

# TENNESSEE

**SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2002**



**COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

## Errata

An audit finding was inadvertently omitted from the *Single Audit Report* of the State of Tennessee for the year ended June 30, 2002. The omitted audit finding (02-DHS-07) should have been presented after pages 181 and 217 in Section III of the Schedule of Findings and Questioned Costs. The omitted audit finding is attached to this errata sheet.

<b>Finding Number</b>	02-DHS-07
<b>CFDA Number</b>	10.551
<b>Program Name</b>	Food Stamps
<b>Federal Agency</b>	Department of Agriculture
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$43,356.95

**Alleged employee fraud was not reported to the Comptroller of the Treasury and one employee continued to be paid after termination**

**Finding**

The Director of Program Integrity did not notify the Comptroller of the Treasury, as required by state law, about the department's knowledge of and subsequent investigation of three employees for possible fraud. The three employees were terminated during the year ended June 30, 2002, for gross miscon

The department's Director of Investigations alleged that two of the three former employees fraudulently obtained over \$40,000 from the State of Tennessee. These two cases have been turned over to the district attorney's office in the applicable county. The other former employee certified a person as eligible for program benefits when the person did not meet the state's residency requirements. As a result of this error, the department paid over \$5,600 to a person who was not eligible for family assistance. The former employee also admitted using this person's EBT card to make cash withdrawals and purchase groceries for the person; however, the former employee provided a written statement denying any benefit from these transactions. No further action was taken by the department. None of these cases were reported to the Comptroller of the Treasury until after inquiry by the auditors. Section 8-19-501, *Tennessee Code Annotated*, states,

It shall be the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the comptroller of the treasury.

However, according to the Director of Investigations, in cases where there is a loss of state funds, the Comptroller of the Treasury is not notified until the district attorney decides whether to seek a criminal indictment.

Also, the department continued to pay one of the three employees for two pay periods subsequent to termination. Upon inquiry by the auditors, the department found that the employee was overpaid \$2,387.95 for annual leave which should have been forfeited upon

termination by the Department of Human Services. Section 8-50-807(d), *Tennessee Code Annotated*, states that an employee terminated for gross misconduct is not entitled to be compensated for annual leave.

The purpose of the statutory requirement to notify the Comptroller is to ensure a thorough investigation and appropriate resolution in the best interest of the state. Failure to report fraud could cause unnecessary delays in prosecution and could result in the state not being able to recover the misappropriated funds.

### **Recommendation**

The Commissioner should ensure that the Director of Program Integrity reports all instances or suspected instances of fraud immediately to the Comptroller of the Treasury. The Director of Program Integrity should not wait until the Director of Investigations receives notification from the district attorney's office as to whether or not it intends to seek a criminal indictment. Also, employees who are terminated for gross misconduct should not be paid for unused annual leave.

### **Management's Comment**

We concur. The Director of Program Integrity will notify immediately the Comptroller of the Treasury via email of any instances of fraud or suspected instances of fraud. The investigations report, if any will be forwarded to the Comptroller's Office when the investigation process is completed. Also, we will make sure that any employees terminated due to misconduct will not receive any payment for their accrued annual leave.

<b>Finding Number</b>	02-DHS-07
<b>CFDA Number</b>	93.558
<b>Program Name</b>	Temporary Assistance For Needy Families
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	G9901TNTANF; G0001TNTANF; G0101TNTANF; G0201TNTANF
<b>Finding Type</b>	Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$3,212.05

**Alleged employee fraud was not reported to the Comptroller of the Treasury and one employee continued to be paid after termination**

**Finding**

The Director of Program Integrity did not notify the Comptroller of the Treasury, as required by state law, about the department's knowledge of and subsequent investigation of three employees for possible fraud. The three employees were terminated during the year ended June 30, 2002, for gross misconduct; however, one of the three continued to be paid after termination.

The department's Director of Investigations alleged that two of the three former employees fraudulently obtained over \$40,000 from the State of Tennessee. These two cases have been turned over to the district attorney's office in the applicable county. The other former employee certified a person as eligible for state's residency requirements. As a result of this error, the department paid over \$5,600 to a person who was not eligible for family assistance. The former employee also admitted using this person's EBT card to make cash withdrawals and purchase groceries for the person; however, the former employee provided a written statement denying any benefit from these transactions. No further action was taken by the department. None of these cases were reported to the Comptroller of the Treasury until after inquiry by the auditors. Section 8-19-501, *Tennessee Code Annotated*, states,

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employee was overpaid \$2,387.95 for annual leave which should have been forfeited upon termination by the Department of Human Services. Section 8-50-807(d), *Tennessee Code Annotated*, states that an employee terminated for gross misconduct is not entitled to be compensated for annual leave.

The purpose of the statutory requirement to notify the Comptroller is to ensure a thorough investigation and appropriate resolution in the best interest of the state. Failure to report fraud could cause unnecessary delays in prosecution and could result in the state not being able to recover the misappropriated funds.

### **Recommendation**

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### **Management's Comment**

We concur. The Director of Program Integrity will notify immediately the Comptroller of the Treasury via email of any instances of fraud or suspected instances of fraud. The investigations report, if any will be forwarded to the Comptroller's Office when the investigation process is completed. Also, we will make sure that any employees terminated due to misconduct will not receive any payment for their accrued annual leave.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

March 31, 2003

The Honorable Phil Bredesen, Governor  
and  
Members of the General Assembly of Tennessee  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

We are pleased to submit the nineteenth *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2002. 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 \$8.1 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 non-compliance, 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, 2002, 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 fourteen that we believe constitute material weaknesses. We noted three instances of noncompliance material to the basic financial statements. The reportable conditions and instances of noncompliance arising from our audit are described in the Schedule of Findings and Questioned Costs.

The Honorable Phil Bredesen

March 31, 2003

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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,

A handwritten signature in black ink that reads "John G. Morgan". The signature is written in a cursive style with a long horizontal flourish at the end.

John G. Morgan  
Comptroller of the Treasury

**State of Tennessee  
Single Audit Report  
For the Year Ended June 30, 2002**

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# **Selected Statistical Data**

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Total Federal Expenditures – Ten Year Summary

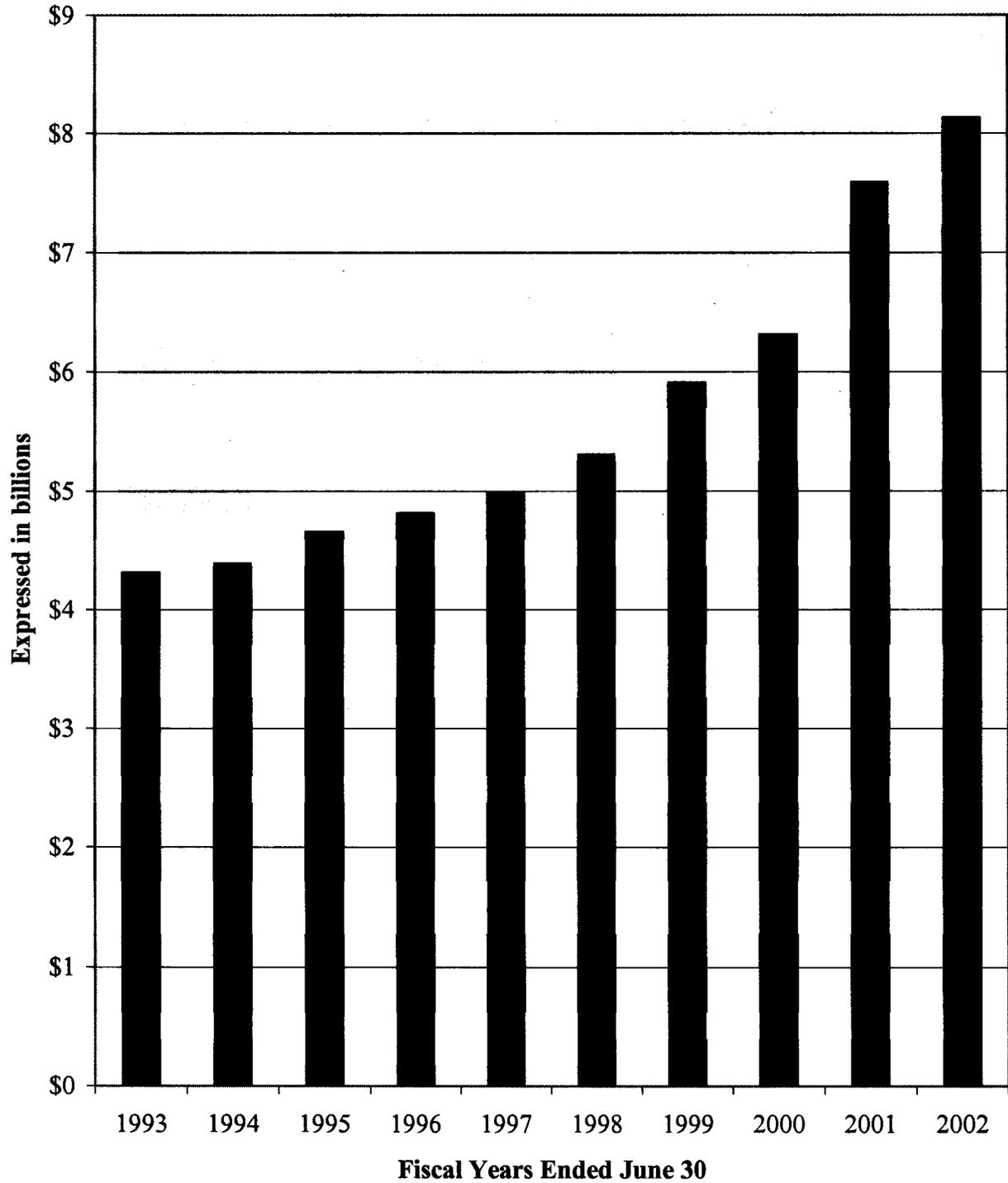
Expenditures by Awarding Agency

Number of Type A and Type B Programs

Type A and Type B Program Expenditures

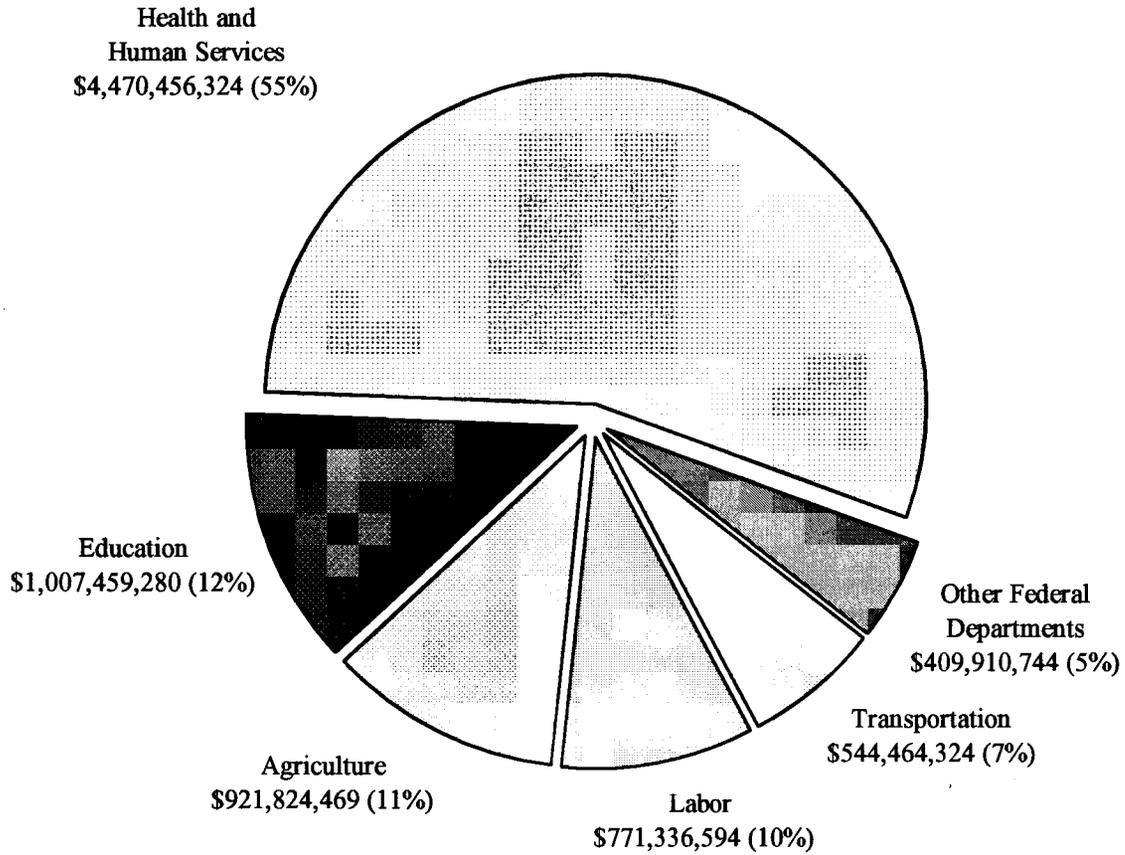


## Total Federal Expenditures - Ten Year Summary

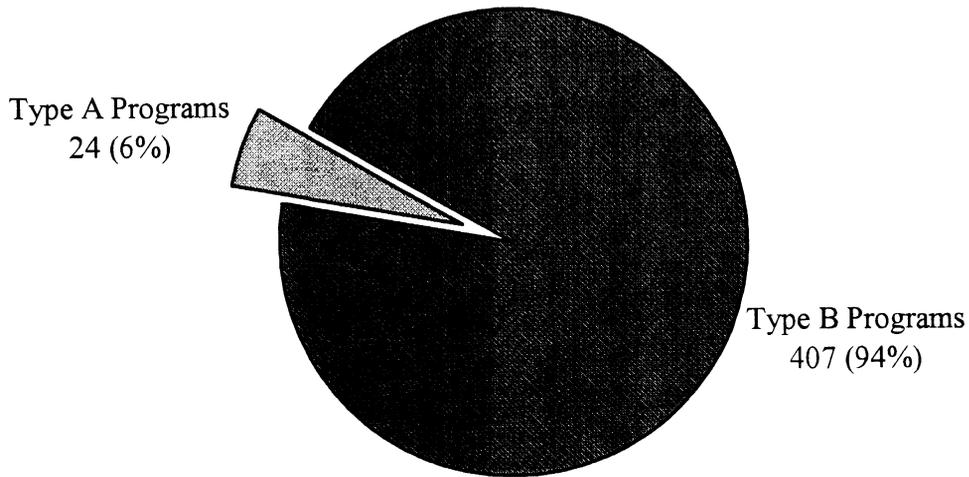


# Expenditures by Awarding Agency

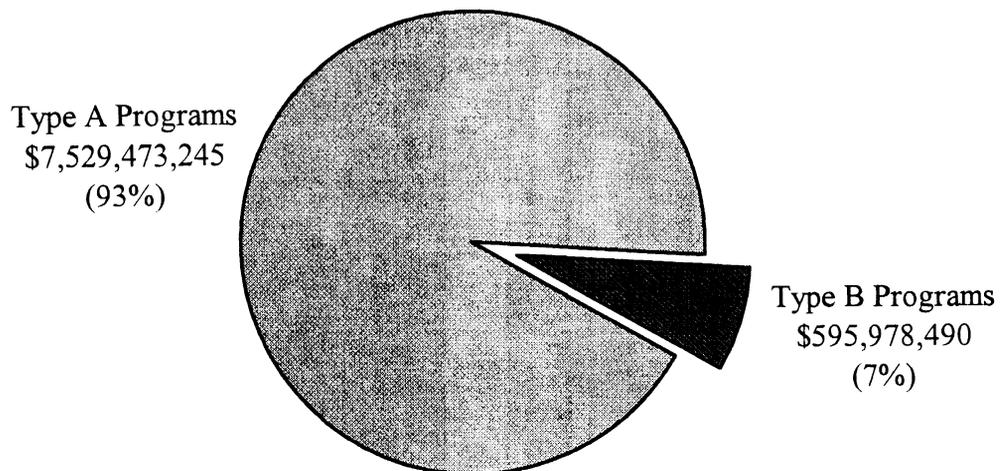
July 1, 2001 through June 30, 2002



## 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, 2002, the Type A program threshold for the State of Tennessee was \$24,376,355. Those federal programs with expenditures below the Type A threshold are labeled Type B programs.



