservation	State Underground Storage Tanks Program		212,679.90
66.805	Environment and Conservation	Leaking Underground Storage Tank Trust Fund Program		1,901,218.28
66.808	Environment and Conservation	Solid Waste Management Assistance	$ 6,932.30	
66.808	University of Tennessee	Solid Waste Management Assistance	36,606.99	43,539.29
66.809	Environment and Conservation	Superfund State Core Program Cooperative Agreements		867,325.98
N/A	Tennessee Wildlife Resources Agency	Biodiversity Handbook		30,974.53
Subtotal Direct Programs				$ 35,521,330.98
Passed Through University of Notre Dame				
N/A	Tennessee State University	EPA/MAI Traineeship Program (T-901966-01-3)		$ 37,532.70
Subtotal Pass-Through Programs				$ 37,532.70
Total Environmental Protection Agency				$ 35,558,863.68
		U.S. Department of Energy		
Direct Programs				
81.041	Economic and Community Development	State Energy Program		$ 605,685.80
81.042	Human Services	Weatherization Assistance for Low-Income Persons		2,009,199.30
81.049	Middle Tennessee State University	Office of Science Financial Assistance Program	$ 29,520.61	
81.049	University of Tennessee	Office of Science Financial Assistance Program	90,315.78	119,836.39
81.086	University of Tennessee	Conservation Research and Development		21,215.44
81.502	Environment and Conservation	Energy Conservation for Institutional Buildings	$ 4,406,496.52	
81.502	Pellissippi State Technical Community College	Energy Conservation for Institutional Buildings	31,488.25	4,437,984.77
N/A	Economic and Community Development	Institutional Conservation Program-Section 155		31,756.99
N/A	Economic and Community Development	Petroleum Violation Escrow-Exxon		243,768.96
N/A	Economic and Community Development	Petroleum Violation Escrow-Stripper		(1,570,410.23)
N/A	Environment and Conservation	Stripper Oil Program		95,429.03
N/A	Military	Department of Energy - Emergency Prepardness		686,716.04

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues
N/A	Military	Southern States Energy Board	50,335.10
N/A	Tennessee State University	Department of Energy Chair of Excellence Professorship	14,756.09
Subtotal Direct Programs			$ 6,746,273.68
Passed Through American Chemical Society			
81.049	University of Tennessee	Office of Science Financial Assistance Program (B01998198)	$ 19,962.85
Passed Through National Renewable Energy Laboratory			
81.087	Tennessee State University	Renewable Energy Research and Development (DE-AC36-83CH10093)	6,032.59
Passed Through Lawrence Livermore National Laboratory			
N/A	University of Tennessee	JIEE-EC2 SECRETARIAT-FED LABS (B01992741)	17,689.26
Passed Through Lockheed Martin Energy Research Corporation			
N/A	Tennessee State University	Oak Ridge National Laboratory CFO Mentorship Program (DE-AC05-960R22464)	3,490.56
Passed Through Lockheed Martin Energy Systems, Incorporated			
N/A	Roane State Community College	Oak Ridge National Lab (19X-SS900V)	9,300.22
N/A	Tennessee State University	Oak Ridge Y-12 Plant-National Prototype Center (DE-AC05-840R21400)	5,832.00
N/A	Tennessee State University	Oak Ridge Y-12 Plant-Protective Services Organization (DE-AC05-840R21400)	6,013.44
N/A	Tennessee State University	Oak Ridge Y-12 Plant-RADCON Records Center (DE-AC05-840R21400)	4,199.26
N/A	Tennessee State University	Preventive Maintenance (DE-AC05-960R22464)	33,063.12
N/A	University of Tennessee	MARTIN MAR 11X-SU950V RUSSELL (B01993419)	4,802.46
Passed Through Oak Ridge Institute for Science and Education			
N/A	Tennessee State University	HBCU Nuclear Energy Training (N/A)	31,716.66
Subtotal Pass-Through Programs			$ 142,102.42
Total U.S. Department of Energy			$ 6,888,376.10
Federal Emergency Management Agency			
Direct Programs			
83.011	Military	Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	$ 70,030.19
83.105	Economic and Community Development	Community Assistance Program: State Support Services Element (CAP-SSSE)	38,081.25
83.505	Military	State Disaster Preparedness Grants	50,171.99
83.534	Military	Emergency Management: State and Local Assistance	1,974,232.48
83.535	Military	Mitigation Assistance	108,734.29
83.536	Military	Flood Mitigation Assistance	131,212.77
83.544	Military	Public Assistance Grants	31,263,262.44
83.546	Military	National Arson Prevention Initiative	8,396.66
83.547	Military	First Responder Counter-Terrorism Training Assistance	34,716.55
83.548	Military	Hazard Mitigation Grant	3,766,508.36
83.550	Environment and Conservation	National Dam Safety Program	13,530.00
83.551	Military	Project Impact: Building Disaster Resistant Communities	26,785.47
Total Federal Emergency Management Agency			$ 37,485,662.45

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of Education		
Direct Programs				
84.002	Education	Adult Education: State Grant Program		$ 7,354,820.89
84.010	Education	Title I Grants to Local Educational Agencies		123,492,588.66
84.011	Education	Migrant Education: Basic State Grant Program		172,712.77
84.013	Education	Title I Program for Neglected and Delinquent Children		611,653.00
84.016	University of Memphis	Undergraduate International Studies and Foreign Language Programs		80,420.68
84.021	University of Memphis	International: Overseas--Group Projects Abroad	$ 28,550.00	
84.021	Tennessee State University	International: Overseas--Group Projects Abroad	27,765.04	56,315.04
84.024	East Tennessee State University	Handicapped Early Childhood Assistance		114,604.49
84.025	Education	Handicapped Innovative Programs: Deaf-Blind Centers		137,812.26
84.029	Education	Handicapped Personnel Preparation	$ 55,946.42	
84.029	Tennessee State University	Handicapped Personnel Preparation	347,896.31	
84.029	University of Tennessee	Handicapped Personnel Preparation	183,890.16	587,732.89
84.031	Dyersburg State Community College	Higher Education: Institutional Aid	$ 421,792.75	
84.031	Northeast State Technical Community College	Higher Education: Institutional Aid	11,674.53	
84.031	Pellissippi State Technical Community College	Higher Education: Institutional Aid	142,575.95	
84.031	Tennessee State University	Higher Education: Institutional Aid	2,047,775.66	2,623,818.89
84.034	Secretary of State	Public Library Services		339,943.78
84.035	Secretary of State	Interlibrary Cooperation		72,603.52
84.048	Education	Vocational Education: Basic Grants to States		21,493,030.68
84.066	Austin Peay State University	TRIO: Educational Opportunity Centers	$ 300,811.06	
84.066	University of Tennessee	TRIO: Educational Opportunity Centers	449,565.60	750,376.66
84.069	Tennessee Student Assistance Corporation	Leveraging Educational Assistance Partnership		413,558.00
84.078	University of Tennessee	Regional Education Programs for Deaf and Other Handicapped Persons		928,491.72
84.116	East Tennessee State University	Fund for the Improvement of Postsecondary Education	$ 16,650.10	
84.116	Roane State Community College	Fund for the Improvement of Postsecondary Education	45,018.93	61,669.03
84.126	Human Services	Rehabilitation Services: Vocational Rehabilitation Grants to States		58,057,448.67
84.129	University of Memphis	Rehabilitation Long-Term Training	$ 93,924.56	
84.129	University of Tennessee	Rehabilitation Long-Term Training	160,111.38	254,035.94
84.141	University of Tennessee	Migrant Education: High School Equivalency Program		341,502.67
84.153	Middle Tennessee State University	Business and International Education		16,654.89
84.154	Secretary of State	Library Services and Construction Act: Construction		304,294.61
84.158	Education	Secondary Education and Transitional Services for Handicapped Youth		582,668.90
84.160	University of Tennessee	Training Interpreters for Individuals who are Deaf and Individuals who are Deaf-Blind		155,847.53
84.162	Education	Immigrant Education		392,409.03
84.169	Human Services	Independent Living: State Grants		346,981.31
84.177	Human Services	Rehabilitation Services: Independent Living Services for Older Individuals who are Blind		224,372.77
84.181	Education	Special Education: Grants for Infants and Families with Disabilities		5,120,153.38
84.185	Education	Byrd Honors Scholarships		733,500.00
84.186	Education	Safe and Drug-Free Schools and Communities: State Grants		9,065,807.67
84.187	Human Services	Supported Employment Services for Individuals with Severe Disabilities		661,777.48
84.194	Education	Bilingual Education Support Services		34,517.96
84.196	Education	Education for Homeless Children and Youth		472,885.17
84.213	Education	Even Start: State Educational Agencies		1,889,170.46
84.216	Education	Capital Expenses		109,345.00
84.217	University of Tennessee	McNair Post-Baccalaureate Achievement		444,053.79
84.224	Mental Health/Mental Retardation	Assistive Technology	$ 520,160.45	
84.224	Mental Health/Mental Retardation	Assistive Technology	9,864.00	530,024.45
84.243	Education	Tech-Prep Education		2,144,125.60
84.257	University of Tennessee	National Institute for Literacy		465,518.57
84.264	University of Tennessee	Rehabilitation Training: Continuing Education		402,345.72

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
84.265	Human Services	Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training		121,942.65
84.270	Education	Teacher Corps		50.00
84.276	Education	Goals 2000: State and Local Education Systemic Improvement Grants		7,253,899.09
84.278	Education	School-to-Work Opportunities	$ 5,838,282.37	
84.278	Pellissippi State Technical Community College	School-to-Work Opportunities	157,190.00	5,995,472.37
84.281	Education	Eisenhower Professional Development State Grants		4,147,898.11
84.298	Education	Innovative Education Program Strategies		5,695,110.31
84.318	Education	Technology Literacy Challenge Fund Grants		1,200,439.82
84.325	University of Memphis	Special Education: Personnel Preparation to Improve Services and Results for Children with Disabilities		104,352.65
84.330	Education	Advanced Placement Incentive Program		20,608.00
84.332	Education	Comprehensive School Reform Demonstration		125,042.68
N/A	Education	Christa McAuliffe Fellowship Program		26,492.17
Subtotal Direct Programs				$ 266,732,902.38
Passed Through Knox County Government				
84.281	Walters State Community College	Eisenhower Professional Development State Grants (332.96-97-108)		$ 393.40
Passed Through Harvard				
84.309	University of Tennessee	National Institute on Postsecondary Education, Libraries, and Lifelong Learning (B01993623)		160,943.29
Passed Through Governors State University				
N/A	Chattanooga State Technical Community College	ABELINC Project (N/A)		1,800.00
Passed Through Americorp				
N/A	Roane State Community College	National Service Trust Award (N/A)		20,960.50
Passed Through DTI Associates, Incorporated				
N/A	University of Tennessee	DTI ASSOC INC-SCHOOL TO WORK98 (B04999082)		512.19
Subtotal Pass-Through Programs				$ 184,609.38
Total U.S. Department of Education				$ 266,917,511.76
National Archives and Records Administration				
Direct Programs				
89.003	Secretary of State	National Historical Publications and Records Grants		$ 949.46
Total National Archives and Records Administration				$ 949.46
U.S. Department of Health and Human Services				
Direct Programs				
93.041	Commission on Aging	Special Programs for the Aging: Title VII, Chapter 3: Programs for Prevention of Elder Abuse, Neglect, and Exploitation		$ 55,153.00
93.042	Commission on Aging	Special Programs for the Aging: Title VII, Chapter 2: Long Term Care Ombudsman Services for Older Individuals		130,415.00
93.043	Commission on Aging	Special Programs for the Aging: Title III, Part F: Disease Prevention and Health Promotion Services		345,863.00
93.046	Commission on Aging	Special Programs for the Aging: Title III, Part D: In-Home Services for Frail Older Individuals		198,508.00
93.048	Commission on Aging	Special Program for the Aging: Title IV: Training, Research, and Discretionary Projects and Programs		37,430.46