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# Auditor's Section

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Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of 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  
DEPARTMENT OF AUDIT  
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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

**Report on Compliance and on Internal Control Over Financial Reporting Based on an  
Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

January 17, 2003

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

Dear Mr. Morgan:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements; and have issued our report thereon dated January 17, 2003. As discussed in Note 4 to the basic financial statements presented in the *Tennessee Comprehensive Annual Financial Report*, the State of Tennessee adopted the provisions of Governmental Accounting Standards Board Statements 33, *Accounting and Financial Reporting for Nonexchange Transactions*; 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No. 34*; 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus-an amendment of GASB Statements No. 21 and No. 34*; and 38, *Certain Financial Statement Note Disclosures*. This resulted in changes to the format and content of the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the State of Tennessee's basic 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-DFA-10, 02-DFA-18, and 02-DFA-26. 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 financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-DCS-01, 02-DCS-05 through 02-DCS-07, 02-TCRS-01, 02-TDT-01, 02-DFA-01 through 02-DFA-03, 02-DFA-08 through 02-DFA-10, 02-DFA-13, 02-DFA-15, 02-DFA-18 through 02-DFA-21, 02-DFA-26, 02-DFA-34 through 02-DFA-37, 02-DFA-39, 02-DOT-02, 02-DOT-03, 02-DHS-01, 02-DHS-02, 02-DHS-06, 02-DHS-9, 02-DHS-10, and 02-THDA-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 misstatements in amounts that would be material in relation to the 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 02-DFA-03, 02-DFA-08 through 02-DFA-10, 02-DFA-18 through 02-DFA-20, 02-DFA-26, 02-DFA-36, 02-DFA-37, 02-DFA-39, 02-DOT-03, 02-DHS-02, and 02-THDA-02 to be material

The Honorable John G. Morgan

January 17, 2003

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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 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,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive script.

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

AAH/ra



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
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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, 2003

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, 2002. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

The Honorable John G. Morgan

March 17, 2003

Page Two

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 02-DFA-10, 02-DFA-13, 02-DFA-18, 02-DFA-21, 02-DFA-22, 02-DFA-26, 02-DFA-29, 02-DFA-33 through 02-DFA-35, and 02-DFA-38, in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, and Special Tests and Provisions that are applicable to its Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with requirements applicable to this program.

As described in item 02-DOA-01, in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Monitoring that are applicable to its Emergency Food Assistance Cluster. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with requirements applicable to this program.

As described in item 02-DHS-06, in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with requirements regarding Program Income 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 this program.

In our opinion, except for the noncompliance described in the preceding paragraphs, 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, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which 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 02-UTC-01 through 02-UTC-03, 02-UTK-01, 02-UTS-01, 02-UTS-02, 02-APSU-01, 02-DOE-01, 02-DOE-02, 02-TSU-01, 02-DOA-02, 02-DCS-01 through 02-DCS-04, 02-DFA-05 through 02-DFA-07, 02-DFA-11, 02-DFA-12, 02-DFA-14, 02-DFA-16, 02-DFA-17, 02-DFA-23, 02-DFA-25, 02-DFA-27, 02-DFA-28, 02-DFA-30, 02-DFA-32, 02-TDH-01, 02-DHS-01, 02-DHS-03 through 02-DHS-05, 02-DHS-07, 02-LWD-01, 02-LWD-03, and 02-THDA-01.

### Internal Control Over Compliance

The management of the State of Tennessee is responsible for establishing 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 02-UTC-02, 02-UTC-03, 02-UTK-01, 02-UTS-01, 02-UTS-02, 02-APSU-01, 02-DOE-01, 02-TSU-01, 02-DOA-01, 02-DOA-02, 02-DCS-01 through 02-DCS-04, 02-DFA-03 through 02-DFA-22, 02-DFA-24 through 02-DFA-26, 02-DFA-28 through 02-DFA-38, 02-DOT-01 through 02-DOT-03, 02-DHS-01 through 02-DHS-06, 02-DHS-08 through 02-DHS-10, 02-LWD-01 through 02-LWD-03, and 02-THDA-01.

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 within 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 02-DOA-01, 02-DFA-03, 02-DFA-08 through 02-DFA-10, 02-DFA-15 through 02-DFA-21, 02-DFA-26, 02-DFA-33 through 02-DFA-37, 02-DOT-03, 02-DHS-01, 02-DHS-02, 02-DHS-04, 02-DHS-06, and 02-DHS-10, to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the State of Tennessee as of and for the year ended June 30, 2002, and have issued our report thereon dated January 17, 2003. Our audit

The Honorable John G. Morgan

March 17, 2003

Page Four

was performed for the purpose of forming an opinion on the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 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,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

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

AAH/ra



**State of Tennessee**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2002**

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**Section I – Summary of Auditor’s Results**

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**Financial Statements**

- We issued an unqualified opinion on the basic financial statements.
- We identified reportable conditions and material weaknesses in internal control.
- We noted instances of noncompliance material to the basic 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 \$24,376,355.

**State of Tennessee  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2002  
 (continued)**

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**Section I – Summary of Auditor’s Results**

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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
17.225	Unemployment Insurance
84.010	Title I Grants to Local Educational Agencies
84.032	Federal Family Education Loan Program (FFEL) – Guaranty Agencies
84.048	Vocational Education – Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.298	Innovative Education Program Strategies
84.340	Class Size Reduction
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.767	State Children’s Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
-	Research and Development Cluster
-	Student Financial Assistance Cluster
-	Food Stamp Cluster
-	Emergency Food Assistance Cluster
-	Section 8 – Project-Based Cluster
-	Workforce Investment Act Cluster
-	Highway Planning and Construction Cluster
-	Child Care Cluster
-	Medicaid Cluster

**State of Tennessee**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2002**  
**(continued)**

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**Section II – Financial Statement Findings**

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<b>Finding Number</b>	02-DCS-05
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of Children’s Services
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**The department purchased goods and services for foster care recruitment before receiving the authority to incur the expenditures and did not comply with state laws and regulations governing the procurements**

**Finding**

The department purchased goods and services totaling approximately \$150,000 for foster care recruitment before requesting the approvals necessary to incur expenditures on behalf of the state and did not comply with state laws and regulations governing the procurements. These purchases were made primarily under the control and direction of the DCS foster care director and regional management and were for the purpose of recruitment and retention of foster care parents. The manner in which the DCS personnel initiated these procurements violated the state’s purchasing and publications procedures. Bids were not obtained and/or were not adequately documented. Persons who were not authorized to obligate state funds signed contracts for goods and services. Publications printed for recruitment and retention of foster parents were not properly approved. It appears that invoices were split in order to circumvent the state’s competitive bid process, and rush charges were paid for some of the items purchased. As a result of the department’s failure to obtain delegated purchase authority for these expenditures, these purchases were not paid in a timely manner until payment and approval issues with the Department of Finance and Administration, the Department of General Services, and the Comptroller of the Treasury were resolved.

The Department of Children's Services expended over \$149,000 from April through July 2002 for goods and services related to foster parent recruitment and retention. These goods and services included the following:

- promotional items such as magnets, pens, key chains, sports bottles, balloons, stress balls, folding chairs, leather portfolios, umbrellas, cups, etc., imprinted with custom logos;
- apparel such as t-shirts, polo shirts, sun visors, and caps imprinted with custom logos;
- banners and signs promoting foster care;
- radio, newspaper, billboard, movie theater, and magazine advertising;
- food, supplies, and catering services for foster parent appreciation dinners; and
- foster parent recruitment brochures and mailers.

On July 12, 2002, the department submitted a request to the Department of Finance and Administration for a Delegated Purchase Authority to cover these purchases. A Delegated Purchase Authority gives the approval to a state agency to purchase services for an individual program within specified limits and guidelines, and requires the approval of the Commissioner of Finance and Administration and the Comptroller of the Treasury. However, the majority of the goods and services for foster care recruitment had already been purchased prior to the request for a Delegated Purchase Authority (invoices dated beginning April 2002). According to the *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.09, "No grant, loan, purchase, or agreement shall be initiated and no obligation shall be incurred under a Delegated (Purchase) Authority prior to the delivery of an approved copy of the authority to the subject state agency."

#### Contracts signed by employees

The *Rules of the Department of General Services Purchasing Division*, Chapter 0690-3-1-.08 (2) (b), states, "Only the Commissioner is authorized to bind the State in contractual agreements. Contracts signed by State personnel are null and void and do not obligate the State to payment for goods and/or services unless contracted for under authorization of Delegated Purchase Authority or Emergency Purchases." Based on the documentation provided the auditors, it was evident that employees entered into at least five contracts totaling \$14,586 for brochures, banners, and movie theater and billboard advertising. In addition, it is probable that employees executed contracts for other advertising media purchased (e.g., radio and newspaper advertising). However, contracts were not submitted along with the invoices submitted for payment.

#### Publications not approved

The *Rules of the State Publications Committee*, Chapter 1190-1-.06, states, "All publications coming under the jurisdiction of the Publications Committee must be approved in accordance with the applicable guidelines, policies, and procedures." Furthermore, DCS's Administrative Policy and Procedure 30.10, "Publications Management," states, "The

Department of Children's Services shall ensure that departmental publications are in compliance with the Department of General Services Publications Committee statutes, rules, policies, procedures, and guidelines." None of the brochures printed were presented to the Publications Committee for approval. Five of the invoices submitted were for printing brochures and totaled \$8,455.

#### Bids were not obtained

Generally, the Department of General Services requires agencies to obtain three informal bids for purchases between \$400.01 through \$2,000. Purchases over \$2,000 must follow the competitive bid process, which is performed by the Department of General Services. The department negotiated many purchases that were in excess of \$400; however, there was no evidence that the department secured three bids. Based on the invoices submitted, there were 12 purchases totaling \$15,910 without evidence of bids. In addition, the department did not forward purchase requisitions greater than \$2,000 to the Department of General Services to initiate that competitive bid process. Based on the invoices submitted, there were 17 purchases greater than \$2,000 that were not forwarded to the Department of General Services for formal bidding. Furthermore, only one of these purchases (\$3,808) contained evidence that the department obtained bids; there was no evidence that the department obtained bids for 16 purchases, totaling \$81,769.

#### Purchases were apparently split

Based on review of the invoices submitted, it appears that there were attempts to artificially divide procurements in order to make purchases below the \$400 departmental bid requirements and the \$2,000 requirement for referral to the Department of General Services for formal bids.

- Two purchases for promotional items totaling \$1,957 and \$1,956 from the same vendor were invoiced the same day.
- Numerous purchases for signs were made from the same vendor during May and June 2002. Each invoice was for either \$300 or \$400. Dates and amounts are as follows:
  - May 8, 22, 24, 30, and 31 for \$400 each
  - June 7, 7, 20, 22, 25, and 28 for \$300 each
  - June 17 for \$400
- Two purchases for printing totaling \$341 and \$399 from the same vendor were invoiced on June 18 and 19, respectively.

#### Payments were not made timely

It should be noted that certain purchase transactions were cited in more than one of the exceptions noted above. However, as a result of the department's failure to obtain delegated purchase authority for these expenditures, all of these purchases for recruitment and retention of foster care parents were not paid in a timely manner. The Prompt Payment Act of 1985 requires that if no date for payment is agreed upon in the contract, payment will be made within 45 days after receipt of the invoice. Overdue payments accrue one and one-half percent interest per month, and an agency may not seek additional appropriations to pay interest which accrues as a

result of its failure to make timely payments. Payment of these purchases did not begin until October 2002. Interest of \$1,108.84 was paid to one vendor in November 2002, and other payments may be necessary if requested by the vendors.

### **Recommendation**

The Department of Children's Services should not procure goods and services for foster care recruitment and retention without an approved delegated purchase authority in place. Furthermore, the Commissioner should ensure that all DCS personnel responsible for making these purchases have adequate knowledge of the state's purchasing policies and procedures before any purchases are made. All purchases should be made in compliance with the department's and the state's purchasing policies and operate in an open, competitive, and cost-effective manner. Contracts obligating the state should only be signed by authorized personnel. All publications and brochures should be presented to the Publications Committee for approval prior to printing. Purchases should be adequately planned in order to take advantage of quantity discounts and avoid the additional costs of emergency purchases and rush charges associated with procurement and shipping. The department should adhere to all bidding guidelines promulgated by the Department of General Services, and should not artificially divide procurements in order to make purchases below the bid requirements. In addition, the department should make payments to vendors in a timely manner to avoid making interest payments on amounts past due. The Commissioner should take appropriate disciplinary actions against those employees responsible for inappropriate procurements.

### **Management's Comment**

We concur. In an effort to prevent reoccurrence, new procedures for recruitment purchasing have been instituted. Regional Administrators, regional procurement staff, and regional recruitment staffs have been trained by the Department of General Services in appropriate purchasing procedures. These same personnel have been educated with regard to the use of the Publications Committee and have been instructed not to sign contracts. Delegated purchase authority will be established should recruitment funds become available in the future. In addition to disciplinary action already imposed, any future occurrence similar to this will result in further disciplinary action for responsible staff.

<b>Finding Number</b>	02-DCS-06
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of Children's Services
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**The department circumvented state purchasing rules, violated state law, and concealed questionable transactions, including \$5,750 for use of a yacht club, \$2,590 to a local church, and \$2,500 for T-shirts from a former spouse of a DCS employee, through the creation of a fiscal agent relationship with the Memphis and Shelby County Community Services Agency**

**Finding**

The Department of Children's Services (DCS) concealed the questionable procurement of goods and services by using the Memphis and Shelby County Community Services Agency (CSA) as a fiscal agent to pay for those goods and services. These purchases were made primarily under the control, direction, and approval of DCS management and were for the purpose of facilitating the adoption of children in state custody (child-specific services) or general expenditures for promoting adoption (non-child-specific services). When DCS created a fiscal agent relationship with the CSA, the Department of Children's Services avoided compliance with the state's purchasing procedures, including bid requirements.

The Department of Children's Services contracts with the Memphis and Shelby County Community Services Agency, a separate legal entity, to promote adoption in Shelby County. The CSA expended over \$85,000 during the year ended June 30, 2001, and over \$138,000 during the year ended June 30, 2002, for purchases arranged for by DCS and paid for by the CSA. These goods and services included the following:

- Legal fees of adoptive parents (i.e., attorney fees and court costs) were paid for handling the finalization of adoptions. The CSA also paid for divorces for foster parents whose spouses were not parties in the adoptions. DCS records state that this assistance would help the foster parents complete the adoption process. In most cases, these fees were over \$1,000 per case.
- Entertainment was provided for the adoption/foster care parents' appreciation banquets. For the year ended June 30, 2001, DCS hired a band at a cost of \$600; for the year ended June 30, 2002, the same band was paid \$800 to play at these banquets.

- A local church was paid \$2,590 for use of the church's hall and preparation of dinner for a recruitment event. A gratuity of \$315 was included in the amount paid to the church.
- Expenditures for billboard advertisement totaled \$58,700.
- A local vendor printed adoption brochures for \$700.
- T-shirts were purchased from the former spouse of a DCS employee on at least three occasions. The cost charged to the CSA amounted to over \$2,500.
- Mouse pads, pens, license plate frames, keychains, and other similar items were purchased from a vendor in Jackson, Mississippi. One payment amounted to \$7,933, of which \$496 was for freight and handling. For the year ended June 30, 2001, this vendor was paid \$13,500.
- Supplies were purchased for use in training provided to foster care and adoptive parents. A local vendor was paid more than \$12,000 during the year ended June 30, 2001. These supplies included such things as chairs and tables.

The DCS Shelby County regional office staff made the decisions concerning how the adoption funding awarded to the CSA would be spent, rather than allowing the CSA to make decisions regarding what goods and services were to be purchased and how these goods and services would be purchased. After the purchases were initiated, DCS personnel requested the CSA to pay for them by submitting an adoption service plan, a family service plan, or memorandum which in most cases was prepared by a DCS case manager and then approved by a DCS team leader and/or the DCS Shelby County Regional Administrator. Furthermore, certain purchases initiated by DCS resulted in contractual agreements between the vendor and the Department of Children's Services. These contracts were signed by the DCS Shelby County Regional Administrator, her secretary, or a DCS Team Coordinator and included a contract with a media company for the production of billboards to advertise adoption (\$7,700); a contract with a yacht club for an adoption and foster care appreciation banquet (\$5,750); and a contract with a minor league baseball team for tickets to a baseball game (\$787.50).

The CSA fiscal office personnel prepared checks based on requests from DCS. After these checks were signed, they were often picked up by a DCS employee and delivered to the vendor. In many cases, goods were delivered directly to the DCS Regional Office, and DCS did not provide the CSA with support as to whether the goods were actually received. Furthermore, when the auditors asked the DCS Shelby County Regional Administrator to provide support for various goods and services, very minimal support was provided.

As a result of the manner in which DCS procured these goods and services, the CSA violated state law concerning its plan of operation because expenditures for the billboard advertisement subsequently amounted to \$58,700 and were not included in the CSA's plan of operation. In addition, CSA policies related to the contract approval process and routine purchases were violated due to contracts that were not signed by the appropriate official and bidding procedures that were not followed.

In addition, the manner in which the DCS personnel initiated these procurements violated the state's purchasing and publications procedures. Bids were not obtained and/or were not adequately documented. Receiving reports were not prepared, and contracts were signed by persons who were not authorized to obligate state funds. As a result of the way business was done between the CSA and the DCS Shelby County Regional Office, the CSA acted as a fiscal agent for DCS.