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
93.110	Health	Maternal and Child Health Federal Consolidated Programs	$ 202,909.58	
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs	65,795.37	268,704.95
93.116	Health	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		1,096,361.29
93.119	Mental Health/Mental Retardation	Grants for Technical Assistance Activities Related to the Block Grant for Community Mental Health Services: Technical Assistance Centers for Evaluation		30,365.94
93.121	University of Tennessee	Oral Diseases and Disorders Research		31,837.27
93.124	University of Tennessee	Nurse Anesthetist Traineeships		40,665.08
93.127	Health	Emergency Medical Services for Children		101,302.19
93.130	Health	Primary Care Services: Resource Coordination and Development--Primary Care Offices		96,646.37
93.139	University of Tennessee	Financial Assistance for Disadvantaged Health Professions Students		3,073.00
93.150	Mental Health/Mental Retardation	Projects for Assistance in Transition from Homelessness (PATH)		276,408.00
93.151	East Tennessee State University	Health Center Grants for Homeless Populations		67,219.24
93.161	Health	Health Program for Toxic Substances and Disease Registry		9,861.47
93.165	Health	Grants for State Loan Repayment		10,000.00
93.197	Health	Childhood Lead Poisoning Prevention Projects: State and Community-Based Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children		121,904.02
93.217	Health	Family Planning: Services		5,053,516.69
93.224	Health	Community Health Centers	$ 1,041,933.29	
93.224	University of Tennessee	Community Health Centers	21,915.64	1,063,848.93
93.226	University of Tennessee	Health Care Systems Cost and Access Research and Development Grants		332,355.48
93.230	Mental Health/Mental Retardation	Consolidated Knowledge Development and Application (KD&A) Program	$ 229,022.62	
93.230	University of Tennessee	Consolidated Knowledge Development and Application (KD&A) Program	332,171.65	561,194.27
93.235	Health	Abstinence Education		251,557.88
93.268	Health	Immunization Grants		2,959,010.99
93.282	University of Memphis	Mental Health National Research Service Awards for Research Training	$ 4,999.19	
93.282	University of Tennessee	Mental Health National Research Service Awards for Research Training	0.05	4,999.24
93.283	Health	Centers for Disease Control and Prevention: Investigations and Technical Assistance		841,741.44
93.298	East Tennessee State University	Nurse Practitioner and Nurse-Midwifery Education Programs		1,201.92
93.358	Tennessee State University	Professional Nurse Traineeships	$ 25,794.00	
93.358	University of Tennessee	Professional Nurse Traineeships	159,273.21	185,067.21
93.359	East Tennessee State University	Nursing: Special Projects		263,936.84
93.379	East Tennessee State University	Grants for Graduate Training in Family Medicine		192,555.30
93.389	Tennessee State University	Research Infrastructure		536.49
93.390	University of Tennessee	Academic Research Enhancement Award		12,383.42
93.551	University of Tennessee	Abandoned Infants		549,701.23
93.556	Children's Services	Family Preservation and Support Services		4,572,839.58
93.558	Human Services	Temporary Assistance for Needy Families (TANF)		123,640,700.53
93.563	Human Services	Child Support Enforcement (CSE)		30,465,380.66
93.566	Human Services	Refugee and Entrant Assistance: State Administered Programs		1,037,859.14
93.568	Human Services	Low-Income Home Energy Assistance (LIHEAP)		21,389,099.31
93.569	Human Services	Community Services Block Grant (CSBG)		9,466,569.95
93.571	Human Services	Community Services Block Grant Discretionary Awards: Community Food and Nutrition		20,080.84
93.576	Health	Refugee and Entrant Assistance: Discretionary Grants	$ 22,964.99	
93.576	Human Services	Refugee and Entrant Assistance: Discretionary Grants	139,179.96	162,144.95
93.584	Human Services	Refugee and Entrant Assistance: Targeted Assistance		242,929.20
93.585	Human Services	Empowerment Zones Program	$ 1,416,725.99	
93.585	Jackson State Community College	Empowerment Zones Program	70,930.60	1,487,656.59
93.586	Court System	State Court Improvement Program		137,990.94
93.597	Human Services	Grants to States for Access and Visitation Programs		212,137.57
93.600	Education	Head Start	$ 230,780.99	
93.600	Tennessee State University	Head Start	1,028,474.71	
93.600	University of Tennessee	Head Start	1,525.73	1,260,781.43
93.630	Mental Health/Mental Retardation	Developmental Disabilities Basic Support and Advocacy Grants		1,167,743.89
93.632	University of Tennessee	Developmental Disabilities University Affiliated Programs		124,755.60
93.643	Children's Services	Children's Justice Grants to States		63,718.05
93.645	Children's Services	Child Welfare Services: State Grants		5,777,784.69

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
93.648	University of Tennessee	Child Welfare Services Training Grants		1,013,838.17
93.656	Mental Health/Mental Retardation	Temporary Child Care and Crisis Nurseries		340,967.86
93.658	Children's Services	Foster Care: Title IV-E		26,625,321.98
93.659	Children's Services	Adoption Assistance		5,905,975.02
93.667	Human Services	Social Services Block Grant (SSBG)		42,345,063.24
93.669	Children's Services	Child Abuse and Neglect State Grants		1,167,438.05
93.671	Finance and Administration	Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	$ 1,149,960.39	
93.671	Human Services	Family Violence Prevention and Services/Grants for Battered Women's Shelters: Grants to States and Indian Tribes	35,279.29	1,185,239.68
93.674	Children's Services	Independent Living		873,923.08
93.779	Commission on Aging	Health Care Financing Research, Demonstrations and Evaluations	$ 244,186.41	
93.779	Tennessee State University	Health Care Financing Research, Demonstrations and Evaluations	51,132.70	295,319.11
93.822	East Tennessee State University	Health Careers Opportunity Program	$ 55,816.46	
93.822	Tennessee State University	Health Careers Opportunity Program	186,396.03	
93.822	University of Tennessee	Health Careers Opportunity Program	357,815.33	600,027.82
93.837	University of Tennessee	Heart and Vascular Diseases Research		186,957.14
93.839	East Tennessee State University	Blood Diseases and Resources Research	$ 632.85	
93.839	University of Tennessee	Blood Diseases and Resources Research	835.51	1,468.36
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research		86,833.63
93.853	University of Tennessee	Clinical Research Related to Neurological Disorders		20,252.51
93.856	University of Tennessee	Microbiology and Infectious Diseases Research		77,727.76
93.880	Tennessee State University	Minority Access to Research Careers		323,644.74
93.895	East Tennessee State University	Grants for Faculty Development in Family Medicine		113,386.09
93.896	East Tennessee State University	Grants for Predoctoral Training in Family Medicine	$ 114,542.82	
93.896	University of Tennessee	Grants for Predoctoral Training in Family Medicine	127,881.02	242,423.84
93.913	Health	Grants to States for Operation of Offices of Rural Health		53,541.43
93.917	Health	HIV Care Formula Grants		5,175,336.64
93.919	Health	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs		550,641.34
93.938	Education	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		173,944.45
93.940	Health	HIV Prevention Activities: Health Department Based		3,124,982.09
93.944	Health	Human Immunodeficiency Virus(HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		434,920.26
93.958	Mental Health/Mental Retardation	Block Grants for Community Mental Health Services		4,410,531.00
93.959	Health	Block Grants for Prevention and Treatment of Substance Abuse		22,196,718.75
93.960	University of Memphis	Special Minority Initiatives		121,167.93
93.962	University of Memphis	Health Administration Traineeships and Special Projects Program		10,957.88
93.977	Health	Preventive Health Services: Sexually Transmitted Diseases Control Grants		1,314,642.83
93.984	East Tennessee State University	Academic Administrative Units in Primary Care		70,231.76
93.988	Health	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems		215,830.02
93.989	Tennessee State University	Senior International Fellowships		16,635.58
93.991	Health	Preventive Health and Health Services Block Grant		3,026,537.55
93.994	Health	Maternal and Child Health Services Block Grant to the States		11,599,650.88
N/A	Middle Tennessee State University	Building Linkages Project		1,037.32
N/A	Health	Development of Collaborative Partnerships for the State of Tennessee		3,442.90
N/A	Agriculture	Food Sanitation Inspection		30,391.40
N/A	Tennessee State University	Improving Health Outcomes for Mothers and Their Children		7,067.35
N/A	Agriculture	Pesticide Residue		5,000.00
N/A	Agriculture	Tobacco Investigations		24,828.30
Subtotal Direct Programs				$ 350,399,344.27
Passed Through University of North Carolina				
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs (B01998036)		$ 83,784.42

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through Vanderbilt University				
93.110	Tennessee State University	Maternal and Child Health Federal Consolidated Programs (2 T83MC008-43)	$ 41,835.66	
93.110	Tennessee State University	Maternal and Child Health Federal Consolidated Programs (2 T83MC008-42)	413.55	42,249.21
Passed Through Meharry Medical College				
93.192	Tennessee State University	Quentin N. Burdick Programs for Rural Interdisciplinary Training (2 D36 AH10050-04)		3,767.14
93.960	Tennessee State University	Special Minority Initiatives (2 R25 GM51759-04)	$ 34,847.62	
93.960	Tennessee State University	Special Minority Initiatives (2 R25 GM51759-03)	10,908.46	45,756.08
93.969	Tennessee State University	Grants for Geriatric Education Centers (5D31AH70061-04)	$ (212.06)	
93.969	Tennessee State University	Grants for Geriatric Education Centers (5D31AH70061-02)	413.15	
93.969	Tennessee State University	Grants for Geriatric Education Centers (5D31AH70061-03)	18,270.42	18,471.51
Passed Through Signal Centers, Incorporated				
93.558	Chattanooga State Technical Community College	Temporary Assistance for Needy Families (TANF) (N/A)		27,089.84
Passed Through Southeast Tennessee Private Industry Council				
93.561	Chattanooga State Technical Community College	Job Opportunities and Basic Skills Training (N/A)		212.10
Passed Through Metropolitan Government of Nashville and Davidson County				
93.575	Tennessee State University	Child Care and Development Block Grant (CCDBG) (N/A)		24,516.90
Passed Through Cordell Hull Head Start				
93.600	Tennessee State University	Head Start (N/A)		8,986.61
Passed Through City of Memphis				
93.960	Shelby State Community College	Special Minority Initiatives (HRD-9553315)		8,888.53
Passed Through Synectics for Management Decisions, Incorporated				
N/A	Health	Drug and Alcohol Services Information System (283-97-9001)		73,805.93
Passed Through National Collegiate Athletic Association				
93.570	University of Memphis	Community Services Block Grant: Discretionary Awards (NCAA98-404)	$ 68,767.85	
93.570	University of Memphis	Community Services Block Grant: Discretionary Awards (NCAA99-404)	33.93	
93.570	University of Memphis	Community Services Block Grant: Discretionary Awards (NCAA95-082)	732.47	69,534.25
N/A	Tennessee State University	National Collegiate Athletic Association (N/A)		54,775.99
N/A	Tennessee State University	National Youth Sports Program (NCAA 93-150)		3,358.24
N/A	Tennessee State University	National Youth Sports Program (N/A)		15,766.71
N/A	Tennessee State University	National Youth Sports Program: Girls Sport Clinic (N/A)		5,250.00
Subtotal Pass-Through Programs				$ 486,213.46
Total U.S. Department of Health and Human Services				$ 350,885,557.73
Corporation for National and Community Service				
Direct Programs				
94.003	Finance and Administration	State Commissions		$ 209,020.52
94.004	Education	Learn and Serve America: School and Community Based Programs	$ 354,920.86	