- The *Rules of the Department of General Services Purchasing Division*, Chapter 0690-3-1-.08 (2) (b), states, "Only the Commissioner is authorized to bind the State in contractual agreements. Contracts signed by State personnel are null and void and do not obligate the State to payment for goods and/or services unless contracted for under authorization of Delegated Purchase Authority or Emergency Purchases." Most of the contracts for the goods and services for which the CSA paid were signed by the DCS Shelby County Regional Administrator. A contract was also signed by the secretary of the DCS Shelby County Regional Administrator and a DCS Team Coordinator.
- The *Rules of the State Publications Committee*, Chapter 1190-1-.06, states, "All publications coming under the jurisdiction of the Publications Committee must be approved in accordance with the applicable guidelines, policies, and procedures." Furthermore, DCS's Administrative Policy and Procedure 30.10 "Publications Management," states, "The Department of Children's Services shall ensure that departmental publications are in compliance with the Department of General Services Publications Committee statutes, rules, policies, procedures, and guidelines." None of the brochures printed were presented to the Publications Committee for approval.
- Generally, the Department of General Services requires agencies to obtain three informal bids for purchases between \$400.01 through \$2,000. Purchases over \$2,000 must follow the competitive bid process, which is performed by the Department of General Services. The CSA paid for many purchases that were well in excess of \$400; however, neither the CSA nor DCS secured three bids. In addition, DCS did not forward purchase requisitions greater than \$2,000 to the Department of General Services to initiate that competitive bid process.

Furthermore, the DCS Shelby County Regional Administrator serves on the board of directors of the CSA and can vote on issues brought before the board. Since the Regional Administrator approved invoices for payment and served on the board, management may have been reluctant to question the transactions she approved. Also, serving on the governing board of the CSA, being employed by DCS, and approving invoices for payment by the CSA could be a conflict of interest.

In light of the fiscal agent relationship noted in the Shelby County region, inquiries were made of DCS administrators and Community Services Agencies in the other regions of the state. These inquiries did not disclose the existence of other fiscal agent relationships.

## **Recommendation**

The Department of Children's Services should not take actions to use grantees as fiscal agents for the department. DCS officials should not utilize grantees in ways that serve to circumvent state laws, policies, and procedures. The Commissioner should determine how this relationship with the CSA evolved into a method of permitting the department to circumvent state laws, policies, and procedures and take appropriate action.

In addition, the status of the DCS Shelby County Regional Director as a member of the board of directors of the CSA should be evaluated.

## **Management's Comment**

We concur in part. The department does not concur with the language stating that the department "concealed the questionable procurement of goods and services . . ." The department did not conceal nor attempted to conceal these transactions. Management made Shelby regional staff available to the auditors in both Nashville and Jackson. All documentation retained by the department was provided to the auditors.

The department has reevaluated the function of the Community Services Agencies and has instituted a clear procedure for the procurement of goods and services. This procedure states that the Community Services Agencies are to preauthorize and procure goods and services on behalf of the department according to the restrictions placed upon them by their plans of operations and their contracts. This procedure has been communicated to both the Community Services Agencies' Executive Directors and the departmental Regional Administrators.

The department will reevaluate the relationship between the department and the Community Services Agencies, including the propriety of the DCS Regional Administrator's seat on the CSA Board of Directors.

## **Auditor's Comment**

Although the department contends that it did not conceal these purchases, the manner in which these transactions were submitted and processed resulted in circumventing the department's and the state's established procedures for competitive procurement. This method of procurement also avoided upper management's review and approval controls designed to detect and prevent such occurrences.

<b>Finding Number</b>	02-DCS-07
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of Children's Services
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**As noted in the previous eight audits, since July 1, 1993, Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,130,327 are due from foster care and adoption assistance parents**

### Finding

As noted in the eight previous audits, from July 1, 1993, to June 30, 2001, Children's Services still has not collected overpayments from foster care and adoption assistance parents. Management concurred with the prior audit finding and stated,

The department has been communicating with the Department of Finance and Administration (F&A) during fiscal year 2001 to monitor progress in the implementation of a statewide collections contract. F&A consistently pursued the completion of this contracting process throughout fiscal year 2001. DCS monitored this progress and determined that a separate departmental contract would not be necessary. A vendor has been selected for statewide collections and F&A is developing the contract at the time of this response. This contract negates the need for a separate departmental contract. DCS will be utilizing the statewide contract as soon as it is fully executed to resolve these outstanding overpayment accounts.

As of June 30, 2002, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,130,327, a decrease of \$48,089 since June 2001. This decrease was due to the department's implementation of controls during the last two years to minimize the amount of foster care and adoption assistance overpayments. Also, beginning July 1, 1998, the department implemented a policy whereby payments to current foster parents with outstanding balances are reduced by 50% until the amount due is indicated to be zero.

During the year ended June 30, 1998, the department implemented a 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. Once an overpayment is detected, the department adjusts subsequent requests for federal funds in order to eliminate federal participation in the amount overpaid. Each month, a remittance advice is sent to the overpaid parent noting the balance due to the state. Management's previous response mentioned communicating with the Department of Finance and Administration during fiscal year 2001 to

monitor progress in the implementation of a statewide collections contract. The Department of Finance and Administration entered into this contract on February 1, 2002. However, the Department of Finance and Administration had to work with the Department of the Treasury to make certain programming changes to facilitate the transfer of information between the state and the collection agency. Certain account and debtor information required by the collection agency was either not in the department's subsidiary accounting records or not in the format necessary to facilitate the transfer. Rather than delay the transfer of any accounts to the collection agency until such information was located and formatted for all accounts, it was agreed that the department would prepare batches of 100 accounts each month and submit the information to turn over for collection. The first batch of 100 accounts totaling \$114,518 was sent to the Department of Finance and Administration on October 3, 2002. As of January 30, 2003, no additional accounts had been submitted.

### **Recommendation**

**Note: The language in this recommendation is practically identical to that in the last three audits reflecting little improvement in the actual collection of overpayments.**

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should increase their efforts to recover all funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children. These steps should include increasingly aggressive collection letters, telephone calls, collection agencies, and litigation.

### **Management's Comment**

We concur. Although slight progress in the collection of overpayments has been made, management agrees that this progress is not acceptable. During the months of November and December 2002, the Fiscal and Administrative Services Division experienced technical difficulties with formatting the data file containing the account information necessary to submit to Finance and Administration and the contracted collection agency. These difficulties have now been resolved. Given the length of time that some of the overpayments have been outstanding, the Assistant Commissioner of the Fiscal and Administrative Services Division has directed staff to stratify the overpayments by age and by the dollar amounts described in Finance and Administration Policy Statement 23. Each overpayment will be examined, along with documentation of past collection efforts. Although this process is laborious, it is necessary to confirm the validity of each overpayment comprising the total balance. In accordance with Finance and Administration Policy 23, the department will pursue collection both through its own efforts and through file transmission to the contracted collection agency. If all reasonable collection efforts are not successful, the department will request write-off of the receivables under the auspices of the aforementioned policy.

It is important to note that the overpayments discussed in this finding are from prior fiscal years. The department is confident that the controls currently in place drastically limit the

amount of overpayments to foster care and adoption assistance parents. In addition, the system currently in place allows for timely collection of any overpayments made to these parents.

<b>Finding Number</b>	02-DFA-01
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**The Tennessee Insurance System is not functioning efficiently and effectively**

**Finding**

As noted in the six 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, changes are being made directly to the TIS database through the Application Development Facility (ADF) software program, necessitating manual reconciliations and adjustments. Management responded to the prior audit finding by stating that the TIS upgrade project began in March 2000, accounting transactions had been brought up to date, and accounting positions had been added to the Division of Insurance accounting section. Also, management stated that in addition to the TIS upgrade project, the division had implemented the TIS automated reconciliation project. Our review indicated that most accounting transactions were up to date, positions were added, and the TIS upgrade project is in progress. We also found that the automated reconciliation process is functioning and items that still require manual reconciliation are being handled appropriately. However, the automated reconciliation process does not eliminate the need for additional manual reconciliation, and the upgrade project and Master Transaction Study are not complete. The TIS Upgrade Project is to be completed in June 2005. The TIS Master Transaction Study scheduled to begin after July 1, 2003, has been modified and is now a TIS Master Transaction Task that is to be rolled into the TIS Upgrade Project and will be initiated within the TIS Upgrade Project at no predetermined time. Therefore, ADF is still used, and differences between TIS and the State of Tennessee Accounting and Reporting System (STARS) still occur that result in manual processing.

The division is still using ADF to manually adjust participants' accounts directly in the TIS database rather than through transactions. The system's security must be overridden 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 audit, overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The Division of Insurance Administration continues to use 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 division staff 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, the State of Tennessee Accounting and Reporting System (STARS) is not updated concurrently. As a result, the two systems do not agree. We noted that differences between the daily net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during the year ended June 30, 2002, ranged from (\$10,000) to \$9,507.93. Differences in the daily net change must be researched and adjusted as necessary. However, if the system had been designed and was functioning properly, there would not be a need for these additional manual procedures.

### **Recommendation**

To ensure that all TIS system problems are corrected as soon as possible, the Director of Insurance Administration should complete the TIS upgrade project that began in March 2000 and is scheduled to be completed by June 2005. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. 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. As stated previously, the issue of reconciliation between TIS and STARS has been the topic of considerable effort on the part of the Division. The Division has implemented a number of changes that focus on this issue. Two years ago, accounting transactions were brought up to date, and the backlog of accounting transactions was eliminated. Positions were added to the accounting section to assist in this task. The TIS Automated Reconciliation Project has been completed. All of these improvements have positively addressed the TIS to STARS balancing problem.

Insurance Administration, Information Systems Management, and the Office of Information Resources are also engaged in a multiple-year effort to upgrade the Tennessee Insurance System (TIS). TIS is the basic business tool that provides the eligibility, enrollment, and premium collection activities to support the state-sponsored plans. TIS began operation in the summer of 1991.

Planning, analysis, and general design phases of the TIS Upgrade Project were complete in March 2002. Detailed design and programming will be completed in stages rather than in its entirety. The components specifically related to the balancing of TIS and STARS are scheduled early in the overall work program. In its totality, the project should be completed by the middle of 2005. The TIS upgrade project is intended to enhance the capabilities of the present system,

provide some flexibility in reconfiguring specific TIS components and activities, and improve maintainability. Every effort is being made to correct as many problems as possible in the current version of TIS while designing the upgraded TIS so that current use of ADF will be minimized. The TIS Master Transaction Study has been combined with the TIS Upgrade Project.

In summary, the Division of Insurance Administration, while only one of the organizational units responsible for the upgrade project, is committed to correcting the deficiencies in the Tennessee Insurance System; to the judicious use of ADF changes; and to resolving the issue of TIS to STARS balancing.

<b>Finding Number</b>	02-DFA-02
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**The Division of Insurance Administration does not monitor the claims processed by insurance companies on behalf of the state**

**Finding**

The Division of Insurance Administration does not monitor claims processing by the insurance companies. During the year ended June 30, 2002, the insurance fund plans became entirely self-insured which means that the state is responsible for 100% of the payments to health care providers. The insurance companies do not participate in the cost of services and therefore do not have a monetary incentive to ensure that the claims are valid and reasonable. The insurance companies are paid an administrative fee, based on the total number of members, to process the claims. As the claims are processed, one of the insurance companies, BlueCross BlueShield of Tennessee (BCBS), writes checks from the state account to pay the claim. BCBS then sends the last page of the check register, which shows the total amount paid, as support for the payments. Insurance companies other than BCBS pay claims and then bill for reimbursement from the state.

The Division of Insurance Administration does not monitor the claims processing by these companies to ensure that only allowable claims are being processed and that claims are being processed correctly. Without this control, the insurance companies have the ability to pay unallowable claims with state funds or be reimbursed with state funds. This could result in increased claim payments for the state and unnecessary insurance premium increases.

**Recommendation**

The Director of Insurance Administration should implement a monitoring process that enables the Division of Insurance Administration to closely monitor claims processing by the insurance companies to ensure that claims being paid are in fact allowable and that they have been processed correctly.

### **Management's Comment**

We concur. In the past, the Division of State Audit has, at the request of the Division of Insurance Administration, conducted claims audits of the payment of claims by BlueCross BlueShield of Tennessee. The purpose of these audits was to determine whether claims were paid in accordance with plan benefits and the contract between BlueCross BlueShield of Tennessee and the state. The Division agrees that the process of auditing claims for all self-insured plans needs to be reinstated. The Division therefore intends to request the Division of State Audit continue to assist the Division by periodically auditing claims payments for all the self-insured plans. If the Division of State Audit is unavailable, the Division will secure these services through a contract for these services.

<b>Finding Number</b>	02-DFA-39
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**Control over the recording of land in the Land Inventory System needs improvement**

**Finding**

Due to a lack of a review system, land maintained on the Land Inventory System (LIS) was not always properly valued, and the number of acres did not calculate correctly. The Division of Capital Projects and Real Property Management (CP/RPM) uses the LIS to maintain records of state-owned land for each site in the state’s 95 counties. For each site, there are one or more activity records that include the information regarding acquisition or disposal transactions of property and the associated value for each activity related to that site. These transactions are initiated by the agents and entered into the system by the administrative assistant without any supervisory review to ensure that the amount entered into the system is the correct amount based on the information in the paper file. The values for each activity in LIS are used to generate reports—such as the Land Value Report (LVR), the Land Inventory Report (LIR), and an Adjustments Report at the end of each fiscal year—which are used in determining the amount of land to be included in the financial statements. The audit revealed that the land values were not recorded at the proper amount on the LVR and certain disposal transactions were not valued correctly. Also, land transfers from one department to another within the state did not transfer at the correct amount, and there was not adequate documentation to support the value of land listed on the LVR. The numbers of acres for the land sites per the LIR are not accurate, and the numbers of acres for land activities do not match the number of acres on the deed. Furthermore, it was noted that adequate documentation was not maintained for access to LIS.

Three of 30 land acquisitions for the year (10%) were not valued at the proper amount on the LVR, resulting in an overstatement of \$3,919,965. One of the three errors involved incorrectly including the value of the buildings with the value of the land in the LVR. Land and building amounts should be shown separately on the state’s financial statements. The value of the remaining two items were just determined incorrectly.

Six of 86 transactions involving a zero or nominal amount (7%) were not correctly valued on the LVR, resulting in an overstatement for those parcels of \$252,924. The six disposal transactions should have reduced the value of the land by larger amounts.

Four of 13 land transfers tested (31%) did not transfer correctly. Two land transfers did not transfer from one department to another at the same amount, resulting in an overstatement of \$58,107. The items were removed from one department at the original amount, but they were added to the other department at a different amount. The state as a whole was not disposing or acquiring any new parcels of land so the LVR should not indicate any changes in value for land transfers. The third erroneous land transfer was not removed at the same amount that was originally recorded in the system, resulting in an overstatement of \$269, and the documentation was not present to support the amount of the fourth transfer as discussed in the following paragraph.

Two of 86 land items examined (2%) did not have proper documentation to support the value on the LVR. According to the notes in LIS, 1.16 acres were disposed of and .19 acres were transferred out, both at \$23 per acre. Currently, the average costs/value per acre are \$322 for the 1.16 acres and \$40 for the .19 acres. There is no documentation to support that the average costs/value per acre at the time of the transactions were in fact \$23. When only a portion of land is disposed or transferred to another jurisdiction, as opposed to the entire site, the average cost or value is used to determine the amount to be removed from the LVR. The original cost or value for each site should be used, but since that is not always easily determined for portions of land, the best option is the average cost or value, which is constantly changing with the sizes and prices of the parcels associated with each site.

The correct value to remove from LVR could not be determined for 2 of 13 land transfers tested (15%) and one of the 6 items over \$5 million (17%) because the number of acres for each site is incorrect. The acres listed individually on the LIR for each activity for each site in all of the counties were added and subtracted by the auditor to calculate the total number of acres for the site. These calculations did not correspond to the total acres for the site on the LIR. If the LIR is not correctly calculating the number of acres, the average cost/value for each site in the LIS will not be accurate. If the average is incorrect, the total value of land could be affected.

For 3 of 42 land activities tested (7%), the number of acres in LIS was not the same number that was listed on the deed. In addition, a data extract was obtained directly from the LIS. This extract was used to recalculate the amount of acres that should have been reported on LIR for each site. However, for 4 of 42 sites (10%), the amount recalculated did not match the amount reported on the LIR. Three of the problems were created because several transaction codes were included in the LIR calculation that should have no effect on the number of acres. The cause for the other error is unknown. If the wrong number of acres is being used to calculate an average, this could also affect the average cost/value.

With regard to computer security for LIS, 9 of 11 users of LIS (82%) did not have adequate system request documentation, and all 11 (100%) lacked proper documentation of supervisor approval. A few years ago, CP/RPM began using the Computer System Action Sheet, an on-line form, to document requests and approvals for access. Employees who had been granted access prior to the use of those forms have no documentation regarding approved access. Also, since the form is on-line, the division head is to send an e-mail to F&A Security in place of his signature, but these e-mails are not filed with the form. Currently a complete list of LIS users is not easily determinable.