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
94.004	Finance and Administration	Learn and Serve America: School and Community Based Programs	152,522.41	507,443.27
94.005	East Tennessee State University	Learn and Serve America: Higher Education		194,760.55
94.006	Finance and Administration	AmeriCorps		2,655,781.17
94.007	Finance and Administration	Planning and Program Development Grants		47,916.63
94.009	Finance and Administration	Training and Technical Assistance		136,949.40
94.013	Education	Volunteers in Service to America		330,797.23
Total Corporation for National and Community Service				$ 4,082,668.77
Research and Development Cluster				
U.S. Department of Agriculture				
Direct Programs				
10.001	University of Memphis	Agricultural Research: Basic and Applied Research	$ 9,602.97	
10.001	University of Tennessee	Agricultural Research: Basic and Applied Research	109,678.67	$ 119,281.64
10.055	University of Tennessee	Production Flexibility Payments for Contract Commodities		5,918.02
10.069	University of Tennessee	Conservation Reserve Program		3,670.36
10.156	University of Tennessee	Federal-State Marketing Improvement Program		7,333.71
10.200	Tennessee State University	Grants for Agricultural Research, Special Research Grants	$ 101,021.76	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	86,059.50	187,081.26
10.202	East Tennessee State University	Cooperative Forestry Research	$ 247.10	
10.202	University of Tennessee	Cooperative Forestry Research	467,416.12	467,663.22
10.203	University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act		4,691,981.87
10.205	Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University		1,996,257.97
10.206	East Tennessee State University	Grants for Agricultural Research: Competitive Research Grants	$ 120,270.03	
10.206	University of Tennessee	Grants for Agricultural Research: Competitive Research Grants	466,394.24	586,664.27
10.207	University of Tennessee	Animal Health and Disease Research		74,917.79
10.216	Tennessee State University	1890 Institution Capacity Building Grants		420,685.72
10.217	University of Tennessee	Higher Education Challenge Grants		16,227.82
10.250	University of Tennessee	Agricultural and Rural Economic Research		67,899.60
10.652	University of Tennessee	Forestry Research		164,382.45
10.902	University of Tennessee	Soil and Water Conservation		55,643.76
10.962	University of Tennessee	International Training: Foreign Participant		1,500.00
N/A	Tennessee Technological University	Business Technologies Incubator		92,781.95
N/A	Tennessee Technological University	Bat Ecosystem Management		10,428.90
N/A	Tennessee Technological University	Survey for Endangered and Other Bat Species in the Nantahala National Forest		3,594.09
Subtotal Direct Programs				$ 8,973,914.40
Passed Through Southern Regional Aquaculture Center				
10.200	University of Memphis	Grants for Agricultural Research, Special Research Grants (USDA#95-38500-1411)		$ 9,010.75
Passed Through University of Vermont				
10.200	University of Tennessee	Grants For Agricultural Research, Special Research Grants (B01998187)		100.00
Passed Through Texas Tech University				
10.206	University of Memphis	Grants for Agricultural Research: Competitive Research Grants (1300/4527-01)		16,706.85
Passed Through Mississippi State University				
10.250	Tennessee State University	Agricultural and Rural Economic Research (98-1-940-06)		4,395.75
Subtotal Pass-Through Programs				$ 30,213.35
Subtotal U.S. Department of Agriculture				$ 9,004,127.75

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of Commerce		
Direct Programs				
11.303	University of Memphis	Economic Development: Technical Assistance		$ 106,142.32
11.431	University of Tennessee	Climate and Atmospheric Research		4,852.35
11.609	University of Tennessee	Measurement and Engineering Research and Standards		198,089.44
N/A	University of Memphis	Tornado Seismic Signals		3,128.91
N/A	University of Memphis	Tool for Improving Survey Questions		48,249.06
Subtotal Direct Programs				$ 360,462.08
Passed Through Southern Regional Aquaculture Center				
11.427	University of Memphis	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program (N/A)		$ 5,802.10
Subtotal Pass-Through Programs				$ 5,802.10
Subtotal U.S. Department of Commerce				$ 366,264.18
		U.S. Department of Defense		
Direct Programs				
12.002	East Tennessee State University	Procurement Technical Assistance for Business Firms		$ 436,526.63
12.104	University of Memphis	Flood Plain Management Services		63,999.39
12.300	Tennessee State University	Basic and Applied Scientific Research	$ 1,119,751.47	
12.300	University of Memphis	Basic and Applied Scientific Research	290,382.43	
12.300	University of Tennessee	Basic and Applied Scientific Research	797,743.56	2,207,877.46
12.420	Tennessee State University	Military Medical Research and Development	$ 71,665.21	
12.420	University of Tennessee	Military Medical Research and Development	155,075.24	226,740.45
12.431	University of Tennessee	Basic Scientific Research		860,072.93
12.630	University of Tennessee	Basic, Applied, and Advanced Research in Science and Engineering		2,047.25
12.800	University of Tennessee	Air Force Defense Research Sciences Program		1,147,698.69
N/A	Tennessee State University	Intergovernmental Personnel Agreement	$ 17,858.32	
N/A	University of Memphis	Intergovernmental Personnel Agreement	22,809.16	40,667.48
N/A	Tennessee State University	Thin Film Phase Change Heat Transfer		46,634.84
N/A	Tennessee Technological University	Evaluation of the Effects of Headcutting on Riparian Forests of the Wolf River		9,962.18
N/A	Tennessee Technological University	Habitat Spawning Structure Evaluation and Monitoring Program		(2,437.83)
N/A	University of Memphis	West Tennessee Tributaries Project Reformulation		1,732.38
N/A	University of Memphis	Wolf River Study: GIS Modeling and Mapping		418.02
N/A	University of Memphis	Wolf River Study: Predicted Land Use Data		7,929.49
N/A	University of Memphis	Wolf River Study: Wetlands Environmental Impact Study		3,107.62
N/A	University of Memphis	Wolf River Study: Water Quality Impact Analysis		16,952.87
N/A	University of Memphis	A Reconnaissance Study on Water Resources Problems of Six Counties		6,212.14
N/A	University of Memphis	Vegetation Impact Analysis of Reelfoot Lake		10,107.64
N/A	University of Memphis	Vegetation Impact Analysis of Lake Isom		19,874.97
N/A	University of Memphis	Memphis Metro Study: Planning and Environmental Analysis		20,243.73
N/A	University of Memphis	Memphis Metro Study: GIS Modeling and Mapping		8,203.05
N/A	University of Memphis	Memphis Riverfront Development Project		10,499.48
N/A	University of Memphis	William C. Foster Fellows Visiting Scholars Program		38,803.74
N/A	University of Memphis	Quasilinear Equations, Qualitative Properties of Solutions		3,885.91
N/A	University of Memphis	Journalism Internship		2.52
N/A	University of Tennessee	ARMY DAAH04-94-G-0088STEINHOFF		24,164.59
N/A	University of Tennessee	ARMY DAAH04-95-1-0077 DONGARRA		276,786.93
N/A	University of Tennessee	ARMY DAAH04-95-1-0258 STEINHFF		30,312.54
N/A	University of Tennessee	ARMY DAAH04-95-1-0504 DONGARRA		6,188.20
N/A	University of Tennessee	ARMY DAAH04-95-1-0595 DONGRA96		260,722.84
N/A	University of Tennessee	ARMY DAAK70-93-C-0037 TRIVEDI		42,562.50
Subtotal Direct Programs				$ 5,828,500.63

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through Pennsylvania State University				
12.300	Tennessee State University	Basic and Applied Scientific Research (N00014-95-1-0461)	$ 52,079.32	
12.300	Tennessee State University	Basic and Applied Scientific Research (N00014-96-1-1147)	41,646.80	
12.300	Tennessee State University	Basic and Applied Scientific Research (N00014-97-C-2074)	1,150.32	$ 94,876.44
Passed Through Nichols Research Corporation				
12.431	University of Tennessee	Basic Scientific Research (B01994060)	$ 183,165.33	
12.431	University of Tennessee	Basic Scientific Research (B01994070)	157,263.92	340,429.25
Passed Through Yale University				
12.431	University of Tennessee	Basic Scientific Research (B01998074)		32,669.15
Passed Through Questech, Incorporated				
12.800	University of Memphis	Air Force Defense Research Sciences Program (SC-5435.48)		23,779.47
Passed Through Research and Development Laboratory				
12.800	University of Tennessee	Air Force Defense Research Sciences Program (B01998257)		7,756.06
Passed Through Naval Research Laboratory				
N/A	Middle Tennessee State University	Design and Synthesis of Organosiloxane Films for the Controlled Entrapment of Physisorbed Species (NOO173-98-P-2055)		5,603.31
Passed Through Academy of Applied Science				
N/A	Tennessee State University	Research and Engineering Apprentice Program (DAAH04-93-G-0163)		3,635.95
Passed Through Northeast Consortium for Engineering Education				
N/A	Tennessee Technological University	Surface Ship Networking Support (NCEE/A303/50B-98)		8,810.56
Passed Through Tennessee Applied Physical Sciences				
N/A	Tennessee Technological University	Biologically Generated Multi-Spectral Obscurants (TAPS TTU-001)	$ 1,065.93	
N/A	Tennessee Technological University	Biologically Generated Multi-Spectral Obscurants (TAPS TTU-FFP-001)	41,638.18	42,704.11
Passed Through General Dynamics				
N/A	University of Memphis	Spatial Analysis of White-Tailed Deer Data (T-98-5778)		3,766.39
Passed Through Science Applications International Corporation				
N/A	University of Memphis	Search Model (4400005110)		3,168.06
Passed Through University of North Alabama				
N/A	University of Tennessee	UNIV NORTH ALABAMA SMITH 99 (B01998031)		7,649.71
Passed Through Raytheon				
N/A	University of Tennessee	RAYTHEON E-SYSMS#AA23 YR3 DNGR (B01998066)		263,472.41
Passed Through Northeastern University				
N/A	University of Tennessee	NORTHEASTERN UN-593930 VO-DINH (B01998151)		10,427.26
Subtotal Pass-Through Programs				$ 848,748.13
Subtotal U.S. Department of Defense				$ 6,677,248.76

State of Tennessee
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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of Housing and Urban Development		
Direct Programs				
14.511	University of Memphis	Community Outreach Partnership Center Program		$ 42,013.82
Subtotal Direct Programs				$ 42,013.82
Passed Through City of Memphis				
14.218	University of Memphis	Community Development Block Grants/ Entitlement Grants (N13408)		$ 45,572.39
Subtotal Pass-Through Programs				$ 45,572.39
Subtotal U.S. Department of Housing and Urban Development				$ 87,586.21
		U.S. Department of the Interior		
Direct Programs				
15.608	East Tennessee State University	Fish and Wildlife Management Assistance	$ 5,487.91	
15.608	University of Tennessee	Fish and Wildlife Management Assistance	12,126.22	$ 17,614.13
15.611	University of Tennessee	Wildlife Restoration		29,961.66
15.617	University of Tennessee	Wildlife Conservation and Appreciation		3,250.41
15.807	University of Memphis	Earthquake Hazards Reduction Program		483,106.80
15.808	University of Tennessee	U.S. Geological Survey: Research and Data Acquisition		692,600.21
15.810	University of Tennessee	National Cooperative Geologic Mapping Program		25,168.22
15.904	East Tennessee State University	Historic Preservation Fund Grants-In-Aid		22,449.98
15.910	University of Tennessee	National Natural Landmarks Program		36,075.34
15.916	Middle Tennessee State University	Outdoor Recreation: Acquisition, Development and Planning	$ 13,048.92	
15.916	Tennessee Technological University	Outdoor Recreation: Acquisition, Development and Planning	2,932.14	
15.916	University of Tennessee	Outdoor Recreation: Acquisition, Development and Planning	133,125.70	149,106.76
15.921	University of Memphis	Rivers, Trails and Conservation Assistance	$ 3,806.57	
15.921	University of Tennessee	Rivers, Trails and Conservation Assistance	160,406.92	164,213.49
15.976	University of Memphis	Migratory Bird Banding and Data Analysis		621.32
N/A	Tennessee Technological University	Canada Goose Movements and Interchange Among Four National Wildlife Refuges		3,688.54
N/A	Tennessee Technological University	Development of a Marking Technique for Juvenile Mussels		4,088.03
N/A	Tennessee Technological University	Propagation of Endangered Mussels at Fish Hatcheries		31,333.55
N/A	Tennessee Technological University	Reintroduction of Freshwater Mussels into the Tennessee River		21,421.64
N/A	Tennessee Technological University	Relationship Between Stream Discharge and Mussel Recruitment		10,850.45
N/A	Tennessee Technological University	The Relation Between Mussel Density and Survival During Quarantine		(0.36)
N/A	Tennessee Technological University	Development of Environmental Markers for Monitoring Effectiveness of Management Silvercultural Practices		1,641.35
N/A	Tennessee Technological University	Evaluation of Habitat, Macroinvertebrates, and Water Quality Associated with Brook Trout		9,926.25
N/A	Tennessee Technological University	Biological Characteristics of the Blackside Dace		15,466.83
N/A	Tennessee Technological University	Distribution Characteristics of the Nashville Crayfish		6,000.00
N/A	Tennessee Technological University	Contaminants on Refuges in the Mississippi River Alluvial Plain		1,500.00
N/A	Tennessee Technological University	Maintenance and Production of Ohio River Mussels		13,920.06
N/A	University of Tennessee	NPS CA5000-4-9016/5 EGLIN BEAR		51,296.29
Subtotal Direct Programs				$ 1,795,300.95
Passed Through Kentucky Heritage Council				
15.904	University of Tennessee	Historic Preservation Fund Grants-In-Aid (B01994053)	$ 600.00	
15.904	University of Tennessee	Historic Preservation Fund Grants-In-Aid (B01994098)	1,800.00	$ 2,400.00
Subtotal Pass-Through Programs				$ 2,400.00
Subtotal U.S. Department of the Interior				$ 1,797,700.95

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U.S. Department of Justice		
Direct Programs				
16.560	University of Memphis	Justice Research, Development, and Evaluation Project Grants	$ 35,992.38	
16.560	University of Tennessee	Justice Research, Development, and Evaluation Project Grants	56,091.76	$ 92,084.14
N/A	University of Tennessee	FBI J-FBI-98-083 BIRDWELL		132,133.60
Subtotal Direct Programs				$ 224,217.74
Passed Through University of Nevada				
16.560	University of Memphis	Justice Research, Development, and Evaluation Project Grants (SSFA #UNR-99-01)		$ 24,901.74
Subtotal Pass-Through Programs				$ 24,901.74
Subtotal U.S. Department of Justice				$ 249,119.48
		U.S. Department of Labor		
Direct Programs				
17.503	University of Tennessee	Occupational Safety and Health: State Program		$ 155,057.80
N/A	University of Tennessee	US DOL #J-9-E-1-0030 CON RS 97		474,663.09
Subtotal U.S. Department of Labor				$ 629,720.89
		U.S. Department of Transportation		
Direct Programs				
20.701	University of Tennessee	University Transportation Centers Program		$ 786,253.21
Subtotal Direct Programs				$ 786,253.21
Passed Through Memphis and Shelby County				
20.205	University of Memphis	Highway Planning and Contruction (CA982440)		$ 25,452.80
Passed Through City of Memphis				
20.215	University of Memphis	Highway Training and Education (N-11150)		7,013.29
Subtotal Pass-Through Programs				$ 32,466.09
Subtotal U.S. Department of Transportation				$ 818,719.30
		National Aeronautics and Space Administration		
Direct Programs				
43.001	University of Memphis	Aerospace Education Services Program		$ 53,715.43
43.002	Tennessee State University	Technology Transfer		2,056,093.58
N/A	East Tennessee State University	Ames Research Center		44,722.37
N/A	East Tennessee State University	Marshall Space Flight Center		115,292.41
N/A	Middle Tennessee State University	Development of Anitonic Polyelectrolytes for Solid State Battery Applications		51,575.50
N/A	Middle Tennessee State University	NASA-JOVE Project		4,319.96
N/A	Tennessee State University	The Associate Principal Astronomer for AI Mangement of Automatic Telescopes		(4,590.92)
N/A	Tennessee Technological University	Radiation Heat Transfer Procedures for Space-Related Applications		26,288.17
N/A	University of Memphis	Landslide Hazard in Response to Short Term Climate Change		44,287.76
N/A	University of Memphis	New Diagnostic Constraints for Coronal Heating and Loop Models		29,502.67
N/A	University of Memphis	Geophysics Research		34,852.95

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
N/A	University of Memphis	Modeling Magnetically Actuated Positive Positioning of Cryogenic Propellants		47,503.43
N/A	University of Tennessee	IPA-NASA PO W30865-ASKEW		144,547.00
N/A	University of Tennessee	NASA ALG-LIBR-9-98 DONGARRA		49,747.53
N/A	University of Tennessee	NASA H-30962D KEYHANI		7,467.75
N/A	University of Tennessee	NASA JSC-9-95-9397 TOWNSEND		3,865.36
N/A	University of Tennessee	NASA NAG 5-8154 TALYOR		81,949.67
N/A	University of Tennessee	NASA NAG 8-1568 BUNICK		38,006.57
N/A	University of Tennessee	NASA NAG-12185 LO		8,608.24
N/A	University of Tennessee	NASA NAG1-2163 LYNE		1,070.05
N/A	University of Tennessee	NASA NAG10-0221 CONGER		84,210.47
N/A	University of Tennessee	NASA NAG2-1218 DONGARRA		40,000.00
N/A	University of Tennessee	NASA NAG3-2068 CARUTHERS		31,177.70
N/A	University of Tennessee	NASA NAG5-3464 THONNARD		101,733.76
N/A	University of Tennessee	NASA NAG5-4370 TAYLOR 98		105,033.83
N/A	University of Tennessee	NASA NAG5-4541 METEORITE-MCSWN		135,155.73
N/A	University of Tennessee	NASA NAG5-6237 BLASS		3,795.20
N/A	University of Tennessee	NASA NAG8-1336 MARSHALL-ANTAR		14,896.03
N/A	University of Tennessee	NASA NAG8-1442 SANDERS SEE		46,669.17
N/A	University of Tennessee	NASA NAG9-1080 SAYLER		19,177.41
N/A	University of Tennessee	NASA NAGW OSSP PROGRAM-MCSWEEN		53,478.71
N/A	University of Tennessee	NASA NCC 5-88 BLASS		12,638.57
N/A	University of Tennessee	NASA NCC2-5274 DONGARRA		50,000.00
N/A	University of Tennessee	NASA NCC2-5284 PERF MOD		50,000.00
N/A	University of Tennessee	NASA NCC2-5310 DONGARRA		3,836.16
N/A	University of Tennessee	NASA NCC2-5313 DONGARRA		6,311.30
N/A	University of Tennessee	NASA NGT-1-52138 TOWNSEND		1,353.56
N/A	University of Tennessee	NASA PO#H27475D-KEYHANI		9,165.92
N/A	University of Tennessee	NASA-AMES NCC2-5144 STEINHOFF		11,839.82
N/A	University of Tennessee	NASA-AMES NCC2-5265 STEINHOFF		4,408.51
N/A	University of Tennessee	NASA-MINERALOGY&SPECTRAL-TAYLR		23,378.06
Subtotal Direct Programs				$ 3,647,085.39
Passed Through Vanderbilt University				
43.001	Austin Peay State University	Aerospace Education Services Program (14031-A2-S1)	$ 3,957.55	
43.001	Austin Peay State University	Aerospace Education Services Program (14031-A3-S1)	1,837.72	$ 5,795.27
Passed Through University of Alabama				
43.001	Austin Peay State University	Aerospace Education Services Program (NAG5-4346)		9,934.85
Passed Through Mississippi State University				
N/A	Tennessee State University	Physics-Based Maneuvering Prediction of Commuter Aircraft (NAG2-1232)		50,356.83
Passed Through Prairie View A&M University				
N/A	Tennessee State University	Applied Radiation Research (NCC9-50)	$ 2,114.00	
N/A	Tennessee State University	Applied Radiation Research (NCCW-0086, NCC9-50)	12,699.69	14,813.69
Passed Through Alabama A&M University				
N/A	University of Memphis	An Innovative Approach for Vortex Tube Flow Analysis and Application in Film Cooling (NAG8-1335)		19,403.49
Passed Through Lockheed Martin Missles				
N/A	University of Memphis	Yohkoh Solar X-Ray Telescope Program (LMMS/25-AH/61997)		357.00
Passed Through California Institute for Technology Jet Propulsion				
N/A	University of Tennessee	JET PROPULSION LAB #959389 93 (B01996596)		4,757.72
N/A	University of Tennessee	NASA JPL/CAL TECH 960871 MCSWN (B01997135)		6,061.91
N/A	University of Tennessee	JET PROPULSION LAB-CAL TECH 98 (B01998045)		50,249.12

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
N/A	University of Tennessee	JPL-CAL TECH MCSWEEN 99 (B01998227)		15,833.08
Subtotal Pass-Through Programs			$	177,562.96
Subtotal National Aeronautics and Space Administration			$	3,824,648.35
National Foundation on the Arts and the Humanities				
Direct Programs				
45.024	Austin Peay State University	Promotion of the Arts: Grants to Organizations and Individuals	$	1,727.77
45.161	University of Tennessee	Promotion of the Humanities: Research		161,792.87
N/A	University of Memphis	Wisdom and Happiness in Aristotle's Moral Philosophy		11,572.78
Subtotal Direct Programs			$	175,093.42
Passed Through Southern Humanities Media Fund				
45.129	University of Memphis	Promotion of the Humanities: Federal/State Partnership (SM97-4)	$	9,716.01
Subtotal Pass-Through Programs			$	9,716.01
Subtotal National Foundation on the Arts and the Humanities			$	184,809.43
National Science Foundation				
Direct Programs				
47.041	Tennessee Technological University	Engineering Grants	$ 135,958.11	
47.041	University of Memphis	Engineering Grants	185,024.67	
47.041	University of Tennessee	Engineering Grants	929,086.62	$ 1,250,069.40
47.049	Austin Peay State University	Mathematical and Physical Sciences	$ 1,078.10	
47.049	East Tennessee State University	Mathematical and Physical Sciences	1,185.29	
47.049	Tennessee State University	Mathematical and Physical Sciences	60,355.47	
47.049	University of Memphis	Mathematical and Physical Sciences	275,723.24	
47.049	University of Tennessee	Mathematical and Physical Sciences	2,418,905.45	2,757,247.55
47.050	University of Memphis	Geosciences	$ 108,921.48	
47.050	University of Tennessee	Geosciences	402,638.37	511,559.85
47.070	East Tennessee State University	Computer and Information Science and Engineering	$ 10,300.01	
47.070	University of Memphis	Computer and Information Science and Engineering	282,761.93	
47.070	University of Tennessee	Computer and Information Science and Engineering	1,124,441.03	1,417,502.97
47.074	University of Memphis	Biological Sciences	$ 11,632.96	
47.074	University of Tennessee	Biological Sciences	1,513,355.10	1,524,988.06
47.075	University of Memphis	Social, Behavioral, and Economic Sciences	$ 112,779.59	
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	822,511.50	935,291.09
47.076	Tennessee State University	Education and Human Resources	$ 871,917.43	
47.076	University of Memphis	Education and Human Resources	16,463.47	
47.076	University of Tennessee	Education and Human Resources	448,931.48	1,337,312.38
47.078	University of Tennessee	Polar Programs		37,112.23
N/A	Middle Tennessee State University	Student-designed Experimental Investigation and Integrated Symposium for the Undergraduate Neurobiology, Ethology and Physiology Laboratories		11,806.00
N/A	Middle Tennessee State University	Computational Chemistry over Four Years: Integrating the Tools of Computational Chemistry into the Chemistry Curriculum		13,607.50
N/A	Middle Tennessee State University	Embeddings of Graphs in Surfaces		17,916.65
N/A	Middle Tennessee State University	Integration of Molecular Methodologies into Biology Laboratory Curricula		1,386.09
N/A	Middle Tennessee State University	NSF Tennessee Constructing Understanding in Physics (T-CUP)		42,068.48
N/A	Tennessee Technological University	Biosynthetic Incorporation-Control & Novel Proteins		5,883.23