## **Recommendation**

CP/RPM management should implement a review system to ensure the value entered into LIS equals the cost or the appraisal amount, changes to land are valued correctly, and the original cost or value of land transferred between departments does not change. CP/RPM should maintain documentation to support the amount removed from a site in LIS. The formula used in the system to calculate acres should be reviewed and revised to include only items that affect the LIR. Before the information is keyed into LIS, the land files should be monitored and reviewed. Once information is on LIS, system information should be compared to the source documents and files to ensure accuracy. CP/RPM should update the files for everyone with access to LIS to indicate proper request and approval, and new employees should have a properly completed file to document access request and approval. If approval is granted through e-mail, either the approval should be maintained within the system, where it is accessible, or the e-mail should be printed documenting the approval and maintained within the paper file. The LIS administrator should maintain a list of all users with access to LIS and what type of access they have.

## **Management's Comment**

We concur with the finding and recommendation. Most of the errors uncovered in this audit are simply mistakes that should have been uncovered with an adequate review system. On September 27, 2002, Real Estate Management instituted a new policy and procedures for closing land transactions and posting data to the Land Inventory System (LIS). The procedures include two levels of review before the transaction file is closed and the data input is deemed accurate. These reviews will ensure that land values and acreages match legal documents pertaining to the transaction and that transfers of property between agencies reflect the original cost and value when that property was first acquired.

We are acutely aware that the current LIS is outmoded, subject to error, and needs to be replaced. The department's Information System Plan (ISP) includes a project for the system replacement. Significant work has been done on system needs analysis. The project will continue upon completion of higher priority projects.

The system does not allow for proper documentation of land values when transferring land between agencies if the parcel is only a portion of the site and the value is based on average cost and value. The system only retains the current average cost and value and those can vary greatly with the acquisition or disposal of several large or costly parcels. Our process for posting land transactions now includes getting a screen print of the site totals on the LIS site screen before the transaction is posted and placing that screen print in the paper file for documentation.

A more serious system error was uncovered in this audit that affects total acreage for each site and acreage totals in the Land Inventory Report (LIR). Site acreage totals should only reflect acreage added or subtracted to the site by fee acquisitions, fee disposals, or transfers of jurisdiction. It was determined that adjustments to activities other than these types of transactions also cause changes to acreage totals. This obviously was a design flaw by the

developer, MSE Corporation, that was never exposed in the testing process. A help desk request (Incident #111236) has been initiated to determine a fix for this.

Access to the Land Inventory System application and data files was granted to most LIS users years ago before the new system for requesting and granting access was initiated. Apparently old records of access requests no longer exist. It simply never occurred to anyone that we should make new requests for users who already have access rights to system applications. New requests for all LIS users have been initiated and the LIS administrator will maintain a list of all users and what type of access they have been granted.

<b>Finding Number</b>	02-TCRS-01
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of the Treasury
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**The Tennessee Consolidated Retirement System should strengthen controls for preventing, detecting, and collecting overpayments to deceased persons**

**Finding**

The Tennessee Consolidated Retirement System receives death match reports from a contracted vendor twice each year. In addition, death match reports are generated quarterly using information obtained from the Department of Health. These death match reports serve as the primary basis for preventing, detecting, and collecting overpayments to deceased persons. Management has developed written procedures to be performed in regard to the information contained in these death match reports. Our prior-year audit reported several weaknesses regarding the written procedures over death match reports as well as instances of noncompliance with written procedures. Management concurred with the prior audit finding and indicated that new procedures would be developed and that staff would be trained to follow the new procedures.

During the current audit, we reviewed the new procedures for adequacy and tested a sample of retirees and beneficiaries that were reported as deceased in death match reports. Based on our review and testwork, it appears the design and operation of the new procedures were sufficient to ensure that member accounts were placed in pending status promptly and collection procedures were started in a timely manner. However, our review of the new procedures indicated that management still does not require sufficient evidence to refute a death match. In addition, discussions with management indicated that not all the revised procedures were being followed.

Management's primary control to determine if a retiree or beneficiary appearing on the death match reports is deceased is to send a letter to the retiree or beneficiary. The letter instructs the retiree or beneficiary to fill out the bottom portion of the letter and return the letter to TCRS. If the letter is returned to TCRS, management regards this as a sufficient basis to continue payments to the retiree or beneficiary. As noted in the prior audit, management has not obtained sufficient assurance that the letters are not completed and signed fraudulently by someone other than the retiree or beneficiary. Based on review, management did not address this prior-year audit recommendation in developing revised procedures.

Our prior-year audit finding also recommended that management ensure that written procedures address the various circumstances that arise as a result of overpayments and that employees comply with the procedures. Specifically, we recommended that the Director of TCRS should ensure that time requirements for sending letters, procedures for payments made by automated clearing house transfers, and any reviews and approvals of overpayment documentation be adequately addressed in the procedures. Based on review, it appears the revised procedures do address these specific recommendations. However, in regard to approvals required by the revised procedures, it does not appear that management has ensured that staff complied with the revised procedures. Based on discussions with management, the accounts receivable form is not approved by the Manager of Financial Services as required by the revised procedures.

If control procedures are not adequate to obtain a sufficient basis to continue payments to retirees and beneficiaries, the risk that overpayments will not be prevented and detected is increased. If accounts receivable forms are not reviewed and approved, the risk that accounts receivable will not be properly recorded is increased.

### **Recommendation**

Written procedures should be strengthened to attain a higher level of assurance that information received in the letters returned by retirees and beneficiaries is complete, accurate, and sufficient to continue making payments to retirees and beneficiaries that have been reported as deceased. One way to strengthen procedures would be for the letters sent to the retirees and beneficiaries to contain language outlining the consequences of submitting inaccurate information and for the letters returned by the retirees and beneficiaries to be signed in the presence of a notary public. In addition, management should ensure that the Manager of Financial Services approves the accounts receivable form as required by written procedures.

### **Management's Comment**

Management concurs. Management will take additional verification steps for those retirees reported as deceased, but notify TCRS that they are alive. Management will also review procedures and revise as appropriate to ensure that accounts receivable are being recorded.

<b>Finding Number</b>	02-TDT-01
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Department of the Treasury
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**The Wire Room Manager’s access to the Federal Reserve’s Fedline terminals was not adequately controlled**

**Finding**

The Department of the Treasury maintains a secure room known as the wire room, from which electronic funds are disbursed and received. The Wire Room Manager had the ability to transfer funds using the Federal Reserve’s Fedline terminals with no verification by another employee in the wire room. The department’s procedure is for two wire room employees to be involved in all electronic funds transfers with one employee initiating the transfer and another employee verifying the transfer. The Wire Room Manager had the funds transfer Supervisor function on the Fedline system during the audit period from July 1, 2001, to June 30, 2002. This function has a funds transfer access level to provide the user with the ability to override the verification requirement. The verification requirement is a security setting in place to require that more than one person be involved with the processing of funds transfers.

The Federal Financial Institutions Examination Council (FFIEC) Information Systems (IS) Examination Handbook provides guidance for the proper setup of terminal-related security for the Federal Reserve Fedline terminals. According to Chapter 19 of the handbook,

No staff members should have the funds transfer (FT) Supervisor or Manager function. These functions have funds transfer access levels that provide the ability to bypass the verification requirement. These access levels should only be activated by the Local Security Administrator in unusual circumstances. The Local Security Administrator should monitor the actions performed using these access levels and then deactivate these levels when the action is complete.

With the ability to override the verification requirement, the Wire Room Manager could transfer funds without having a second person verify the transfer before transmitting to the Federal Reserve. This improper access would allow for the Wire Room Manager to transfer funds from the state’s Federal Reserve account to an unauthorized account with no other employee’s involvement. Possible detection of an unauthorized transfer would not occur until a reconciliation was performed the following business day between authorized transfers on the

department's cash management system and the Federal Reserve funds transfer and subsidiary statement. An employee in the accounting division performs this reconciliation. During a review of several of these reconciliations and activity logs documenting electronic funds disbursements for a given day, no improper electronic funds disbursements were noted. After this improper access was brought to management's attention by the auditors, the funds transfer Supervisor function was removed from the Wire Room Manager's access.

### **Recommendation**

The Director of Information Systems should continue to ensure that the security settings for the Federal Reserve Fedline terminals are within the guidelines and recommendations of the Fedline Electronic Funds Transfer FFIEC IS Examination Handbook.

### **Management's Comment**

Management concurs. In August 2001, management determined that requiring dual approvals on outgoing fund transfers would strengthen existing wire room controls. Accordingly, procedures were changed to require dual approvals on all outgoing fund transfers. In addition, based on staff's understanding of Fedline system security, the system's security settings were changed to require dual approvals. When it was brought to management's attention during the audit that the system security change was not effective, management took immediate action to revise the settings to effectively require dual approval of outgoing fund transfers.

Management emphasizes that during this entire period the manual procedures requiring dual approvals were followed. All outgoing fund transfers were executed only when dual approval was obtained.

<b>Finding Number</b>	02-THDA-02
<b>CFDA Number</b>	N/A
<b>Program Name</b>	N/A
<b>Federal Agency</b>	N/A
<b>State Agency</b>	Tennessee Housing Development Agency
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	N/A

**Deposits and repurchase agreements were not adequately collateralized**

**Finding**

The agency did not properly monitor the bank balances or the repurchase agreements held at the trustee bank to ensure amounts were adequately collateralized as required by *Tennessee Code Annotated* and the agency’s bond resolutions. For 3 of 28 days tested (11%), bank balances were in excess of Federal Deposit Insurance Corporation (FDIC) coverage plus collateral pledged. Uncollateralized amounts ranged from \$1,167,906 to \$8,650,629. Five of 24 repurchase agreements tested (21%) had underlying securities with market values less than the par value of the repurchase agreement (plus accrued interest) on 3 of the 21 days tested. Uncollateralized amounts ranged from \$35,058 to \$1,534,162. In addition, 3 of 23 repurchase agreements tested (13%) had underlying securities with initial market values less than 102% of the par value of the repurchase agreement. The par values exceeded the underlying securities by a range of \$111,396 to \$1,900,885.

Section 9-4-403, *Tennessee Code Annotated*, states that all state funds held in state depositories shall be secured by “required collateral.” Section 9-4-105 states that “required collateral means collateral whose market value is equal to one hundred five percent (105%) of the value of the state deposit secured thereby, less so much of such amount as is protected by the federal deposit insurance corporation.”

Section 4.5(A) of the agency’s “General Homeownership Program Bond Resolution” states that “all money in such interest-bearing time deposit, certificate of deposit, repurchase agreement or other similar banking arrangement shall be ... continuously and fully secured ... having a market value equal at all times to the amount of the deposit, repurchase agreement, certificate, or other similar banking arrangement.” Section 701 of the agency’s “Housing Bond Resolution (Mortgage Finance Program)” states that “all monies held hereunder by any Fiduciary shall be continuously and fully secured ... by Permitted Investments or Bonds or Notes of the agency of a market value equal at all times to the amount of the deposit held by the Fiduciaries.”

In addition, the agency’s “Investment Policy” states that for repurchase agreements “eligible collateral shall have an initial market value of at least 102% of the principal amount of the cash investment.” It also states that “securities shall be marked-to-market daily and shall be

maintained at a value equal to or greater than the original cash investment amount, including accrued interest on such amount.”

By not adequately monitoring the trustee bank balances, the agency increases the risk of financial loss in the event of bank failure and fails to comply with state law and the bond resolutions. By not adequately monitoring the repurchase agreements, the agency increases the risk of financial loss in the event of a failure of the repurchase agreement provider and fails to comply with the bond resolutions and investment policy.

### **Recommendation**

The Chief Financial Officer should develop procedures to ensure bank balances and repurchase agreements are adequately monitored and sufficient collateral exists. The Chief Financial Officer should establish clear responsibilities for compliance, monitor compliance, and take appropriate and timely remedial action for any noncompliance.

### **Management’s Comment**

We concur. However, we disagree that this is a “material weakness” for the following reasons:

1. The amount involved is immaterial to the financial statements being audited, as it is less than 1% of the total assets of the agency.
2. The problem has been thoroughly addressed. THDA has hired a new trustee and established new procedures for monitoring collateral. In addition, new investment procedures have been established whereby bank balances are kept at a minimum.
3. The problem was immediately corrected in the notes to the financial statements.
4. Although the auditors have mentioned this problem in years past, it has never risen to the level of a finding. The agency accepts that the problem was sufficient to warrant a finding this year, but should not have risen to the level of a “material weakness.”
5. At no time was the agency at risk financially. The providers of repurchase agreements are nationally known investment-banking firms with hundreds of billion dollars in assets.

The agency changed trustees in October 2002. The agency’s cash balances on deposit with the trustee are now swept into a money market mutual fund account each day. This fund invests in U.S. Treasury obligations and repurchase agreements that are backed by U.S. Treasury obligations. The monitoring of collateral pledged on the agency’s repurchase agreements has been thoroughly discussed with the trustee. The trustee’s procedure will be to monitor the collateral daily and compare the market price of the collateral to the cost and determine if the

requirements are being met. If the requirements are not met on any day, the trustee will contact the agency. The agency will then contact the provider of the repurchase agreement and resolve the matter.

### **Auditor's Comment**

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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In our judgment, the agency's absence of properly designed controls related to the categorization of deposits and investments during the audit period is a material weakness. The controls are necessary to prevent or detect misstatements that would be material in relation to the financial statements in the risk categorization of deposits and investments in the notes to the financial statements as required by Statement 3 of the Governmental Accounting Standards Board.

<b>Finding Number</b>	02-DHS-01
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Department of Agriculture, Department of Health and Human Services
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Reporting; Cash Management
<b>Questioned Costs</b>	None

**The department's Federal Cash Transaction Report did not reconcile with the Schedule of Expenditures of Federal Awards, and requests for federal funds were not always based on actual federal disbursements, requiring the state to pay interest to the federal government on excessive receipts**

**Finding**

The amounts reported as disbursements on the Federal Cash Transaction Reports prepared by the Department of Human Services (DHS) are not reconciled with the accounting records. Furthermore, such amounts did not reconcile with the amounts shown on the Schedule of Expenditures of Federal Awards (SEFA). In addition, the department does not always calculate federal receipt requests based on actual federal disbursements.

On a quarterly basis, the federal Department of Health and Human Services, Division of Payment Management, electronically sends DHS a Federal Cash Transaction Report for several of the department's federal programs. This report contains the cumulative receipt information from the inception of the grant through the end of the current quarter and the cumulative disbursement information from grant inception through the end of the previous quarter. DHS is required to provide, by grant number, the cumulative quarter-to-date disbursement totals. When the disbursement totals shown on the Federal Cash Transaction Report for the year ended June 30, 2002, were compared to the Schedule of Expenditures of Federal Awards, significant variances were noted in the following federal programs: Child Care and Development Block Grant (CCDBG), Refugee and Entrant Assistance\_State Administered Programs (REA), Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF), Temporary Assistance for Needy Families (TANF), and Child Support Enforcement Program (CSEP). Details about the variances are displayed below.

<b>Federal Program</b>	<b>Federal Cash Transaction Report</b>	<b>Schedule of Expenditures of Federal Awards</b>	<b>Variance</b>
CCDBG	\$28,844,067.00	\$48,460,739.00	(\$19,616,672.00)
REA	\$1,262,628.00	\$1,104,117.73	\$158,510.27
CCDF	\$66,390,225.00	\$45,984,860.15	\$20,405,364.85
TANF	\$135,240,082.00	\$120,378,382.41	\$14,861,699.59
CSEP	\$27,314,590.00	\$28,717,338.67	(\$1,402,748.67)

It appears, based on discussions with management, that total disbursements reported on the Federal Cash Transaction Report are incorrectly based on estimates of the federal share of actual disbursements. The amounts requested should have been based on actual federal disbursements. In some cases, information in the state’s accounting system does not reflect the correct federal matching percentages; and the department does not allocate administrative costs in a timely manner. For these reasons, the department is not in compliance with the federal reporting requirements as it applies to these programs and this report.

The Department of Finance and Administration’s *Year-End Accounting Procedures Manual* contains instructions for the preparation of the Schedule of Expenditures of Federal Awards. Part III, B, requires a reconciliation of disbursements per the schedule to the federal financial reports. The department has not performed this reconciliation for this report.

OMB Circular A-133, Part 3, “Compliance Requirements,” Subpart L, Reporting, states “Each recipient must report program outlays . . . on a cash or accrual basis . . . .”

As a result of the problems mentioned above, federal receipts in some programs were significantly greater than federal disbursements supported by the accounting records. For example, federal receipts for the Temporary Assistance for Needy Families, Social Services Block Grant, and Refugee and Entrant Assistance-Discretionary Grants exceeded disbursements by \$15,843,559.68 for the fiscal year ended June 30, 2002. This amount was recorded as deferred revenue in the accounting records. Also, in the Food Stamp program, for the federal fiscal year ended September 30, 2001, receipts exceeded disbursements by \$1,154,841.32. When federal receipts exceed federal disbursements, the state is not in compliance with federal cash management principles and at times is required to pay the federal government interest on the excessive receipts.

### **Recommendation**

The Commissioner should ensure that amounts shown on federal reports reconcile to the Schedule of Expenditures of Federal Awards. Also, the federal receipt requests should be based on actual cash disbursements. This will require that the department enter into the state’s accounting system the proper federal matching percentages for each grant and make a timely reallocation of related administrative costs.

## **Management's Comment**

We do not concur. The department always reconciles the Schedule of Expenditures of Federal Awards (SEFA) to the appropriate federal expenditure reports. We are not aware of any federal requirement to reconcile SEFA to the Federal Cash Transactions Report, nor do we believe that the Department of Finance and Administration's *Year-End Accounting Procedures Manual* requires a reconciliation of the SEFA to the Federal Cash Transactions Report.

The Federal Cash Transactions Report must be submitted each quarter prior to the completion of all federal expenditure reports and before a reconciliation of disbursements reported on the federal expenditure reports to cash drawdowns is completed. Once the final expenditure report and cash analysis are completed, the amounts on the SEFA, federal expenditure reports, and Federal Cash Transactions Report will be reconciled.

We also do not concur that our draws of federal funds are not based on actual disbursements. We draw federal funds daily based on the Daily Grant Drawdown Report in the State of Tennessee Accounting and Reporting System (STARS). Each of these draws is supported by actual disbursements. At the end of each quarter and fiscal year, an analysis is completed of each disbursement. Based on this analysis, adjustments to the funding will be made to ensure compliance with maintenance-of-effort (MOE) and matching requirements. We are required by statute to complete this analysis. The Block Grant Review Act of 1996 (Public Chapter No. 1062, Section 3.a) states that each state agency shall make decisions concerning block grant funding that will minimize harmful impacts to the program and the state's economy.

MOE requirements are different from traditional matching requirements; there is no "correct" or "proper" federal matching percentage. We must ensure that we spend a set amount of non-federal funds in order to maintain eligibility to receive the federal funds. In order to satisfy the MOE, expenditures made by multiple allotment codes within the department, other state agencies, or contract agencies outside of the state may be pooled. This makes it impossible to establish a daily drawdown percentage that will exactly ensure we meet our MOE requirements for the fiscal year.

We also do not concur with the assertion that costs are not allocated timely. The department is currently using a cost allocation plan approved by the U.S. Department of Health and Human Services. This approved plan includes the use of quarterly allocations. Any allocation made more frequently than quarterly would necessitate estimations based on a previous quarter. We do not feel the use of estimates in order to allocate on a more frequent basis would improve our federal reporting process. We feel a quarterly allocation of costs is logical in that most of our federal reports are due on a quarterly basis.

## **Rebuttal**

The Office of Management and Budget Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C-*Post Award Requirements*, Sec. 20 *Standards for Financial Management Systems*, (a) requires each state to

account for grant funds in accordance with the same state laws and procedures that the state uses for its own funds. The process should be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of restrictions and prohibitions of applicable statutes. While the reconciliation process can be, at times, very time consuming; it appears that if the reconciliation can be done for the other reports, it can also be done for the Federal Cash Transaction Report. In the particular quarter that was tested, the Federal Cash Transaction Report was submitted 14 days after the Federal Financial Status Report. It would appear that if the necessary information was available for the Federal Financial Status Report, it was available for the Federal Cash Transaction Report.

With regard to the Department of Finance and Administration's *Year-End Accounting Procedures Manual*, the instructions for preparing the Schedule of Expenditures of Federal Awards specifically state "In any instances where disbursements per the schedule(s) do not agree with federal financial reports, reconciliation must also be submitted."

Although the draws may be based on actual disbursements, the amount of federal funds drawn is based on management's application of various reallocations and assumptions about federal matching percentages which have been applied to actual disbursements. The testwork results indicated that management's applications resulted in drawdowns which were significantly different from the actual amounts ultimately eligible for federal funding. While an "exact" matching percentage may not be practicable, the department should be able to calculate a closer approximation of the final amount than what was used to determine the amounts on the cash transaction report.

The recommendation that timely reallocations of administrative costs be made did not recommend that drawdowns be based on or made in violation of the currently approved cost allocation plan. However, the Department of Finance and Administration's Policy 20 requires recoveries of indirect costs on a timely basis. Although the department is exempted from monthly reallocation, it is not exempted from the 30-day time limit for preparing the reallocation journal voucher. The quarterly reallocations should be determined within 30 days of the end of each quarter.

<b>Finding Number</b>	02-DHS-09
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Various
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

**Security over computer systems needs improvement**

**Finding**

As noted in the prior five audits, the Department of Human Services (DHS) does not have adequate controls over access to the Automated Client Certification and Eligibility Network (ACCENT). During the review for the fiscal year ended June 30, 2002, the auditors noted that security authorization forms were missing, not properly completed, or did not match the current access privileges of the users. The prior-year audit report contained a finding concerning discrepancies related to security over the agency's computer systems, notably that authorization forms were discovered to be missing, incomplete, or inconsistent with the employees' actual access rights. During the current audit period, the same conditions were found to be present in the Tennessee Rehabilitation Agency Tracking System (TRACTS) and the Tennessee Child Care Management System (TCCMS).

Management concurred with the prior audit finding relating to ACCENT. Review during the current year revealed that the Security Focus Group had continued to work to assess the security environment and to attempt to revise and update the security policies and procedures followed by DHS personnel. Additionally, the consolidated security form created by the Security Focus Group has been implemented beginning with new users to the agency's systems, and the Security Focus Group is continuing work related to DHS security issues. However, additional effort is still needed in order to correct continuing weaknesses in ACCENT security along with the newly identified weaknesses in both TRACTS and TCCMS.

**Authorization forms were missing, incomplete, or inconsistent with users' actual access rights.**

- Department personnel were unable to locate one of the 20 ACCENT User Authorization forms selected for testwork (5%).
- Seventeen of the 20 ACCENT User Authorization forms selected for testwork (85%) were not properly authorized by management.
- Department personnel were unable to locate 3 of the 19 TRACTS User Authorization forms selected for testwork (16%).

- Seven of the 19 TRACTS User Authorization forms selected for testwork (37%) were not properly authorized by management.
- None of the 19 TRACTS User Authorization forms selected for testwork (0%) specified the type of access requested by the user.
- Department personnel were unable to locate 3 of the 25 TCCMS User Authorizations forms selected for testwork (12%).

As noted in the prior audit, good security practices require an access authorization form be completed for each employee using departmental or state application systems. This authorization form should be authorized by the employee's management and should specify the employee's access authority. If the access privileges required by an individual legitimately change, a new authorization form should be completed prior to the changing of access rights by the security administration staff. All of the completed authorization forms should be maintained in a secure location by appropriate security administration personnel. The failure to prepare, collect, and maintain access authorization forms as suggested above increases the possibility that access to sensitive systems and information may be granted to ineligible individuals, and that authorization may be granted to employees in excess of what is warranted for their job responsibilities.

### **Recommendation**

As noted in the prior five audit reports, DHS management should improve security for ACCENT. In addition, management should improve security in response to the newly identified weaknesses in the TRACTS and TCCMS systems. Users should be granted the appropriate level of system access based on their job responsibilities. Security authorization forms should be completed by management and maintained in a secure location. DHS management should monitor system security for ACCENT, TRACTS, and TCCMS and take appropriate action if problems are noted.

### **Management's Comment**

We concur. We are continuing in the development of the department's security management system, Security Administration Facility for Everyone (SAFE). This system will assist Systems and Program management with the process of requesting, approving, providing, or terminating system access to staff and contractors that are under the department's control (including ACCENT, TCCMS, and TRACTS). The system logic will support user access based on pre-approved conditions for types of users. The system will maintain a history of the requests and access approvals.

<b>Finding Number</b>	02-DHS-10
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Various
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	None
<b>Questioned Costs</b>	None

### **Security over RACF needs improvement**

#### **Finding**

The Department of Human Services (DHS) does not have adequate control over the Resource Control Access Facility (RACF) security system. RACF is the state mainframe security software, which is used to provide an initial level of access security before a user can access the department- or agency-level systems. During the review for the fiscal year ended June 30, 2002, the auditors noted that there were active RACF IDs for terminated DHS contractors, RACF User ID application forms were not properly authorized by DHS management, and RACF password intervals for high-level system users were not set at 30 days.

#### **Terminated employees' access privileges were not revoked in a prompt manner.**

- Sixty-two contract users who had terminated employment possessed active RACF privileges.

Good security practices require that terminated employees' system privileges within all agency systems and within RACF are promptly revoked upon their termination. The failure to promptly revoke terminated employees' system privileges increases the possibility that sensitive information could be inappropriately modified.

#### **Authorization forms were not properly authorized by management.**

- Five of the 30 RACF User ID Application forms selected for testwork (17%) were not properly authorized by management.

User ID Application forms are required to be signed by the appropriate manager before the user is assigned a RACF user ID. Without duly authorized forms, a risk exists that a user may have access rights granted that were never approved by the appropriate supervisor. These access rights could be utilized by the user to perform unauthorized activity within the agency systems.

#### **Password Intervals for high-level users are not set at 30 days.**

- RACF passwords for high-level system users are not being changed every 30 days.

According to security standards issued by the Department of Finance and Administration's Office for Information Resources (OIR), "All passwords must be changed (as a maximum) every 90 days (30 for system administrators)." Failure to change passwords for privileged accounts on a more frequent basis increases the potential that a privileged account could be accessed by an unauthorized individual.

### **Recommendation**

DHS management should ensure that RACF system IDs are promptly revoked upon the termination or transfer of the ID owner. Security administration should not rely upon the RACF system to automatically revoke the IDs after 30 days of inactivity, as the IDs could be appropriated and used by other parties within that time frame. Periodic review of vacant IDs should be performed to ensure that those IDs are not being misused.

RACF security administration staff should ensure that all RACF User ID application forms are properly authorized before assigning a RACF user ID. In circumstances where it is discovered that an existing user does not have the appropriate signed forms, replacement forms should be completed and fully authorized by the appropriate supervisor.

Additionally, RACF security administration staff should ensure that RACF password intervals are set at 30 days instead of the current 90-day intervals for high-level users in accordance with OIR's security standards.

### **Management's Comment**

We concur. We are continuing in the development of the department's security management system, Security Administration Facility for Everyone (SAFE). This system will assist Systems and Program management with the process of requesting, approving, providing, or terminating system access to staff and contractors that are under the department's control (including RACF). The system is also designed to help Systems and Program management identify RACF IDs that should be deleted upon termination of state employee or contractor.

We are in the process of changing the RACF password intervals to 30 days. We are expecting the change to be completed by March 2003.

<b>Finding Number</b>	02-DOT-02
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Department of Transportation
<b>State Agency</b>	Department of Transportation
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**DOT STARS disaster recovery plan is insufficient**

**Finding**

As noted in the prior three audit reports, the disaster recovery plan for the Department of Transportation (DOT) State Transportation Accounting and Reporting System (STARS) is insufficient. DOT STARS is a mission-critical system that processes virtually all of the department's accounting data. The DOT STARS disaster recovery plan lacks the specific instructions necessary to restore the system in an emergency. Much of the plan is simply a set of generic guidelines. For example, the plan states, "If a (DOT) STARS application receives data from or provides data to another application or department . . . it will be necessary to coordinate with that application or agency in planning for your application's recovery." The plan also states, "If production programs, database definitions, record layouts, etc. have changed since the point of recovery, you must coordinate a plan with DBA/SDS for reapplying these changes." However, there is no documentation indicating that these issues have been considered. Developing specific instructions and information for all critical systems and training employees on the procedures necessary to restore the system are vital to the execution of a sufficient plan.

A comprehensive plan also includes instructions indicating where employees should go to use DOT STARS in the event their offices are unavailable, and describes the method of communicating with employees during an emergency. Although the current plan indicates that if "DOT headquarters were not available, access to the STARS mainframe application could be made from any PC on the State network with 3270 capability," the plan neither identifies specific locations with adequate space and equipment that could be used as an alternate location nor informs employees where to report for work.

In addition to the lack of specific documentation, the same employee has been responsible for testing the process each time a mock disaster was performed. Since the availability of any individual employee cannot be guaranteed in an actual disaster, exposing multiple employees to all aspects of the testing process will help to ensure a more efficient recovery.

In the three prior audit reports, management concurred and stated that the department's Information Technology Division (IT) was completing revisions. The reports also stated that

management planned to follow up to ensure completion of the plan. While some changes to the plan have been added, the plan is still not sufficiently comprehensive and lacks many specific instructions.

### **Recommendation**

The department should thoroughly document specific disaster recovery procedures and specific actions to be taken from the declaration of a disaster until the time that normal business operations are resumed to help ensure that business and accounting functions are quickly restored.

The guidelines presented in the current plan for considering specific issues should be addressed and incorporated into the comprehensive plan. The comprehensive plan should be reviewed, updated, and reapproved periodically. The procedures should be prioritized and should list the specific actions to be taken from the declaration of a disaster until the time that normal business operations are resumed.

### **Management's Comment**

We concur. TDOT STARS is a mission critical system. The current Disaster Recovery Plan attempts to be generic enough to address as many situations as possible yet still be specific enough to allow execution of the plan. While progress has been made in addressing some items, TDOT Information Technology staff and Comptroller staff will meet to address the remaining specific concerns disclosed during the audit.

<b>Finding Number</b>	02-DOT-03
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Department of Transportation
<b>State Agency</b>	Department of Transportation
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**The Department of Transportation should improve control over programmer access to DOT STARS production data sets**

**Finding**

Resource Access Control Facility, or RACF, is the security software that protects the state's mainframe computer programs and data files from unauthorized access. As noted in the prior audit, the auditors found that the RACF user group AGRM041, which contained Office for Information Resources' (OIR) Systems Development Support (SDS) programmers as members, had ALTER access to DOTSTARS data sets. ALTER access grants users the ability to directly change or delete the contents of application data sets. Anomalies during processing sometimes cause data elements or control tables to become corrupted and, because of their technical expertise, OIR's SDS programmers may be asked to make corrective changes to the affected databases. However, making such changes is not a normal application programmer duty and must be controlled. The preferred procedure is for the agency's security administrator to set access privileges for the programmers' user group to ALTER only long enough for the corrections to be made and then to promptly reset them back to NONE or READ. Under no circumstances should the programmers' user group access be continuously set to ALTER. Failure to follow this procedure could result in illegal or inappropriate changes to or destruction of state data. Although the department concurred with the prior finding and indicated that closer controls would be established to give programmers access only as needed, the problem has not been resolved.

**Recommendation**

The department should change the access privileges for RACF user group AGRM041 to READ or NONE. In addition, the department should provide ALTER access to SDS programmers on a needed basis and promptly remove ALTER access after the necessary modifications have been completed.

### **Management's Comment**

We concur. Currently the RACF user group AGRM041 contains Finance and Administration Office for Information Resources (OIR) and Systems Development Support (SDS) programmers as members. This group is responsible for making requested changes to source code for DOT STARS. In addition, this group is responsible for the various activities necessary for each nightly run of the system. The access code for this group is set to "alter," as opposed to the more restrictive "read" or "none." While the setting of "alter" would potentially allow a programmer to make inappropriate changes to DOT STARS data sets, the setting of "read" or "none" interferes with the nightly operation of the system. Changing the setting to "read" or "none" does not allow SDS to copy production data sets to temporary files, which contain 'JJ005', somewhere in the name. They also could not update JJ.JJ005SYS, which contains all of the control cards for production programs and several other problem areas. Appropriate individuals from TDOT Information Technology, OIR, and SDS will meet to determine a mutually acceptable solution.

<b>Finding Number</b>	02-DHS-06
<b>CFDA Number</b>	93.563
<b>Program Name</b>	Child Support Enforcement
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	G0104TN4004; G0204TN4004
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Program Income
<b>Questioned Costs</b>	\$6,000,000.00

**The department did not comply with child support enforcement procedures**

**Finding**

As noted in the prior eight 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. Management concurred with the prior audit finding and stated that it would emphasize compliance requirements at the quarterly administrators' meetings. Some of the weaknesses have been resolved; however, the following weaknesses still exist.