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
N/A	Tennessee Technological University	Enhancement of Noise Control Facility		27,324.45
N/A	Tennessee Technological University	Infrared Thermography Equipment for Mechanical Engineering Laboratory Courses		37,400.00
N/A	Tennessee Technological University	Parasitism of Bloom-forming Dinoflagellates		67,985.61
N/A	Tennessee Technological University	Virtual Environment for Education, Robits, Automation, and Manufacturing		33,284.50
Subtotal Direct Programs				$ 10,029,746.04
Passed Through University of Minnesota				
47.041	University of Memphis	Engineering Grants (NSF/DMR-9522286)		$ 9,948.02
Passed Through State University of New York				
47.041	University of Memphis	Engineering Grants (150-7145-A)		31,042.37
Passed Through Duke University				
47.041	University of Memphis	Engineering Grants (BES 9520526)		207.71
Passed Through University of Illinois				
47.041	University of Memphis	Engineering Grants (98-268/2RR-2)	$ 30,539.39	
47.041	University of Memphis	Engineering Grants (98-268/20-4)	21,670.10	
47.041	University of Memphis	Engineering Grants (98-268/2SG-2)	47,625.22	
47.041	University of Memphis	Engineering Grants (98-268/2SG-3A)	6,289.11	
47.041	University of Memphis	Engineering Grants (98-268/1SE-3B)	7,580.60	
47.041	University of Memphis	Engineering Grants (98-268/2SG-1)	30,300.43	
47.041	University of Memphis	Engineering Grants (98-268/2SG-4)	18,712.85	
47.041	University of Memphis	Engineering Grants (98-268/1AD-2/2RD2)	6,384.51	
47.041	University of Memphis	Engineering Grants (98-268/2RR-4)	14,467.22	
47.041	University of Memphis	Engineering Grants (98-268/2ED-2)	14,095.46	
47.041	University of Memphis	Engineering Grants (98-268/10-2B)	1,237.18	198,902.07
47.050	University of Memphis	Geosciences (98-268/2RC-2)	$ 2,916.99	
47.050	University of Memphis	Geosciences (98-268/2ST-17)	3,114.62	6,031.61
Passed Through Rice University				
47.070	University of Tennessee	Computer and Information Science and Engineering (B01998261)		61,181.33
Passed Through University of California				
47.070	University of Tennessee	Computer and Information Science and Engineering (B04999068)		10,610.23
Passed Through LeMoyne-Owen College				
47.076	Tennessee State University	Education and Human Resources (HRD 9553315)		134,657.76
Subtotal Pass-Through Programs				$ 452,581.10
Subtotal National Science Foundation				$ 10,482,327.14
Tennessee Valley Authority				
Direct Programs				
N/A	Tennessee Technological University	Custom Length Flexible AC Current Probe		$ 17,277.75
N/A	Tennessee Technological University	Development of Standards for Heat Comfort Control Devices		9,744.12
N/A	Tennessee Technological University	Development of a Generic Neural Network for Power Plant Applications		29,099.94
N/A	Tennessee Technological University	Evaluation of Lighting Performance of 161-KV &500-KV Transmission Lines		1,774.80
N/A	Tennessee Technological University	Feasibility Study of the Design of Impulse Testing Equipment		8,452.88
N/A	Tennessee Technological University	Monitoring the Biotic Integrity of Normandy Lake		8,466.14
N/A	Tennessee Technological University	Parametric Effects on the Impulse Characteristics of Ground Rods		18,594.28

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues
N/A	Tennessee Technological University	Preliminary Laboratory Tests on the Characteristics of Ground Rods	218.24
N/A	Tennessee Technological University	Secondary Air Flow Measurements	25,594.57
N/A	Tennessee Technological University	Steam Chest On-Line Monitoring for Vibration and Acoustic Emissions	15,275.09
N/A	Tennessee Technological University	Upgrade of an Artificial Neural Network Based Boiler Tube Leak Detection System	52,312.78
N/A	Tennessee Technological University	Watts Bar Tailwater Recreational Fishery Assessment	(5,186.92)
N/A	Tennessee Technological University	Wireless Communications Technology	26,456.52
N/A	University of Tennessee	TVA 96BKX-217983 INT RUSSELL98	53,833.91
N/A	University of Tennessee	TVA 97RKW-203271 SIMEK 97	535.20
N/A	University of Tennessee	TVA 97RKW-215456 GERHARDT	12,943.38
N/A	University of Tennessee	TVA 97RKW-220200 FRANKENBERG98	15,655.32
N/A	University of Tennessee	TVA 98RE5-229070 KOCH	48,443.79
N/A	University of Tennessee	TVA 98RE5-233779 ULTRAFILTRAT	33,255.46
N/A	University of Tennessee	TVA 98RES-231413 CLARKE	583.52
N/A	University of Tennessee	TVA 99RE3-248988 FRANKENBERG	1,024.81
N/A	University of Tennessee	TVA 99RE3-249004 FRANKENBERG	2,782.27
N/A	University of Tennessee	TVA 99RES-247407 FRANKENBERG	6,688.94
N/A	University of Tennessee	TVA TV-73564A-BOSE PEAC	724.30
N/A	University of Tennessee	TVA TV-80101V FIELD PRAC 90-91	32,958.61
N/A	University of Tennessee	TVA TV-80103V ACD ENRCH-HARDEN	3,617.75
N/A	University of Tennessee	TVA TV-80114V#7-MURRAY	12,292.24
N/A	University of Tennessee	TVA TV-81887V ENV ENG ED CTR	0.32
N/A	University of Tennessee	TVA TV-89608V KLIPPEL 93	9,229.24
N/A	University of Tennessee	TVA TV-90601V RUSSELL 93	13,363.42
N/A	University of Tennessee	TVA TV-92880V SIMEK	15,692.94
N/A	University of Tennessee	TVA TV-93594V-SECOND CRK-GNGWR	25,400.94
N/A	University of Tennessee	TVA TV-95415V RUSSELL 96	56,837.11
N/A	University of Tennessee	TVA TV-96047V SIMEK	12,684.22
N/A	University of Tennessee	TVA TV-96737V PERSNL SRVS-COX	145,673.46
N/A	University of Tennessee	TVA TV96RKW191909 FRANKENBERG	63,764.50
N/A	University of Tennessee	TVA-98RE3-241242-SIMEK	583.07
Subtotal Tennessee Valley Authority			$ 776,648.91
		U.S. Department of Veterans Affairs	
Direct Programs			
64.022	East Tennessee State University	Veterans Home Based Primary Care	$ 27,609.83
N/A	Tennessee State University	Aphasia in Africian-Americans and Caucasians: Severity and Improvement	36,654.43
Subtotal U.S. Department of Veterans Affairs			$ 64,264.26
		Environmental Protection Agency	
Direct Programs			
66.500	University of Tennessee	Environmental Protection: Consolidated Research	$ 614,956.42
66.600	University of Tennessee	Environmental Protection Consolidated Grants: Program Support	75,227.42
66.606	University of Tennessee	Surveys, Studies, Investigations, and Special Purpose Grants	663,847.22
66.701	University of Tennessee	Toxic Substances Compliance Monitoring Cooperative Agreements	7,644.35
66.808	University of Tennessee	Solid Waste Management Assistance	29,850.11
66.951	Middle Tennessee State University	Environmental Education Grants	20,023.27
N/A	Tennessee Technological University	Construct, Test, Install & Calibrate a Multi-species Biosensor Platform	15,000.00
N/A	Tennessee Technological University	Disssemination Community-Based Environmental Curricula Via CD-Rom	24,860.40
N/A	Tennessee Technological University	Environmental Distribution & Disease Potential of New Legionella-like Bacteria	36,085.54
N/A	Tennessee Technological University	Protozoa in Risk Assessment of Legionellosis	118,279.83
N/A	University of Memphis	EPA Fellowship Award	6,942.00
Subtotal Environmental Protection Agency			$ 1,612,716.56

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U. S. Department of Energy		
Direct Programs				
81.049	Tennessee State University	Office of Science Financial Assistance Program	$ 21,229.30	
81.049	University of Memphis	Office of Science Financial Assistance Program	41,808.49	
81.049	University of Tennessee	Office of Science Financial Assistance Program	4,927,381.49	$ 4,990,419.28
81.086	University of Tennessee	Conservation Research and Development		42,430.20
81.104	University of Tennessee	Technology Development for Environmental Management		674,735.19
N/A	Tennessee Technological University	Competing Structures in Nuclei Near Closed Shells		16,706.66
N/A	Tennessee Technological University	Informed Consent in Human Subjects Research Conference		4,182.25
N/A	Tennessee Technological University	Integrated Industrial Process Sensing & Control System Applied to and Demonstrated on Cupola Furnaces		63,452.14
N/A	Tennessee Technological University	Nuclear Structure Models: Applications and Development		19,427.79
N/A	Tennessee Technological University	Nuclear Structure and Rare Electron Capture Processes		70,084.07
N/A	Tennessee Technological University	Proton Resonance Spectroscopy		86,074.97
N/A	Tennessee Technological University	Studies of Fluctuation Process in Nuclear Collision		31,433.71
N/A	Tennessee Technological University	Thermal Performances of Manufactured Homes		20,659.21
N/A	University of Tennessee	DOE-HUMAN MACHINE COOP-HAMEL98		136,453.67
N/A	University of Tennessee	DOE-TELEROBOTIC AUTO-PH I HAMI		427,866.88
Subtotal Direct Programs				$ 6,583,926.02
Passed Through University of Alabama				
81.049	University of Tennessee	Office of Science Financial Assistance Program (B01994118)		$ (1,291.18)
Passed Through Rutgers				
81.086	University of Tennessee	Conservation Research and Development (B01998924)		203,388.14
Passed Through National Renewable Energy Laboratory				
81.087	Tennessee State University	Renewable Energy Research and Development (DE-AC02-83CH10093)	$ 2,166.48	
81.087	Tennessee State University	Renewable Energy Research and Development (DE-AC36-83CH10093)	32,197.45	34,363.93
Passed Through Lockheed Martin Energy Systems				
N/A	Tennessee State University	Finite Element Analysis of Adhesively Bonded Composite Joints (DE-AC05-840R21400)		10.43
N/A	Tennessee State University	Facilities Planning Design and Management Systems (DE-AC05-96R0R22464)		21,950.54
N/A	Tennessee State University	Minority Educational Institute Technical Partnership (DE-AC05-984-0R21400)		7,240.01
N/A	Tennessee State University	Thermal Insulations in Building Structures (DE-AC05-840R21400)		(29,373.84)
N/A	University of Tennessee	LOCKHEED MARTIN ENERGY SYSTEMS (B0199LCMA)		12,510,450.81
N/A	University of Tennessee	MARTIN MAR 7685 PAU24 LUNDIN (B01994838)		986.71
N/A	University of Tennessee	MARTIN MAR PO41X-SD302COFFSITE (B01995403)		18.76
Passed Through Lockheed Martin Energy Research Corporation				
N/A	Tennessee State University	Heat Pump Test Facility (19X-ST226)		24,019.55
N/A	Tennessee Technological University	Technical Support for Engine Diagnostics (4500004554)		27,466.40
Passed Through University of California				
N/A	Tennessee Technological University	Separation & Analytical Chemistry of the Actinides (493BH0017-3C)		(0.85)
Passed Through Community Reuse Organization of East Tennessee				
N/A	University of Tennessee	COMMUNITY REUSE OF E TN-HODGSON (B01990593)		134,615.92