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

- a. Nine of the 25 medical support cases tested (36%) and 5 of the 25 child support obligation cases (20%) did not comply with review procedures. The *Code of Federal Regulations*, Title 45, Section 303.8 (2), states, "Not less than every three years, notify each parent subject to a child support order in the State of the right to request a review of the order, and the appropriate place and manner in which the request should be made." The length of time since the last review ranged from approximately 3 years to 13 years.
- b. One of the 25 medical support cases tested (4%) had medical insurance information in the case file that was not documented in TCSES. The *Code of Federal Regulations*, Title 45, Section 307.10(b)(14)(ii), states that the state's computerized support enforcement system must "use automated processes to assist the State in providing automated maintenance of case records for purposes of the management and tracking requirements." As a result of this omission in TCSES, court-ordered support information had not been obtained by the caseworker.
- c. Two of the 25 child support cases tested for paternity establishment (8%) had not been properly maintained. In one case, there was a mail message sent on July 11,

2002, indicating that the case had been closed in another state and asking for verification of this information. As of October 29, 2002, no follow-up had been done. In the other case, no follow-up had been done on a child support noncooperation letter dated December 15, 2001.

If a parent is not notified of the right to request a review of the court order, or information is not properly loaded into the TCSES system, caretakers and dependent children may be deprived of needed financial support, and the state's Child Support Enforcement Program may not be reimbursed for program expenditures. Failure to notify caseworkers when a custodial parent is not cooperating with the child support enforcement program could cause a custodial parent to receive TANF (Temporary Assistance for Needy Families) benefits to which the parent is not entitled. Also, untimely closing of cases creates unnecessary processing delays.

As noted in the two prior audit reports, the amount of undistributed child support collections reported in TCSES does not reconcile to the State of Tennessee Accounting and Reporting System (STARS) and the related federal Office of Child Support Enforcement quarterly collection report. TCSES is maintained by the maintenance contractor Accenture, formerly Andersen Consulting. However, due to problems with TCSES and Accenture personnel, data obtained from TCSES have been found to be inaccurate. Another reason for the lack of a reconciliation is that the contingent revenue account in STARS used to account for undistributed collections, is also used to account for interest earnings and administrative fees paid by non-custodial parents. In the prior audit report, management stated that the reconciliation would be completed by the end of September 2002. This has not been completed.

During this audit period, \$6,000,000 in administrative fees paid to the state by non-custodial parents were not reported on the department's federal quarterly report as program income and \$487,333.53 in interest earnings were not reported on the same federal report. Also, \$477,000 in system development costs that were paid to the Office for Information Resources, a division of the Department of Finance and Administration, were recorded as a reduction of the child support contingent revenue account instead of as an expenditure.

### **Recommendation**

The Commissioner should require the Director of Child Support to ensure that custodial parents are notified timely of their rights to have a support order reviewed, information is properly entered into TCSES, cases are closed in a timely manner, and noncooperation letters are followed up on as required. The Commissioner should also assign someone to monitor the compliance of the Director of Child Support.

The Commissioner should ensure that the amount of undistributed child support collections reported in TCSES is reconciled to STARS and the applicable federal reports. A new deadline should be set for this completion. Also, interest revenue, program income, and expenditures should be properly reported and the contingent revenue account should only be used for undistributed child support collections.

## Management's Comment

We concur. The audit report states that the department did not comply with child support enforcement in the prior eight audit reports. The department strives for 100% compliance in all program activities, including child support enforcement. However, the likelihood exists that the goal of 100% compliance in all child support enforcement activities will not be routinely met.

The child support enforcement activities found out of compliance in the audit for FY 2002 are not, in all findings, the same activities found out of compliance for the audit for FY 2001. The audit report statement regarding non-compliance for eight prior audits could be misinterpreted. The finding regarding the parents right to a notice of review and the finding regarding the failure to follow-up on an interstate action sent to another state regarding case closure (even though similar, this differs from the FY 2001 audit finding that a request from another state was not responded to timely) were not found in the FY 2001 audit report. The audit report should distinguish between new and repeat findings.

- a. We concur. Information Memorandum IM-2001-01 was issued June 12, 2001 regarding issuing review and adjustment notices. The process described in this memorandum created an automated cycle within the Tennessee Child Support Enforcement System (TCSES) whereby the custodial and non-custodial parent would receive a notice every 36 months. It was determined during Technical Assistance Reviews conducted by program staff that TCSES could err in setting the due dates correctly to alert the case worker that a review for possible adjustment was due. A system task was initiated to correct this problem and will be implemented by June 2003. The Child Support Services Manual was updated December 2, 2002, with current review and adjustment procedures. Review and Adjustment policy and procedures are covered in new employee training.
- b. We concur. The automated National Medical Support Notice (NMSN) process was implemented in TCSES on September 23, 2002. Prior to implementation, the process was discussed with Child Support Administrators and Attorneys during the June 2002 meeting. The description of this process was provided to local staff by Information Memorandum IM-2002-69, dated October 24, 2002. The memorandum contained policy and procedures for the new process and instructions for using the new related forms including the National Medical Support Notice. The memorandum further includes descriptions of the TCSES screens that were modified, an explanation of the enhanced TCSES functionality, and information about administrative appeals on administrative medical support enforcement activities. The NMSN process automatically generates a notice to employers to enroll dependents in the employee's health insurance plan. TCSES documents and tracks the process with appropriate alerts to caseworkers. Technical Assistance Reviews (TAR) by state staff review local enforcement office operations, which includes medical support enforcement. Corrective action plans are required with follow-up. New employee training covers medical support enforcement.
- c. We concur. The training package for new employees was released in March 2002. It is a nine day training course that is required for all new child support employees. The

session includes an interstate module that addresses the required time frames. In a number of areas, experienced employees have also participated. In addition to staff members that have participated in new employee training sessions during the past year, special interstate training sessions have been delivered in four jurisdictions. The child support manual also includes chapters on interstate and case closure. This training will continue to be a part of our new employee training. Interstate process training is also offered as a special session to experienced staff. Interstate processes will also continue to be on occasion, a topic of administrator's meetings.

The child support manual has a policy that covers non-cooperation. The TAR conducted by state staff on local enforcement activities reviews this area for compliance and requires appropriate corrective action. The training package for new employees released in March 2002, addresses policy regarding this area. TCSES sends alerts to Families First caseworkers each time that a participant is non-cooperative with child support. The Families First and Child Support Programs coordinate this activity closely to ensure good cause and non-cooperation policies are appropriately applied.

The amount of undistributed child support collections reported in TCSES is now reconciled to the quarterly collection report that is sent to the federal office of Child Support Enforcement. Work is currently well underway to reconcile this amount to the State of Tennessee Accounting and Reporting System (STARS). We expect the reconciliation to be completed this calendar year.

In regard to program income not reported on the federal quarterly report of expenditures, we are aware of this problem and have discussed it with federal OCSE officials. Adjustments to the federal reports will be made in the near future and safeguards will be implemented to attempt to prevent this error from reoccurring.

Regarding the \$477,000 in system development costs paid from the contingent revenue account, this was an error due to an internal miscommunication.

In the future, program income will be properly reported and the contingent revenue account will only be used for undistributed collections once the above mentioned reconciliation is completed.

<b>Finding Number</b>	02-DHS-02
<b>CFDA Number</b>	10.551, 93.558
<b>Program Name</b>	Food Stamp Cluster, Temporary Assistance for Needy Families
<b>Federal Agency</b>	Department of Agriculture
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**The Department of Human Services did not maintain adequate documentation of the information needed to determine eligibility for Temporary Assistance for Needy Families and Food Stamps**

**Finding**

As noted in the prior audit, the Department of Human Services (DHS) does not maintain adequate documentation of the enrollee's information used to determine eligibility for Temporary Assistance for Needy Families (TANF) and Food Stamps.

DHS uses the Automated Client Certification and Eligibility Network (ACCENT) system to determine eligibility for TANF and Food Stamps. During the enrollment process, county DHS eligibility counselors meet with the potential enrollees in face-to-face interviews. Each applicant is required to provide hard-copy documentation to support various eligibility criteria. This information includes income, resources, medical expenses, family information, social security numbers, date of birth, etc. During the enrollment process, eligibility counselors examine documentation supporting the information that is entered into ACCENT. For example, before entering income into the system, an eligibility counselor examines such documentation as employment pay stubs or federal tax returns. At the end of the enrollment process, the documentation supporting the information entered into the system is then returned to the applicant/enrollee. ACCENT makes the eligibility determination based upon the information entered into the system by the eligibility counselor.

Auditor inquiry revealed that the enrollee's application is the only paper documentation consistently kept by DHS. Although ACCENT maintains electronic case notes, there is no documentation kept to support the eligibility information entered into ACCENT. Without adequate documentation of the information entered into ACCENT, the risk is increased that ineligible enrollees may be enrolled.

Discussions with management at DHS revealed that the department relies heavily upon information from the Tennessee Department of Labor and Workforce Development, the Social Security Administration (SSA), the Tennessee Department of Health, and the Internal Revenue Service (IRS) for verification of eligibility information. From the Department of Labor and

Workforce Development, DHS receives monthly data on Unemployment Insurance Benefits that can be used to verify unemployment income.

DHS also receives monthly beneficiary and earnings data, daily social security number verification, and daily information on Supplemental Security Income (SSI) recipients from SSA. The data from SSA provide DHS a method of verifying an individual's Social Security payments, social security number, Medicare eligibility status, and SSI eligibility status. Through the Office of Vital Records within the Department of Health, DHS has daily access to birth records. This information can be used to verify ages and relationships needed when making an eligibility determination. DHS also receives wage data from the Department of Labor and Workforce Development. However, not all employers are required to report employee wages to the state. Employers that are not required to report include churches, regardless of the size of payroll or number of employees, and non-government organizations with a small payroll and/or few employees. Furthermore, this information is sometimes several months old and is reported on a quarterly basis. Eligibility is determined based on current monthly income. In addition, the information DHS receives from the IRS concerning income that is reported on an individual's IRS 1099 form is delayed several months and is reported on a yearly basis.

Although DHS receives information from outside sources, not all eligibility requirements can be verified through this information. These outside information sources do not provide a systematic way to verify all types of income an enrollee might have. In addition, none of the updates received from other departments include documentation of other resources for non-SSI recipients or medical expenses that could affect an eligibility decision.

For the Food Stamp program, the department relies on quality control sampling to monitor the accuracy of information in ACCENT and eligibility determination. Quality control personnel select samples monthly of persons eligible for Food Stamp benefits. This unit verifies the accuracy of information in ACCENT with outside sources. It also selects a sample of denied cases and determines if the applicant was appropriately denied. Sample sizes are approved by the federal government, and the samples are selected randomly. Federal monitors are also sent a sample of cases that have been reviewed by the quality control unit. However, certain types of cases are not tested. These consist mainly of noncooperation cases where the enrollee either fails or refuses to cooperate or the department is unable to locate the individual. If one of these cases is selected for inclusion in the sample, it is replaced by another case. The case is investigated, but it is not considered in the calculation of the error rate of the sample. For the period of October 2001 through March 2002, the quality control unit selected a total of 592 cases for review, and 72 of these cases (12%) were replaced with another case because the quality control unit could not obtain enough information to determine whether the program participant was eligible. Excluding those cases from the error rate of the review could affect the results. For example, the error rate could be higher or lower based upon the results of the noncooperation cases.

A sample of cases tested by the quality control unit was reviewed to determine if the information documented in the quality control case files supported the reviewer's conclusions about the eligibility of these cases. No problems were noted.

The department contracts with the University of Tennessee to review active TANF cases on a continuing basis. On a monthly basis, DHS Information Systems personnel randomly select cases for review by the University of Tennessee. This testwork consists only of determining if the caseworker properly determined eligibility and benefit amounts based on the information in ACCENT. There is no attempt made to determine the accuracy of the information in ACCENT, and this testwork is not reviewed by federal monitors as with the Food Stamp program.

Maintaining documentation provided by the applicant during enrollment would allow the department to test all cases selected. The department would then no longer have the problem of being unable to locate the enrollee or obtain the cooperation of the enrollee.

Management did not concur with the prior finding. It is management's position that keeping copies of supporting documents is unnecessary because

- a. much of the information supporting the eligibility of recipients is verified through data matches described above,
- b. the Department of Human Services has a quality control process that samples a portion of the recipient population monthly,
- c. the federal Departments of Health and Human Services and Agriculture approved the design of and funded the creation and operation of the ACCENT system with full knowledge of the "paperless" aspects of the system,
- d. the system has been in place since 1992 without any indication from the Departments of Health and Human Services and Agriculture that the process in place was not adequate to meet federal requirements, and
- e. the State Attorney General issued an opinion in 1992 that the application form and the electronic file satisfied the legal requirements for determining eligibility and would be admissible evidence in legal proceedings and that there were no federal requirements specifying that written documentation other than the signed application form be maintained.

We believe that management's arguments are not unreasonable. However, we believe that management should either implement a process to maintain supporting documentation or obtain explicit approval from the appropriate federal authorities for maintaining the "paperless" system for the following reasons:

- a. while the data matches do verify much of the necessary information for many of the recipients, they do not verify such things as other resources and medical expenses for most recipients, they do not verify income information for all recipients, and they do not always provide timely information;
- b. at best, a quality control system provides after-the-fact inferences about the accuracy of eligibility determinations, and the system does not include all enrollees in the population sampled;

- c. DHS has not been able to produce evidence that the federal Department of Health and Human Services and the Department of Agriculture specifically approved the “paperless” aspects of the system;
- d. the federal Department of Health and Human Services and the Department of Agriculture have not specifically stated that the process in place is adequate to meet federal requirements; and
- e. while federal regulations do not state what specific documentation is needed to support eligibility determinations for the Food Stamp and TANF program’s, OMB Circular A-87 does state that costs must be adequately documented to be allowable under federal awards.

Furthermore, without maintaining the documentation, the department cannot ensure that the information entered into ACCENT is accurate and TANF and Food Stamp enrollees are eligible at the time benefits are awarded. Not maintaining this documentation also reduces accountability for information entered and makes researching cases more difficult.

### **Recommendation**

The Commissioner should institute procedures which ensure that the department keeps documentation of the information entered into ACCENT that is used to determine eligibility for TANF and Food Stamps or obtain explicit approval from the appropriate federal authorities for maintaining the “paperless” system.

### **Management’s Comment**

We do not concur. As stated in the prior year audit response, we feel that the ACCENT system provides adequate documentation for the eligibility process in the TANF and Food Stamp programs.

DHS received the major portion of funding for ACCENT from the federal funding agencies to construct this system. ACCENT was certified to meet the federal requirements of FAMIS (Federally Approved Management Information Systems). In addition, the “paperless” aspect was approved by the U.S. Department of Agriculture (USDA), after a review by the USDA Office of General Counsel found that the process met the provisions under the federal law. Also, the Attorney General for the State of Tennessee opined that the paperless system met the program and state requirements.

We understand that our objection to last year’s finding is still in the hands of the U.S. Department of Health and Human Services, Office of Inspector General, for resolution.

## **Rebuttal**

As stated in the rebuttal to the prior audit finding, based on discussions with the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services we believe that documentation is necessary and required by Office of Management and Budget, Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

<b>Finding Number</b>	02-DCS-01
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>Pass Through Agency</b>	Bureau of TennCare
<b>State Agency</b>	Department of Children's Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$184.00

**Children's Services inappropriately requested and received reimbursement of \$393,075 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, the TennCare waiver, and the State Plan during the year ended June 30, 2002.

This is a repeat finding that was addressed by the U.S. Department of Health and Human Services (HHS) in a letter to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001. In the letter, HHS stated:

This is a repeat finding. We recommend 1) procedures be implemented to ensure Federal funds are not used for health care costs of a) children who are in youth development or detention centers, b) children not in State custody, c) children on runaway status, . . . e) services provided by Children's Services to individuals in hospitals, . . . g) undocumented targeted case management . . .

Although the department has made progress in reducing reimbursements for services provided outside the scope of its agreement with TennCare, there were still the following areas where inappropriate reimbursements occurred.

**Payments for Incarcerated Youth**

As noted in the prior five 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. Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional 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.

Management's responses to the last two audits stated that it would investigate the underlying causes and make necessary adjustments to the department's control structure. However, using computer-assisted audit techniques, our search of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least \$77,667 from July 1, 2001, through June 30, 2002, for juveniles in youth development centers and detention centers. The prior audit finding disclosed inappropriate billings of \$254,880 from July 1, 2000, through June 30, 2001.

#### Children Not in State Custody

As noted in the prior three audits, Children's Services inappropriately billed and received payment from TennCare for children not in state custody. Management has partially concurred with this portion of the prior findings and has attributed the problem to circumstances when a social worker from DCS or a law enforcement officer removes a child from home before a court has issued an order. Management further stated that there are circumstances when a child is taken into custody, but the court finds that continued custody is not warranted. These actions could result in no court action ordering custody even though the child was in fact in legal custody. It is possible that some of the costs questioned below include payments for children removed from homes in emergency situations and short delays in court proceedings. However, management has not provided any information to support specific charges that are questioned.

TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavioral services for children not in state custody should be provided through the TennCare Behavioral Health Organizations (BHOs). Using computer-assisted audit techniques, we performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that DCS had improperly billed TennCare \$193,266 from July 1, 2001, through June 30, 2002, for services to children who were not in the state's custody. The prior audit finding disclosed inappropriate billings of \$363,800 from July 1, 2000, through June 30, 2001.