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues
Passed Through Brookhaven National Laboratory			
N/A	University of Tennessee	BROOKHAVEN NTL LAB-SORENSEN (B01991453)	26,370.58
Passed Through Lawrence Berkeley National Laboratory			
N/A	University of Tennessee	LAWRENCE BERKELEY NTL LAB (B01997355)	52,428.56
Passed Through Lockheed Martin Idaho Technology			
N/A	University of Tennessee	LOCKHEED MAR IDAHO-#1 KABALKA (B01990046)	224,574.19
N/A	University of Tennessee	LOCKHEED MARTIN IDAHO-UHRIG 98 (B01990020)	214,149.84
Passed Through Los Alamos National Laboratory			
N/A	University of Tennessee	LOS ALAMOS NTL LAB-ASCI PROG97 (B01996359)	28,617.12
Passed Through Pacific Northwest Laboratory			
N/A	University of Tennessee	BATTELLE-PNW-#323146-AR5 HAMEL (B01998557)	9,385.01
Passed Through Sandia National Laboratories			
N/A	University of Tennessee	SANDIA NTL LAB-FRANKEL 98 (B01999072)	30,034.50
Subtotal Pass-Through Programs			$ 13,519,405.13
Subtotal U.S. Department of Energy			$ 20,103,331.15
United States Information Agency			
Direct Programs			
82.002	University of Tennessee	Educational Exchange: University Lecturers (Professors) And Research Scholars	$ 37,138.83
Subtotal United States Information Agency			$ 37,138.83
U. S. Department of Education			
Direct Programs			
84.217	East Tennessee State University	McNair Post-Baccalaureate Achievement	$ 177,635.43
84.220	University of Memphis	Centers for International Business Education	303,768.57
84.306	University of Memphis	National Institute on the Education of At-Risk Students	186,125.17
84.324	University of Memphis	Special Education: Research and Innovation to Improve Services and Results for Children with Disabilities	24,771.48
Subtotal Direct Programs			$ 692,300.65
Passed Through University of California - Santa Cruz			
84.306	University of Memphis	National Institute on the Education of At-Risk Students (SC 96243-V)	$ 28,152.22
Subtotal Pass-Through Programs			$ 28,152.22
Subtotal U.S. Department of Education			$ 720,452.87
National Archives and Records Administration			
Direct Programs			
89.003	University of Tennessee	National Historical Publications and Records Grants	$ 175,491.73
Subtotal National Archives and Records Administration			$ 175,491.73

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
		U. S. Department of Health and Human Services		
Direct Programs				
93.103	University of Tennessee	Food And Drug Administration: Research		$ 119,205.72
93.113	East Tennessee State University	Biological Response to Environmental Health Hazards		43,115.72
93.121	University of Tennessee	Oral Diseases and Disorders Research		131,819.86
93.151	East Tennessee State University	Health Center Grants for Homeless Populations		215,429.41
93.173	East Tennessee State University	Research Related to Deafness and Communication Disorders	$ 50,252.46	
93.173	University of Memphis	Research Related to Deafness and Communication Disorders	261,772.76	
93.173	University of Tennessee	Research Related to Deafness and Communication Disorders	905.54	312,930.76
93.178	East Tennessee State University	Nursing Education Opportunities for Individuals from Disadvantaged Backgrounds		216,011.87
93.211	University of Tennessee	Rural Telemedicine Grants		70,501.31
93.226	East Tennessee State University	Health Care Systems Cost and Access Research and Development Grants	$ 22,167.60	
93.226	University of Tennessee	Health Care Systems Cost and Access Research and Development Grants	480,215.06	502,382.66
93.242	University of Tennessee	Mental Health Research Grants		883,527.43
93.273	University of Tennessee	Alcohol Research Programs		329,977.77
93.279	University of Memphis	Drug Abuse Research Programs	$ 42,869.96	
93.279	University of Tennessee	Drug Abuse Research Programs	1,077,000.35	1,119,870.31
93.283	East Tennessee State University	Centers for Disease Control and Prevention: Investigations and Technical Assistance	$ 4,597.89	
93.283	University of Tennessee	Centers for Disease Control and Prevention: Investigations and Technical Assistance	9,826.22	14,424.11
93.358	East Tennessee State University	Professional Nurse Traineeships		40,593.96
93.359	East Tennessee State University	Nursing: Special Projects		200,969.50
93.361	University of Tennessee	Nursing Research		1,015,686.97
93.371	East Tennessee State University	Biomedical Technology	$ 10,702.69	
93.371	University of Tennessee	Biomedical Technology	669,898.11	680,600.80
93.375	Tennessee State University	Minority Biomedical Research Support		592,847.12
93.389	East Tennessee State University	Research Infrastructure	$ 15,929.61	
93.389	Tennessee State University	Research Infrastructure	755,040.35	770,969.96
93.390	East Tennessee State University	Academic Research Enhancement Award	$ 114,559.69	
93.390	Tennessee State University	Academic Research Enhancement Award	1,541.68	
93.390	University of Memphis	Academic Research Enhancement Award	173,864.41	
93.390	University of Tennessee	Academic Research Enhancement Award	20,628.50	310,594.28
93.393	University of Tennessee	Cancer Cause and Prevention Research		487,834.63
93.395	University of Tennessee	Cancer Treatment Research		1,004,216.73
93.396	University of Tennessee	Cancer Biology Research		493,010.27
93.397	University of Tennessee	Cancer Centers Support		393,792.14
93.399	University of Memphis	Cancer Control	$ 676,322.54	
93.399	University of Tennessee	Cancer Control	3,408.34	679,730.88
93.779	Tennessee State University	Health Care Financing Research, Demonstrations and Evaluations		44,064.93
93.821	East Tennessee State University	Cell Biology and Biophysics Research	$ 18,006.40	
93.821	University of Tennessee	Cell Biology and Biophysics Research	583,169.20	601,175.60
93.837	East Tennessee State University	Heart and Vascular Diseases Research	$ 991,798.93	
93.837	University of Memphis	Heart and Vascular Diseases Research	1,585,450.51	
93.837	University of Tennessee	Heart and Vascular Diseases Research	2,795,335.87	5,372,585.31
93.838	University of Tennessee	Lung Diseases Research		184,818.42
93.839	University of Memphis	Blood Diseases and Resources Research	$ 20,355.40	
93.839	University of Tennessee	Blood Diseases and Resources Research	512,666.58	533,021.98
93.846	University of Memphis	Arthritis, Musculoskeletal and Skin Diseases Research	$ 147,832.11	
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	437,952.40	585,784.51
93.847	East Tennessee State University	Diabetes, Endocrinology and Metabolism Research	$ 8,590.52	
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	1,478,964.46	1,487,554.98
93.848	University of Memphis	Digestive Diseases and Nutrition Research	$ 60,134.82	
93.848	University of Tennessee	Digestive Diseases and Nutrition Research	607,907.28	668,042.10
93.849	University of Tennessee	Kidney Diseases, Urology and Hematology Research		414,021.36
93.853	East Tennessee State University	Clinical Research Related to Neurological Disorders	$ 191,208.62	
93.853	University of Memphis	Clinical Research Related to Neurological Disorders	74,081.67	

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
93.853	University of Tennessee	Clinical Research Related to Neurological Disorders	3,149,852.06	3,415,142.35
93.855	East Tennessee State University	Allergy, Immunology and Transplantation Research		58,317.01
93.856	East Tennessee State University	Microbiology and Infectious Diseases Research	$ 13,778.56	
93.856	University of Memphis	Microbiology and Infectious Diseases Research	48,956.30	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	1,346,470.62	1,409,205.48
93.859	East Tennessee State University	Pharmacology, Physiology, and Biological Chemistry Research	$ 169,686.98	
93.859	University of Tennessee	Pharmacology, Physiology, and Biological Chemistry Research	426,599.51	596,286.49
93.862	University of Tennessee	Genetics and Developmental Biology Research		530,482.37
93.864	Tennessee State University	Population Research	$ 96,676.61	
93.864	University of Tennessee	Population Research	612,303.88	708,980.49
93.865	Austin Peay State University	Center for Research for Mothers and Children	$ 24,010.36	
93.865	University of Memphis	Center for Research for Mothers and Children	470,824.01	
93.865	University of Tennessee	Center for Research for Mothers and Children	2,595,130.94	3,089,965.31
93.866	East Tennessee State University	Aging Research	$ 46,458.13	
93.866	University of Memphis	Aging Research	268,523.81	
93.866	University of Tennessee	Aging Research	459,827.82	774,809.76
93.867	University of Tennessee	Vision Research		1,270,197.81
93.894	University of Tennessee	Resource and Manpower Development in the Environmental Health Science		111,662.22
93.990	University of Tennessee	National Health Promotion		1,064,072.64
N/A	Middle Tennessee State University	Evaluate a Flight BAC Educational Activity		438.00
N/A	Tennessee State University	Health and Nutrition Examination Surveys		338.58
N/A	University of Tennessee	NTL BIOLOGICAL SURVEY-MCCORMCK		128,875.34
N/A	University of Tennessee	ACR SUBCONT CA-21661		172.50
N/A	University of Tennessee	NCI N01-CM-67261 BAKER		184,948.71
N/A	University of Tennessee	WAYNE STATE SUBCONT CA-43838		1,639.49
N/A	University of Tennessee	USPHS CONT NO1-HC-45137		421,741.44
N/A	University of Tennessee	NIH GM22087		105,616.01
N/A	University of Tennessee	USPHS CONT N01-AG-6-2103		1,043,159.98
N/A	University of Tennessee	NIH N01-DE-62611 PALMER 97		134,887.05
N/A	University of Tennessee	USPHS CONT FDA-223-95-3006		159,050.08
Subtotal Direct Programs				$ 35,731,102.47
Passed Through University of Washington				
93.173	University of Memphis	Research Related to Deafness and Communication Disorders (ROIHD32065/497487)		$ 7,686.00
Passed Through University of Utah				
93.173	University of Memphis	Research Related to Deafness and Communication Disorders (ADVANCE)		700.00
Passed Through Massachusetts Institute of Technology				
93.173	University of Memphis	Research Related to Deafness and Communication Disorders (5700000492)		17,468.58
Passed Through Indiana University				
93.306	University of Tennessee	Comparative Medicine (B01998079)		18,096.91
Passed Through Vanderbilt University				
93.837	University of Memphis	Heart and Vascular Diseases Research (1 R01 DK53952-01)		4,545.12
Passed Through University of Minnesota				
93.837	University of Memphis	Heart and Vascular Diseases Research (P.O. H6636228106)		9,877.27
Passed Through University of Michigan				
93.866	University of Memphis	Aging Research (5 P50 AG11715-05)		3,153.50