#### Children on Runaway Status

As noted in the prior three audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but are 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. In response to the prior audit finding, management stated that there appear to be two main causes for children to appear on the data match. The runaway placement was not always entered correctly in TNKIDS, and the approvers may not have always caught coding errors on the invoices submitted by the vendors. Management stated that it would continue to analyze the data match and evaluate what additional controls are needed. However, using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's TNKIDS system. The results of the data match indicated that DCS had improperly billed TennCare \$86,917 from July 1, 2001, through June 30, 2002, for services to children on runaway

status. The prior audit finding disclosed inappropriate billings of \$266,670 from July 1, 2000, through June 30, 2001.

### Hospitalized Children

As noted in the prior two audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but had been placed in a medical hospital. The Managed Care Organizations (MCOs) are responsible for costs incurred while the child is placed in a hospital. Children's Services' provider policy manual allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Regional Administrator, the provider may bill DCS for up to 21 days while the child is in the hospital, but Children's Services cannot bill TennCare for those days.

In response to the prior audit finding, management stated that it believed the questioned transactions were processed before improvements to its controls were put into place. The department stated it would continue to monitor hospitalized children to ensure that the current control structure is sufficient. However, the control structure did not adequately reduce noncompliance with these requirements. Using computer-assisted audit techniques, auditors performed a data match comparing TennCare's payment data to medical records from the MCOs. The results of the data match indicated that DCS had improperly billed TennCare \$35,041 from July 1, 2001, through June 30, 2002, for children while they were in hospitals. The prior audit finding disclosed inappropriate billings of \$42,151 from July 1, 2000, through June 30, 2001.

### Targeted Case Management

As noted in the prior audit, Children's Services inappropriately billed and received payment for targeted case management services. Management concurred with the prior finding but believed that the occurrence was an isolated incident and not a systematic problem. The Department of Children's Services bills and receives reimbursement from TennCare for targeted case management, which reimburses DCS for TennCare's share of costs associated with providing case management services for children in the state's custody. Targeted case management includes, but is not limited to, case manager visits with children, developing permanency plans, maintaining case files, and arranging TennCare-related services such as health screenings and behavioral health services. DCS bills TennCare a daily rate for each child in its custody that has been assigned a case manager. Targeted case management billings to TennCare were over \$56 million for the fiscal year. We selected a sample of 42 children for whom TennCare was billed a total of \$10,719 for targeted case management. Based on the testwork performed, there was no evidence that case management was provided to 2 of 42 children tested (5%) during the dates of service specified on the billing. Questioned costs total \$184. We believe likely federal questioned costs exceed \$10,000 for this condition.

Questioned costs associated with the instances of noncompliance reported in this finding, except those associated with targeted case management, are reported in the Department of Finance and Administration's audit report and in the TennCare findings as reportable conditions in the *Tennessee Single Audit Report* for the year ended June 30, 2002.

## **Recommendation**

The Commissioner should continue to develop and implement procedures necessary to ensure that TennCare is not billed for inappropriate expenses related to children in youth development and detention centers, not in state custody, on runaway status, or placed in hospitals. In addition, targeted case management billings should be based on children receiving targeted case management services. Effective internal control requires management to have systems in place to adequately monitor operations, particularly relating to such compliance issues. Management could develop the information necessary to detect these discrepancies by using the types of computer analyses auditors have used to identify these problems. The Commissioner should monitor the implementation of corrective measures and evaluate their effectiveness. Management should make it a priority to bill TennCare only for allowable services provided to eligible children.

## **Management's Comment**

We concur.

### Incarcerated Youth

As noted in the audit finding, the department reduced the incorrect billings to TennCare for incarcerated youth by \$177,213, or 70%. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children that have been incarcerated to avoid incorrect billings to TennCare. Based on departmental staff evaluation of the discrepancies noted by the auditors, it appears that the substantial cause of these errors is attributable to incorrect procedure codes used by providers on the Standard Claims Invoice (SCI) form. It is management's position that the implementation of the new Standard Claim Invoice (SCI) procedure codes for services that are ineligible for TennCare reimbursement, and the associated provider training in the use of these codes, has effectively enhanced controls and resulted in increased compliance by the department.

The discrepancies noted in the finding are further exacerbated by untimely updates to child information in TNKIDS and the lack of system integration between the SCI system and TNKIDS. Due to the excessive volume of invoices received by the department from providers, it is not feasible to perform a manual verification of each invoice to confirm a child's placement on a given date. However, the Placement Re-Design for TNKIDS is anticipated to begin development in April 2003. With the development and implementation of the Placement Re-Design and the conversion of the SCI system to the Oracle Financial System, these discrepancies will be greatly reduced as a result of the verification controls in place both for departmental personnel to confirm the child's placement and the vendor to verify that information electronically through the invoicing process.

### Children Not in State Custody

As noted in the finding, the department has reduced the amount of incorrect billings to TennCare by \$170,534, or 47%. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children that have

reached the age of majority in accordance with TCA 37-1-173. Departmental staff is currently evaluating the causative factors that contributed to the discrepancies noted in the finding, and although this evaluation is not complete as of this date, documentation suggests that the majority of these incorrect billings are attributable to the use of incorrect procedure codes by the provider on the SCI. In all the cases reviewed by departmental staff, the discrepancies noted are related to youth in placements that reach the age of majority as defined in TCA 37-1-173 (a) or (b) and elect to continue receiving care from the department.

#### Children on Runaway Status

The department is pleased that the incorrect billing to TennCare for youth on runaway status has reduced by \$179,753, or 67%, from last fiscal year's audit. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children on runaway status. Departmental records indicate total payments to vendors with youth in this category were \$707,357.23 for fiscal year 2002. Without the implementation of the identifying procedure code, TennCare would have been erroneously billed \$412,982.84 rather than the \$86,917 noted by the auditors. It is management's position that the implementation of the new Standard Claim Invoice procedure codes for this break in custody and the associated provider training in the use of these codes has effectively enhanced controls and resulted in increased compliance by the department as evidenced by the reduction in erroneous billings.

#### Hospitalized Children

As noted in the finding, the department has reduced the amount of incorrect billings to TennCare by \$7,110, or 17%. It is management's position that the implementation of the new SCI procedure codes for other situations noted in this finding that are ineligible for TennCare reimbursement and the associated provider training in the use of these codes has effectively enhanced controls and resulted in increased compliance by the department.

#### Targeted Case Management

Based on the department's review of the discrepancies noted in the finding, the billing errors occurred during the implementation of modifications to programs that bill TennCare and conversion of databases for program builds in TNKIDS. Management will take action to assure appropriate quality control is maintained over billings during future conversion and implementation of program modifications.

In conclusion, management anticipates the implementation of an Internet-based invoicing process as part of the Phase 1 implementation of the Oracle Financial System within fiscal year 2004. This application will contain edits to reduce the likelihood of errors by both departmental employees and its service providers as it will require confirmation of the child's placement on the part of the provider and verification of the custody dates by Case Management staff. This will also integrate with the Placement Re-Design portion of TNKIDS to confirm custody episodes, placement types, and other critical provider data.

<b>Finding Number</b>	02-DFA-03
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Procurement and Suspension and Debarment, Program Income, Reporting, Subrecipient Monitoring, Special Tests and Provisions
<b>Questioned Costs</b>	None

**Top management still has failed to address the TennCare program’s numerous and serious administrative and programmatic deficiencies**

**Finding**

As noted in the previous three audits, most of the findings in this report are the result of TennCare’s numerous administrative and programmatic deficiencies. Well-publicized events concerning the ability of the program to continue in its present form have contributed to the perception that the program is in crisis. Management concurred with the prior audit finding, as discussed throughout this finding. Although significant improvements were made through the eligibility reverification process, many serious problems still exist.

The auditors are responsible for reporting on the department’s internal control and management’s compliance with laws and regulations material to the program. However, top management, not the auditors, 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 organizational structure.

Our evaluation of the control environment and the other components of internal control revealed several continuing overall, structural deficiencies that have caused or exacerbated many of the program’s problems. In addition, this finding reflects ongoing unresolved shortcomings on the part of the program’s leadership. Other areas of this report reveal that TennCare management

- alleged existence of agreements from the Centers for Medicare and Medicaid Services that apparently do not exist (see finding 02-DFA-17);
- in prior management’s comments has misrepresented information (finding 02-DFA-17), was not aware of the status of corrective actions described (finding 02-DFA-15),

did not take corrective action indicated, and failed to address grounds for nonconcurrency with the audit finding (finding 02-DFA-24);

- demonstrated an indifference to noncompliance (see finding 02-DFA-17);
- has a lack of coordination and overview at the top (see finding 02-DFA-16);
- promises to develop policies or take other long-term, preparatory steps rather than working on the problem directly (see finding 02-DFA-19); and
- made decisions without performing a cost/benefit analysis (see findings 02-DFA-16 and 02-DFA-35).

In addition, some of the most serious problems are discussed below:

### Inadequate Information System

Management concurred with the prior audit finding and stated,

TennCare concurs that it still does not have an adequate information system to meet the business demands it faces. Significant progress has, however, been made on changing this. The Bureau has invested a year in developing a procurement for a replacement TCMIS. This development process included many users and constituents, including other state agencies and affected outside parties. The procurement is expected to be public before the end of March 2002. The new system is to be implemented by October 1, 2003.

However, the TennCare program still does not have an adequate information system. The program is still dependent upon a large and complex computer system, the TennCare Management Information System (TCMIS), that is outdated and inflexible. According to the Director of Information Systems, the RFP (request for proposal) was released on April 22, 2002. According to Information Systems (IS) staff, the implementation of a new TCMIS is to occur in 2003 and is a top project for the Bureau of TennCare. See finding 02-DFA-36 for further details regarding this matter.

### TennCare Lacks Stable Leadership and Adequate Staff Resources

Management stated in response to the prior audit finding,

Significant changes have also been made in staffing. A number of new positions have been hired into the Bureau. Staffing shortages still occur when appeals volumes peak, but overall staffing is substantially improved. The organization has also been restructured to include a stronger senior management structure. A new assistant commissioner for member services has been established to coordinate all activities directed at members, including eligibility policy, the member hotline, administrative appeals, and medical appeals. A new assistant commissioner for delivery systems has been hired to coordinate all of the ways in which TennCare delivers services, including the MCO program, behavioral health, pharmacy, dental, and long term care. In addition, a separate MCO program director has been created to coordinate all interaction with MCOs.

However, according to management, the TennCare program is still understaffed despite efforts to hire additional staff, and only one of the three individuals referenced in the above comment is still employed by the Bureau of TennCare. Furthermore, the TennCare program has continued to lack stable leadership. Since the beginning of the program in January 1994, and through December 2002, the program has had nine directors. In addition, during the year ended June 30, 2002, the Director of TennCare and the TennCare Deputy Director/Chief Operating Officer resigned.

#### Inadequate Written Operating Policies and Procedures and Inadequate Monitoring

Management stated in response to the prior audit finding, “All of TennCare’s eligibility and reverification procedures have been rewritten. A detailed manual has been created for the Department of Health staff.” Management corrected weaknesses regarding policies and procedures for financial change requests and eligibility. However, despite its size and complexity, TennCare still does not have adequate written operating policies and procedures for certain critical areas. As previously noted, the lack of written, comprehensive operating policies and procedures increases the risk that errors or inconsistencies may occur in the TennCare program. For example:

- TennCare’s policies and procedures manual for pricing cross-over claims is still not adequate. See finding 02-DFA-24 for further details regarding this matter.
- TennCare still has no written, comprehensive operating policies and procedures pertaining to utilization control and suspected fraud (finding 02-DFA-35).
- In addition, TennCare’s monitoring effort still needs improvement. See findings 02-DFA-06, 02-DFA-15, 02-DFA-16, 02-DFA-19, 02-DFA-20, and 02-DFA-32 for further details.

#### **Recommendation**

**Note: The language in this recommendation is practically identical to that in the last three audits, reflecting little improvement.**

For the TennCare program to improve and succeed over the long term, the Director of TennCare and his staff must address the long-existing problems within and external to the administrative structure of the program.

The Director should also develop a plan to address the personnel requirements of the program. The plan might include cross-training, employee development, emphasizing employee career-paths, staff reassignment, and workload redistribution. In addition, the Director should continue to pursue acquisition/development of a new TennCare information system.

The Director should ensure that adequate written and comprehensive operating policies and procedures are developed for all areas of the TennCare program still lacking critical policies and procedures. 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. The Director should ensure that adequate monitoring is performed.

### **Management's Comment**

We concur with the overall recommendations made in this finding. However, for certain areas discussed in the finding, we do not concur and these matters are addressed in the responses to individual findings in this report.

While efforts have been made to correct these identified problems, obviously, not all of these efforts have been successful. However, TennCare management realizes the importance of the issues addressed in these findings and is committed to resolving each one. Bureau staff are developing corrective action plans for each finding and will meet monthly with the Director to review the progress made towards resolution of each finding.

We agree that the information system needs to be replaced and considerable resources have been put into developing a replacement model that will employ sophisticated, up-to-date strategies for assuring that data is reported, collected, and analyzed efficiently. This new system is due to be operational on October 1, 2003.

We also agree that staff turnover has been a problem in the past. In the past eight months, the following positions have been added: a new MCO Director, a new Policy Director, and a new Legislative Liaison. Administrative services have been consolidated into one area, and new support staff have been brought on board. Two recent recruits include a Chief Operations Officer whose last position was Director of the Regional CMS Office in Atlanta and who has a wealth of experience and expertise to offer to TennCare. A new Director of Member Services, who is an attorney with long-time experience in state government, has been also hired. In addition, there is less reliance on consultants than there has been in the past.

Managing the TennCare program so that it works efficiently and in the best interests of the state is a challenging responsibility. We have reported throughout this document on efforts we are making to address the problems that have been pointed out. We intend to be successful in solving these problems in the years ahead.

<b>Finding Number</b>	02-DFA-08
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**TennCare did not require the Department of Human Services to maintain adequate documentation of the information used to determine Medicaid eligibility**

**Finding**

As noted in the prior audit, the Bureau of TennCare did not require the Department of Human Services (DHS) to maintain adequate documentation of the enrollee’s information used to determine Medicaid eligibility. The Department of Human Services performs Medicaid eligibility determinations under an interdepartmental contract with the Bureau of TennCare.

DHS uses the Automated Client Certification and Eligibility Network (ACCENT) system to determine eligibility for Medicaid. During the enrollment process, county DHS eligibility counselors meet with the potential enrollees in face-to-face interviews. Each applicant is required to provide hard-copy documentation to support various eligibility criteria. This information includes income, resources, medical expenses, family information, social security numbers, date of birth, etc. During the enrollment process, eligibility counselors examine documentation supporting the information that is entered into ACCENT. For example, before entering income into the system, an eligibility counselor would examine such documentation as employment pay stubs or federal tax returns. At the end of the enrollment process, the documentation supporting the information entered into the system is then returned to the applicant/enrollee. ACCENT makes the eligibility determination based upon the information entered into the system by the eligibility counselor.

DHS transmits eligibility updates from ACCENT daily to the Bureau of TennCare to update TennCare eligibility information in the TennCare Management Information System (TCMIS).

Auditor inquiry revealed that the enrollee’s application is the only paper documentation consistently kept by DHS. Although ACCENT maintains electronic case notes, there is no documentation kept to support the eligibility information entered into ACCENT. Without adequate documentation of the information entered into ACCENT, the risk is increased that ineligible enrollees may be enrolled on Medicaid.

Discussions with management at DHS revealed that the department relies heavily upon information from the Tennessee Department of Labor and Workforce Development, the Social

Security Administration (SSA), the Tennessee Department of Health, and the Internal Revenue Service (IRS) for verification of eligibility information. From the Department of Labor and Workforce Development, DHS receives monthly data on Unemployment Insurance Benefits that can be used to verify unemployment income.

DHS also receives monthly beneficiary and earnings data, daily social security number verification, and daily information on Supplemental Security Income (SSI) recipients from SSA. The data from SSA provide DHS a method of verifying an individual's Social Security payments, social security number, Medicare eligibility status, and SSI eligibility status. Through the Office of Vital Records within the Department of Health, DHS has daily access to birth records. This information can be used to verify ages and relationships needed when making an eligibility determination. DHS also receives wage data from the Department of Labor and Workforce Development. However, not all employers are required to report employee wages to the state. Employers that are not required to report include churches, regardless of the size of payroll or number of employees, and non-government organizations with a small payroll and/or few employees. Furthermore, this information is sometimes several months old and is reported on a quarterly basis. Medicaid eligibility is determined based on current monthly income. In addition, the information DHS receives from the IRS concerning income that is reported on an individual's IRS 1099 form is delayed several months and is reported on a yearly basis.

Although DHS receives information from outside sources, not all eligibility requirements can be verified through this information. These outside information sources do not provide a systematic way to verify all types of income an enrollee might have. In addition, none of the updates received from other departments include documentation of other resources for non-SSI recipients or medical expenses that could affect an eligibility decision.