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Passed Through University of Texas				
N/A	University of Tennessee	UNIVERSITY OF TEXAS-BECKER 98 (B01998241)		32,194.96
Subtotal Pass-Through Programs				$ 93,722.34
Subtotal U.S. Department of Health and Human Services				$ 35,824,824.81
Other Federal Assistance				
Direct Programs				
N/A	Tennessee State University	Small-Scale Enterprises in Java Indonesia		$ 18,334.21
N/A	University of Memphis	Economic Consulting Research		24,458.93
N/A	University of Tennessee	CORP PUB BROADCASTING-ROBINSON		2,857.85
Subtotal Other Federal Assistance				$ 45,650.99
Total Research and Development Cluster				$ 93,482,792.55
Student Financial Assistance Cluster				
U.S. Department of Education				
Direct Programs				
84.007	Austin Peay State University	Federal Supplemental Educational Opportunity Grants	$ 206,632.00	
84.007	Chattanooga State Technical Community College	Federal Supplemental Educational Opportunity Grants	102,383.25	
84.007	Cleveland State Community College	Federal Supplemental Educational Opportunity Grants	28,543.00	
84.007	Columbia State Community College	Federal Supplemental Educational Opportunity Grants	49,312.00	
84.007	Dyersburg State Community College	Federal Supplemental Educational Opportunity Grants	58,371.00	
84.007	East Tennessee State University	Federal Supplemental Educational Opportunity Grants	525,558.00	
84.007	Jackson State Community College	Federal Supplemental Educational Opportunity Grants	89,830.12	
84.007	Middle Tennessee State University	Federal Supplemental Educational Opportunity Grants	418,463.00	
84.007	Motlow State Community College	Federal Supplemental Educational Opportunity Grants	80,690.50	
84.007	Nashville State Technical Institute	Federal Supplemental Educational Opportunity Grants	88,746.00	
84.007	Northeast State Technical Community College	Federal Supplemental Educational Opportunity Grants	72,690.50	
84.007	Pellissippi State Technical Community College	Federal Supplemental Educational Opportunity Grants	189,619.00	
84.007	Roane State Community College	Federal Supplemental Educational Opportunity Grants	104,599.24	
84.007	Shelby State Community College	Federal Supplemental Educational Opportunity Grants	191,794.58	
84.007	State Technical Institute at Memphis	Federal Supplemental Educational Opportunity Grants	82,230.50	
84.007	Tennessee State University	Federal Supplemental Educational Opportunity Grants	1,058,322.35	
84.007	Tennessee Technological University	Federal Supplemental Educational Opportunity Grants	205,796.00	
84.007	University of Memphis	Federal Supplemental Educational Opportunity Grants	347,382.00	
84.007	University of Tennessee	Federal Supplemental Educational Opportunity Grants	1,131,160.14	
84.007	Volunteer State Community College	Federal Supplemental Educational Opportunity Grants	96,127.80	
84.007	Walters State Community College	Federal Supplemental Educational Opportunity Grants	201,856.61	$ 5,330,107.59
84.032	Tennessee Student Assistance Corporation	Federal Family Education Loans		89,852,823.59
84.033	Austin Peay State University	Federal Work-Study Program	$ 264,028.29	
84.033	Chattanooga State Technical Community College	Federal Work-Study Program	139,393.02	
84.033	Cleveland State Community College	Federal Work-Study Program	61,556.00	
84.033	Columbia State Community College	Federal Work-Study Program	32,837.42	
84.033	Dyersburg State Community College	Federal Work-Study Program	61,665.92	
84.033	East Tennessee State University	Federal Work-Study Program	507,503.62	
84.033	Jackson State Community College	Federal Work-Study Program	74,166.05	
84.033	Middle Tennessee State University	Federal Work-Study Program	614,406.98	
84.033	Motlow State Community College	Federal Work-Study Program	76,833.97	
84.033	Nashville State Technical Institute	Federal Work-Study Program	56,054.94	

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
84.033	Northeast State Technical Community College	Federal Work-Study Program	65,736.08	
84.033	Pellissippi State Technical Community College	Federal Work-Study Program	126,948.93	
84.033	Roane State Community College	Federal Work-Study Program	151,268.14	
84.033	Shelby State Community College	Federal Work-Study Program	521,313.59	
84.033	State Technical Institute at Memphis	Federal Work-Study Program	94,612.17	
84.033	Tennessee State University	Federal Work-Study Program	1,322,227.02	
84.033	Tennessee Technological University	Federal Work-Study Program	336,954.79	
84.033	University of Memphis	Federal Work-Study Program	424,181.53	
84.033	University of Tennessee	Federal Work-Study Program	1,870,738.38	
84.033	Volunteer State Community College	Federal Work-Study Program	44,111.21	
84.033	Walters State Community College	Federal Work-Study Program	146,840.81	6,993,378.86
84.038	Austin Peay State University	Federal Perkins Loan Program: Federal Capital Contributions	$ 15,261.00	
84.038	East Tennessee State University	Federal Perkins Loan Program: Federal Capital Contributions	335,750.00	
84.038	Jackson State Community College	Federal Perkins Loan Program: Federal Capital Contributions	8,057.00	
84.038	Middle Tennessee State University	Federal Perkins Loan Program: Federal Capital Contributions	49,650.00	
84.038	Tennessee Technological University	Federal Perkins Loan Program: Federal Capital Contributions	89,533.00	
84.038	University of Memphis	Federal Perkins Loan Program: Federal Capital Contributions	17,756.00	
84.038	University of Tennessee	Federal Perkins Loan Program: Federal Capital Contributions	518,350.00	
84.038	Volunteer State Community College	Federal Perkins Loan Program: Federal Capital Contributions	360.30	1,034,717.30
84.063	Austin Peay State University	Federal Pell Grant Program	$ 4,234,033.83	
84.063	Chattanooga State Technical Community College	Federal Pell Grant Program	3,986,341.00	
84.063	Cleveland State Community College	Federal Pell Grant Program	1,609,483.00	
84.063	Columbia State Community College	Federal Pell Grant Program	2,252,891.20	
84.063	Dyersburg State Community College	Federal Pell Grant Program	1,627,346.25	
84.063	East Tennessee State University	Federal Pell Grant Program	6,866,388.98	
84.063	Jackson State Community College	Federal Pell Grant Program	2,685,823.95	
84.063	Middle Tennessee State University	Federal Pell Grant Program	8,036,313.00	
84.063	Motlow State Community College	Federal Pell Grant Program	2,359,257.80	
84.063	Nashville State Technical Institute	Federal Pell Grant Program	2,662,411.22	
84.063	Northeast State Technical Community College	Federal Pell Grant Program	2,375,111.18	
84.063	Pellissippi State Technical Community College	Federal Pell Grant Program	3,795,598.05	
84.063	Roane State Community College	Federal Pell Grant Program	4,446,574.03	
84.063	Shelby State Community College	Federal Pell Grant Program	3,269,486.37	
84.063	State Technical Institute at Memphis	Federal Pell Grant Program	2,133,742.13	
84.063	Tennessee State University	Federal Pell Grant Program	7,127,538.00	
84.063	Tennessee Technological University	Federal Pell Grant Program	3,588,160.00	
84.063	University of Memphis	Federal Pell Grant Program	8,995,848.00	
84.063	University of Tennessee	Federal Pell Grant Program	14,685,932.97	
84.063	Volunteer State Community College	Federal Pell Grant Program	2,680,676.48	
84.063	Walters State Community College	Federal Pell Grant Program	3,797,212.81	93,216,170.25
84.268	Middle Tennessee State University	Federal Direct Loan	$ 15,218,128.00	
84.268	Tennessee State University	Federal Direct Loan	23,143,407.00	
84.268	Tennessee Technological University	Federal Direct Loan	9,999,217.00	48,360,752.00
Subtotal U.S. Department of Education				$ 244,787,949.59
		U.S. Department of Health and Human Services		
Direct Programs				
93.925	East Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	$ 52,921.00	
93.925	Middle Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	25,000.00	
93.925	Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	20,235.00	

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
93.925	University of Memphis	Scholarships for Health Professions Students from Disadvantaged Backgrounds	29,731.00	
93.925	University of Tennessee	Scholarships for Health Professions Students from Disadvantaged Backgrounds	209,661.00	$ 337,548.00
Subtotal U.S. Department of Health and Human Services				$ 337,548.00
Total Student Financial Aid Cluster				$ 245,125,497.59
		Food Stamp Cluster		
		U.S. Department of Agriculture		
Direct Programs				
10.551	Human Services	Food Stamps		$ 425,628,055.88
10.561	Human Services	State Administrative Matching Grants for Food Stamp Program		29,497,086.95
Subtotal U.S. Department of Agriculture				$ 455,125,142.83
Total Food Stamp Cluster				$ 455,125,142.83
		Child Nutrition Cluster		
		U.S. Department of Agriculture		
Direct Programs				
10.553	Agriculture	School Breakfast Program	$ 704,489.78	
10.553	Education	School Breakfast Program	28,299,929.36	$ 29,004,419.14
10.555	Agriculture	National School Lunch Program (NSLP)	$ 18,356,405.22	
10.555	Education	National School Lunch Program (NSLP)	103,671,446.18	122,027,851.40
10.556	Agriculture	Special Milk Program for Children		30,563.01
10.559	Human Services	Summer Food Service Program for Children		5,164,052.44
Subtotal U.S. Department of Agriculture				$ 156,226,885.99
Total Child Nutrition Cluster				$ 156,226,885.99
		Emergency Food Assistance Cluster		
		U.S. Department of Agriculture		
Direct Programs				
10.568	Agriculture	Emergency Food Assistance Program (Administrative Costs)		$ 979,949.07
10.569	Agriculture	Emergency Food Assistance Program (Food Commodities)		5,254,298.00
Subtotal U.S. Department of Agriculture				$ 6,234,247.07
Total Emergency Food Assistance Cluster				$ 6,234,247.07
		Section 8 Project-Based Cluster		
		U.S. Department of Housing and Urban Development		
Direct Programs				
14.182	Tennessee Housing Development Agency	Section 8 New Construction and Substantial Rehabilitation		$ 9,008,120.02

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
14.856	Tennessee Housing Development Agency	Lower Income Housing Assistance Program: Section 8 Moderate Rehabilitation		193,874.00
Subtotal U.S. Department of Housing and Urban Development				$ 9,201,994.02
Total Section 8 Project-Based Cluster				$ 9,201,994.02
CDBG-Entitlement and (HUD Administered) Small Cities Cluster				
U.S. Department of Housing and Urban Development				
Passed Through City of Jackson				
14.218	Jackson State Community College	Community Development Block Grants/Entitlement Grants (B-97-MC-47-0011)		$ 14,538.04
Passed Through City of Memphis				
14.218	Tennessee State University	Community Development Block Grants/Entitlement Grants (N/A)	$ 39,935.99	
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants (N13442)	10,892.47	
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants (N14094)	1,173.38	
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants (N14095)	1,453.42	
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants (N13446)	9,454.92	
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants (N12846)	5,814.20	68,724.38
Passed Through Lemoyne-Owen College				
14.218	Shelby State Community College	Community Development Block Grants/Entitlement Grants (N13043)		28,012.81
Subtotal U.S. Department of Housing and Urban Development				$ 111,275.23
Total CDBG-Entitlement and (HUD Administered) Small Cities Cluster				$ 111,275.23
Section 8 Tenant-Based Cluster				
U.S. Department of Housing and Urban Development				
Direct Programs				
14.855	Tennessee Housing Development Agency	Section 8 Rental Voucher Program		$ 7,174,663.30
14.857	Tennessee Housing Development Agency	Section 8 Rental Certificate Program		10,350,433.73
Subtotal U.S. Department of Housing and Urban Development				$ 17,525,097.03
Total Section 8 Tenant-Based Cluster				$ 17,525,097.03
Fish and Wildlife Cluster				
U.S. Department of the Interior				
Direct Programs				
15.605	Tennessee Wildlife Resources Agency	Sport Fish Restoration		$ 3,131,935.00

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CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
15.611	Tennessee Wildlife Resources Agency	Wildlife Restoration		4,074,533.00
Subtotal U.S. Department of the Interior				$ 7,206,468.00
Total Fish and Wildlife Cluster				$ 7,206,468.00
		Employment Services Cluster		
		U.S. Department of Labor		
Direct Programs				
17.207	Employment Security	Employment Service	$ 15,867,734.74	
17.207	Labor	Employment Service	2,035,279.07	$ 17,903,013.81
17.801	Employment Security	Disabled Veterans' Outreach Program (DVOP)		1,227,837.13
17.804	Employment Security	Local Veterans' Employment Representative Program		1,453,914.30
Subtotal U.S. Department of Labor				$ 20,584,765.24
Total Employment Services Cluster				$ 20,584,765.24
		JTPA Cluster		
		U.S. Department of Labor		
Direct Programs				
17.246	Labor	Employment and Training Assistance: Dislocated Workers		$ 21,075,417.80
17.250	Labor	Job Training Partnership Act (JTPA)	$ 37,846,830.41	
17.250	State Technical Institute at Memphis	Job Training Partnership Act (JTPA)	376,492.27	38,223,322.68
Subtotal Direct Programs				$ 59,298,740.48
Passed Through Knoxville Private Industry Council				
17.250	Pellissippi State Technical Community College	Job Training Partnership Act (JTPA) (99-STO-9-810)	$ 112,315.03	
17.250	Pellissippi State Technical Community College	Job Training Partnership Act (JTPA) (99-STO-8-840)	97,882.40	$ 210,197.43
Passed Through North Tennessee Private Industry Council				
17.250	Volunteer State Community College	Job Training Partnership Act (JTPA) (C0540)		57,964.22
Passed Through Memphis Private Industry Council				
17.250	Shelby State Community College	Job Training Partnership Act (JTPA) (N13349)		11,577.69
Passed Through Southeast Tennessee Private Industry Council				
17.250	Chattanooga State Technical Community College	Job Training Partnership Act (JTPA) (99-6-999-155-99-91)		318,221.30
Subtotal Pass-Through Programs				$ 597,960.64
Subtotal U.S. Department of Labor				$ 59,896,701.12
Total JTPA Cluster				$ 59,896,701.12

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1999

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
Federal Transit Cluster				
U.S. Department of Transportation				
Direct Programs				
20.500	Transportation	Federal Transit: Capital Investment Grants	$ 1,362,202.45	
20.500	University of Tennessee	Federal Transit: Capital Investment Grants	160,750.67	$ 1,522,953.12
Subtotal U.S. Department of Transportation				$ 1,522,953.12
Total Federal Transit Cluster				$ 1,522,953.12
Highway Safety Cluster				
U.S. Department of Transportation				
Direct Programs				
20.600	Transportation	State and Community Highway Safety		$ 2,593,050.67
Subtotal U.S. Department of Transportation				$ 2,593,050.67
Total Highway Safety Cluster				$ 2,593,050.67
Special Education Cluster				
U.S. Department of Education				
Direct Programs				
84.027	Education	Special Education: Grants to States		$ 83,470,539.10
84.173	Education	Special Education: Preschool Grants		7,303,226.14
Subtotal U.S. Department of Education				$ 90,773,765.24
Total Special Education Cluster				$ 90,773,765.24
TRIO Cluster				
U.S. Department of Education				
Direct Programs				
84.042	Austin Peay State University	TRIO: Student Support Services	$ 180,190.45	
84.042	Dyersburg State Community College	TRIO: Student Support Services	207,445.76	
84.042	East Tennessee State University	TRIO: Student Support Services	197,137.20	
84.042	Nashville State Technical Institute	TRIO: Student Support Services	1,152.32	
84.042	Northeast State Technical Community College	TRIO: Student Support Services	174,464.12	
84.042	Tennessee State University	TRIO: Student Support Services	173,138.06	
84.042	University of Tennessee	TRIO: Student Support Services	436,240.84	$ 1,369,768.75
84.044	East Tennessee State University	TRIO: Talent Search	$ 88,920.61	
84.044	Tennessee State University	TRIO: Talent Search	217,969.60	
84.044	University of Tennessee	TRIO: Talent Search	253,184.50	560,074.71
84.047	Austin Peay State University	TRIO: Upward Bound	$ 530,696.41	
84.047	Dyersburg State Community College	TRIO: Upward Bound	236,868.00	
84.047	East Tennessee State University	TRIO: Upward Bound	536,361.95	
84.047	Shelby State Community College	TRIO: Upward Bound	251,411.49	
84.047	Tennessee State University	TRIO: Upward Bound	369,574.23	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1999

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues	
84.047	University of Tennessee	TRIO: Upward Bound	1,327,727.88	3,252,639.96
Subtotal U.S. Department of Education				$ 5,182,483.42
Total TRIO Cluster				$ 5,182,483.42
		Aging Cluster		
		U.S. Department of Health and Human Services		
Direct Programs				
93.044	Commission on Aging	Special Programs for the Aging: Title III, Part B: Grants for Supportive Services and Senior Centers		$ 9,389,907.00
93.045	Commission on Aging	Special Programs for the Aging: Title III, Part C: Nutrition Services		3,906,755.00
Subtotal U.S. Department of Health and Human Services				$ 13,296,662.00
Total Aging Cluster				$ 13,296,662.00
		Child Care Cluster		
		U.S. Department of Health and Human Services		
Direct Programs				
93.575	Human Services	Child Care and Development Block Grant (CCDBG)		$ 3,212,608.75
93.596	Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund		119,192,098.86
Subtotal U.S. Department of Health and Human Services				$ 122,404,707.61
Total Child Care Cluster				$ 122,404,707.61
		Medicaid Cluster		
		U.S. Department of Health and Human Services		
Direct Programs				
93.775	Commerce and Insurance	State Medicaid Fraud Control Units	$ 25,093.59	
93.775	Tennessee Bureau of Investigation	State Medicaid Fraud Control Units	1,500,599.21	$ 1,525,692.80
93.777	Health	State Survey and Certification of Health Care Providers and Suppliers		4,628,976.33
93.778	Health	Medical Assistance Program (Medicaid)		2,692,397,118.04
Subtotal U.S. Department of Health and Human Services				$ 2,698,551,787.17
Total Medicaid Cluster				$ 2,698,551,787.17
		Disability Insurance/SSI Cluster		
		Social Security Administration		
Direct Programs				
96.001	Human Services	Social Security: Disability Insurance		$ 31,639,259.99
Subtotal Social Security Administration				$ 31,639,259.99
Total Disablity Insurance/SSI Cluster				$ 31,639,259.99

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 1999

CFDA #	State Grantee Agency	Program Name (Pass-Through Grant Number)	Disbursements/Issues
		Other Federal Assistance	
Direct Programs			
N/A	University of Tennessee	CORP PUBLIC BROAD-CSG 97	$ 3,408.07
N/A	University of Tennessee	CORP PUBLIC BROAD-CSG 98	73,552.09
N/A	University of Tennessee	CORP PUBLIC BROAD-CSG 99	84,605.78
N/A	University of Tennessee	CORP PUBLIC BROAD-NPPAG 99	38,159.00
N/A	University of Tennessee	CORP PUBLIC BROAD-PROD&ACQ 97	4,306.66
N/A	University of Tennessee	CORP PUBLIC BROAD-PROD&ACQ 98	24,318.00
N/A	University of Tennessee	CORP PUBLIC BROAD-PROD&ACQ 99	2,636.34
N/A	University of Tennessee	CPB-NEXT STEP GRANT PROJ	0.14
N/A	University of Tennessee	USAID 532A00009700060-DAVIS	7,077.72
N/A	University of Tennessee	U.S. ARMY ROTC SCHOLARSHIPS	21,078.00
Total Other Federal Assistance			$ 259,141.80
Grand Total Federal Assistance			$ 5,906,633,237.16

State of Tennessee
Notes to the Schedule of Expenditures of Federal Awards
June 30, 1999

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 1999, was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires a disclosure of the financial activities of all federally funded programs. To comply with the circular, the Department of Finance and Administration required each department, agency, and institution that expended direct or pass-through federal funding during the year to prepare a schedule of expenditures of federal awards and reconciliations with both the state's accounting system and grantor financial reports. The schedules for the departments, agencies, and institutions were combined to form the Schedule of Expenditures of Federal Awards for the State of Tennessee. The schedules for the technology centers have been combined with the schedules for their lead institutions.

NOTE 2. BASIS OF ACCOUNTING FOR PRESENTATION OF SCHEDULE

The basis of accounting for the Schedule of Expenditures of Federal Awards is principally the cash basis, except accrued payroll for the pay period June 15, to 30 is treated as cash disbursements for purposes of this schedule.

NOTE 3. NONCASH AWARDS

The Schedule of Expenditures of Federal Awards also contains values for certain noncash assistance. The Food Stamps program (CFDA number 10.551) is presented at the assessed value provided by the federal grantor agency. Commodities in the Food Distribution program (CFDA number 10.550), Commodity Supplemental Food Program (CFDA number 10.565), and the Emergency Food Assistance Program (CFDA number 10.569) are presented at the assessed value provided by the federal grantor agency. The Donation of Federal Surplus Personal Property program (CFDA number 39.003) is presented at the assessed value provided by the federal grantor agency.

NOTE 4. FEDERAL PERKINS LOAN PROGRAM

The state's universities and community colleges participated in the Federal Perkins Loan Program – Federal Capital Contributions (CFDA number 84.038). The disbursements presented on the Schedule of Expenditures of Federal Awards for the Federal Perkins Loan Program represent the federal

capital contributions received by the state universities and community colleges during the year ended June 30, 1999. The loans outstanding less allowances for doubtful accounts (including university matching funds) at June 30, 1999, totaled $45,032,243.33

NOTE 5. NURSING STUDENT LOANS

The University of Memphis, University of Tennessee, Tennessee State University, Columbia State Community College, and Motlow State Community College participated in the Nursing Student Loans Program (CFDA number 93.364). The disbursements presented on the Schedule of Expenditures of Federal Awards reflect only the federal capital contributions received during the fiscal year. The loans outstanding less allowances for doubtful accounts less allowances for doubtful accounts (including university matching funds) at June 30, 1999, totaled $496,075.00.

NOTE 6. HEALTH PROFESSION STUDENT LOANS

The University of Tennessee and East Tennessee State University participated in the Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA number 93.342). The disbursements presented on the Schedule of Expenditures of Federal Awards reflect only the federal capital contributions received during the fiscal year. The loans outstanding less allowances for doubtful accounts (including university matching funds) at June 30, 1999, totaled $4,803,281.25.

NOTE 7. FEDERAL FAMILY EDUCATION LOANS

The Tennessee Student Assistance Corporation (TSAC) is the guarantee agency for the Federal Family Education Loans program (CFDA number 84.032). The federal award to TSAC for administrative cost allowances and payments on defaulted loans is listed on the Schedule of Expenditures of Federal Awards. The value of the loans issued is not listed since the loans are made directly to the students by the lending institutions. At June 30, 1999, TSAC had insured loans outstanding of $1,983,320,717.42.

NOTE 8. UNEMPLOYMENT INSURANCE

State unemployment tax revenues and other payments and revenues are combined and used to pay benefits under the Unemployment Insurance (CFDA 17.225) program. The state and federal portions of the total expenditures reported in the Schedule were $336,199,907.44 and $41,463,659.29, respectively.