Management did not concur with the prior finding. It is management's position that keeping copies of supporting documents is unnecessary because:

- a. much of the information supporting the eligibility of recipients is verified through data matches described above,
- b. the Department of Human Services has a quality control process that samples a portion of the recipient population monthly,
- c. the federal Departments of Health and Human Services and Agriculture approved the design of and funded the creation and operation of the ACCENT system with full knowledge of the "paperless" aspects of the system,
- d. the system has been in place since 1992 without any indication from the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, that the process in place was not adequate to meet federal requirements, and

- e. the State Attorney General issued an informal opinion in 1992 that the application form and the electronic file satisfied the legal requirements for determining eligibility and would be admissible evidence in legal proceedings and that there were no federal requirements specifying that written documentation other than the signed application form be maintained.

We believe that management's arguments are not unreasonable. However, we believe that there are sufficient counter points to these arguments such that management should either implement a process to maintain supporting documentation or obtain explicit approval from the appropriate federal authorities for maintaining the "paperless" system. The counter points to management's arguments are:

- a. while the data matches do verify much of the necessary information for many of the recipients, they do not verify such things as other resources and medical expenses for most recipients, they do not verify income information for all recipients, and they do not always provide timely information,
- b. at best, a quality control system provides after-the-fact inferences about the accuracy of eligibility determinations; and the system used by DHS does not include all Medicaid enrollees in the population sampled,
- c. neither TennCare nor DHS has been able to produce evidence that the federal Department of Health and Human Services specifically approved the "paperless" aspects of the system,
- d. CMS has not specifically stated that the process in place is adequate to meet federal requirements, and
- e. while federal regulations do not state what specific documentation is needed to support eligibility determinations for the Medicaid program, OMB Circular A-87 does state that costs must be adequately documented to be allowable under federal awards.

Furthermore, without maintaining the documentation, the Bureau of TennCare cannot ensure that the information entered into ACCENT is accurate and Medicaid enrollees are eligible at the time benefits are awarded. Not maintaining this documentation also reduces accountability for information entered and makes researching cases more difficult.

### **Recommendation**

The Director of TennCare should ensure that DHS keeps documentation of the information entered into ACCENT that is used to determine Medicaid eligibility or obtain explicit approval from the appropriate federal authorities for maintaining the "paperless" system.

## Management's Comment

We do not concur. Approval of the ACCENT system design, which includes the electronic recording of eligibility data, was obtained from the U.S. Department of Health and Human Services before implementation of the system in 1992. There has never been any indication from the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, that the process in place was not adequate to meet federal requirements. In addition, the State Attorney General also issued an opinion in 1992 that the use of an electronic eligibility file and the application form satisfied legal requirements for determining eligibility.

As required by federal law and to ensure program integrity, the Department of Human Services (DHS) has had a quality control system in place since implementation of TennCare (and previously under the Tennessee Medicaid program). In this quality control system, called Medicaid Eligibility Quality Control (MEQC), each month DHS uses a random sampling of Medicaid cases to validate eligibility determinations, whether active (eligible) or negative (denied). The MEQC system is designed to reduce erroneous expenditures by monitoring eligibility determinations, third party liability activities, and claims processing (State Medicaid Manual, Part 7, Quality Control). MEQC programs approved in Section 1115 waiver states are relieved of any liability for disallowances for Medicaid eligible enrollees and for individuals added under the waiver resulting from errors that exceed the 3 percent tolerance level established by federal regulations.

TennCare believes that the eligibility procedures, including the level of documentation, and the MEQC reviews and follow-up activities provide adequate internal controls over the eligibility process and meet federal requirements. However, consideration will be given as to whether any additional monitoring of the process in place at DHS should be performed.

## Rebuttal

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Tennessee Department of Finance and Administration regarding the *Single Audit of the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material weakness. We recommend procedures be developed and implemented to ensure client eligibility is adequately documented and the documentation is retained.

In addition, according to the *Code of Federal Regulations* (CFR), 42 CFR 431.17(d), "Conditions for optional use of microfilm copies,"

The agency may substitute certified microfilm copies for the originals of substantiating documents required for Federal audit and review [emphasis added]

While federal regulations do not explicitly define the form of the documentation to be maintained, this regulation establishes that there is an expectation that the department maintain original documentation of the information received.

<b>Finding Number</b>	02-DFA-09
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**TennCare does not have a court-approved plan to redetermine or terminate the TennCare eligibility of SSI enrollees that become ineligible for SSI**

**Finding**

As noted in prior audit findings in the previous two audits, TennCare does not redetermine or terminate the TennCare eligibility of Supplemental Security Income (SSI) enrollees that become ineligible for SSI. This is because TennCare does not have a court-approved plan which allows TennCare to make a new determination of the eligibility of these enrollees. According to 1200-13-12-.02(1)(c) of the *Rules of the Tennessee Department of Finance and Administration, Bureau of TennCare*, “The Social Security Administration determines eligibility for the Supplemental Security Income (SSI) program. In Tennessee, SSI recipients are automatically eligible for Medicaid. All SSI recipients are therefore TennCare eligibles.” However, when an individual enrolled in TennCare as an SSI enrollee is terminated from SSI, TennCare does not redetermine or terminate the enrollee’s eligibility. Currently, TennCare does not terminate SSI recipients unless the recipient dies, moves out of state and is receiving Medicaid in another state, or requests in writing to be disenrolled. Management concurred with the prior finding and stated,

The Director will ask the Attorney General to take action to bring this issue back before the court for final disposition. . . . The AG will be asked to present this decision, coupled with assurances that eligibility review will be performed by the Department of Human Services to determine whether the individual qualifies for any other category of TennCare benefits (including the right to appeal if DHS determines that the individual is no longer eligible for any category of benefits) to the Court with a request to set aside or modify its November 13, 1987, Order. A positive finding by the Court could lift the injunction and permit the disenrollment, if appropriate, of those individuals who have been provided continuous Medicaid and TennCare benefits following termination of SSI.

In response to the finding, TennCare has drafted a plan dated July 12, 2002, that will allow the Bureau to make a new determination of the eligibility of enrollees that become ineligible for SSI, once the court approves the plan. Management stated that the plan will be submitted to the Attorney General, who will in turn present the plan to the court for court approval.

The *Cluster Daniels et al. vs. the Tennessee Department of Health and Environment et al.* court order states,

. . . defendants are hereby ENJOINED from terminating Medicaid benefits without making a de novo [a new] determination of Medicaid eligibility independent of a determination of SSI eligibility by the Social Security Administration. The Court further ENJOINS defendants to submit to the Court and to plaintiffs, within thirty (30) days of entry of this Order, the plan by which defendants have implemented de novo determination of Medicaid eligibility. . . .

Furthermore, the court has required that the Medicaid program must make a determination whether or not the recipient's termination from SSI was made in error.

Management has stated that TennCare follows the direction of the Attorney General's office concerning how to comply with the court order. We requested information from the Attorney General's office on this matter and received a response dated October 17, 2001, which stated,

There is no reason that the affected state agencies (Bureau of Medicaid/TennCare, Department of Human Services) cannot or should not proceed to attempt to comply with the district court's orders and injunction by devising a plan which would satisfy the requirements of those orders. (Under the terms of the Court's orders, the Court will have to approve any State plan to make de novo determinations of Medicaid eligibility independent of determinations of SSI eligibility by the Social Security Administration.) Furthermore, we understand that a number of efforts have been made over the years following entry of those orders to devise a plan which would satisfy the orders' requirements. The efforts have included extensive negotiations between counsel for plaintiffs, counsel for the federal defendants, the Attorney General's office and the Tennessee Department of Human Services (which makes, under law, the Medicaid eligibility determinations). Unfortunately, these efforts have been unsuccessful to date.

By not having a court-approved plan that would allow TennCare to determine if terminated SSI recipients are still eligible for TennCare and to terminate ineligible enrollees, TennCare is allowing potentially ineligible enrollees to remain on TennCare until they die, move out of state and receive Medicaid in another state, or request in writing to be disenrolled.

### **Recommendation**

The Director of TennCare should ensure that TennCare complies with all court orders and injunctions that relate to the eligibility of SSI enrollees. TennCare should develop and implement a court-approved plan that would allow TennCare to determine if terminated SSI recipients are still eligible for TennCare and terminate ineligible enrollees.

### **Management's Comment**

We concur. In an effort to obtain Court approval, the proposal referenced in the finding was submitted to the Attorney General with a request that it be submitted to the Court for approval. The Attorney General has requested additional information regarding systems and programmatic implementation of the proposal. This information is to include such things as a detailed methodology for systems matching to determine current addresses for persons terminated from SSI who have not utilized TennCare benefits. In addition, the Department of Human Services is developing a process to provide the reviews required by the Daniels Order to determine if persons who have been terminated from SSI qualify for other distinct categories of benefit eligibility. The Attorney General will submit the proposal to the Court when the implementation plans are complete. When the Court has reviewed the proposal and approved or modified it, it will be implemented.

<b>Finding Number</b>	02-DFA-10
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$370,044.00

**Internal control over TennCare eligibility is still not adequate**

**Finding**

As noted in the seven prior audits of the Bureau of TennCare, internal control over TennCare eligibility is not adequate. Management concurred in part with the prior audit findings, as discussed throughout this finding. In response to the prior-year finding, management corrected weaknesses regarding policies and procedures, recipients enrolled on TennCare twice, and enrollees with out-of-state and post office box addresses. However, serious internal control issues still exist.

During the year ended June 30, 2002, the responsibility of initial eligibility determination for the uninsured and uninsurable population, which represents approximately 43% of all TennCare enrollees, was divided between the county health offices in the Department of Health and the Member Services Unit in the Bureau of TennCare. For the Medicaid population, the Department of Human Services (DHS) has the responsibility for eligibility determinations. The Department of Children's Services (Children's Services) is responsible for eligibility determinations of children in state custody.

As of July 1, 2002, DHS began enrolling the uninsured and uninsurable population, which is now called TennCare Standard, in addition to the Medicaid population, which is now called TennCare Medicaid. Children's Services enrolls children in state custody in both TennCare Standard and TennCare Medicaid.

**Inadequate Staff to Verify Information on Applications**

This issue was first reported in the audit for year ended June 30, 2000. The audit reported that the unit that reviews the uninsurable applications was understaffed. Management responded to that finding and stated that a new Member Services Unit would be formed to handle all member communications. However, in the audit for year ended June 30, 2001, we reported that although a new Member Service Unit had been organized, the unit within Member Services was still understaffed.

Management concurred with this portion of the prior audit finding and stated,

Members Services reorganized resources to assure that all services related to members were under one TennCare Division. However, staffing of the uninsurable unit has not increased. The unit is still not staffed to verify all information on all TennCare applications. Under the modifications to the TennCare waiver, submitted to U. S. Department of Health and Human Services in February 2002, the Department of Human Services would be the single point of entry for all TennCare applications. This process will include a face-to-face interview with verification of critical eligibility components. If approved, the modified waiver would become effective January 1, 2003, with eligibility determinations to begin July 1, 2002, at the county Department of Human Services offices.

As stated in management's comments, the unit that reviews the uninsurable, uninsurable with limited benefits, and uninsured with COBRA termination applications was still understaffed during the audit period. These applications also include enrollees in the State Children's Insurance Program (SCHIP). The unit receives approximately 1,000 applications weekly. During the first nine and a half months of the audit period, there were only two individuals who initially reviewed the applications to verify the information for completeness and accuracy. During the transition period (the last two and a half months of the audit period) of moving enrollment to DHS, there were four individuals, with additional job duties, who initially reviewed the applications to verify the information for completeness and accuracy. However, because these four individuals were assigned other job duties, they could not devote 100 percent of their time to the application review process. As a result, for the entire year, not all the information on the applications (e.g., income, access to insurance, address, and citizenship status) was verified for accuracy. Not verifying information on these applications increases the risk that ineligible recipients will be enrolled.

#### No Verification of Applications for Individuals Losing Medicaid

This issue was first reported in the audit for year ended June 30, 2000. That audit reported that the applications were entered on the TennCare Management Information System without verification of information contained on the application. Management then responded that they believed accuracy of eligibility determinations would be improved with the new Member Services Unit. However, in the report for year ending June 30, 2001, we reported that the Bureau still did not verify information contained on applications for individuals losing Medicaid eligibility

Management concurred with this portion of the 2001 audit finding and stated,

The new waiver design, which upon approval is intended to go into effect in July, requires that persons applying for the demonstration population, including those who are exiting the Medicaid program, go into Department of Human Services offices to have all information checked in a face-to-face interview process. This process will be more rigorous than the process that is currently in place and will resolve this finding, we believe.

However, during the audit period, the Bureau did not verify information contained on applications for individuals losing Medicaid eligibility. According to 1200-13-12-.02(5)(a) of the *Rules of the Tennessee Department of Finance and Administration, Bureau of TennCare*,

. . . Persons losing Medicaid eligibility for TennCare who have no access to insurance may remain in TennCare if they are determined to meet the non-Medicaid TennCare eligibility criteria. . . .

These applications were entered on the TennCare Management Information System (TCMIS) and processed without verification of information contained on the application. Without verifying the information on the applications, the Bureau of TennCare cannot ensure that the applicant meets non-Medicaid TennCare eligibility or SCHIP criteria. In addition, not verifying the information on the applications can result in inaccurate premium amounts based upon the unverified and possibly inaccurate income amounts reported by the recipient.

Inadequate Documentation of Eligibility Information (This portion of the finding has not been reported in prior years)

During fieldwork, we examined the applications and all supporting documentation maintained by the Bureau of TennCare for a sample of 60 uninsured and uninsurable enrollees (including SCHIP enrollees). For 57 out of 60 enrollees (95%), we determined that TennCare did not have adequate documentation (such as pay stubs or tax returns) to support the income amounts reported by the enrollee on the TennCare application.

As a result of inadequate income documentation, we could not verify that the income amounts reported by the enrollee were accurate, nor could we determine that correct amounts were used to determine premiums for enrollees or that SCHIP enrollees were eligible. Not maintaining adequate documentation of income increases the risk that incorrect premiums are charged to enrollees.

In addition, we noted that TennCare did not require the Department of Human Services to keep adequate documentation of the information used to determine Medicaid eligibility. See finding 02-DFA-08 for further details regarding this matter.

Invalid and Pseudo Social Security Numbers Again Discovered

This issue was first reported in the audit for the year ended June 30, 1997. In that audit we discovered that several thousand TennCare participants had fictitious or “pseudo” social security numbers. In response to that finding, management stated that the reverification project would help to ensure that valid numbers are obtained from enrollees. The audit report for year ended June 30, 1998, reported that there were still 84 enrollees on TennCare’s system with uncorrected “pseudo” social security numbers. In response to that finding, management stated that “Health Departments included information in their training that addressed validation of Social Security Numbers and obtaining a valid number for enrollees with pseudo numbers.” In the audit report for year ended June 30, 1999, we reported that there were still 68 enrollees on TennCare’s system with uncorrected “pseudo” social security numbers. The response to that finding did not discuss “pseudo” social security numbers. In the audit report for year ended June 30, 2000, we reported that TennCare had 79 enrollees with uncorrected “pseudo” social security

numbers. In response to that finding, management stated that it “is our intent to address this issue as a part of our planning for the new TCMIS.” In the audit report for year ended June 30, 2001, we reported that 76 individuals had uncorrected “pseudo” social security numbers in TennCare’s system.

Management concurred with the 2001 audit finding and stated,

There are pseudo social security numbers in the TCMIS and the Bureau is working on a means of validating and correcting them through the Social Security Administration (SSA). The TCMIS assignment of pseudo social security numbers occurs for newborns to the system through the uninsured/uninsurable process. . . .

Similar to results noted in the five previous audits, when computer-assisted audit techniques were used to search TCMIS, the search revealed that 721 TennCare participants had invalid or pseudo social security numbers. Thirty-three of the 721 social security numbers were pseudo social security numbers that began with “888,” which are assigned by TCMIS. 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. The remaining 688 individuals had invalid social security numbers.

Testwork revealed that, during and after the end of the audit period, TennCare staff replaced 52 of the 721 invalid/pseudo social security numbers with valid numbers. However, the remaining 669 invalid or pseudo social numbers were still in the TCMIS system as of November 2002. Further testwork revealed that one TennCare enrollee had been enrolled in Medicaid with an invalid social security number since 1981. Another enrollee was enrolled since 1991 with a pseudo social security number.

Also, while it is not always possible to obtain social security information for newborns (zero to three months), auditors noted that several individuals with pseudo social security numbers were over one year old or had pseudo social security numbers for several months or years. The total amount paid for individuals with invalid social security numbers was \$583,253. Federal questioned costs totaled \$369,699. The remaining \$213,554 was state matching funds.

According to the *Code of Federal Regulations*, Title 42, Part 435, Section 910(a), “The agency must require, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish each of his or her social security numbers (SSNs).” In addition, according to the *Code of Federal Regulations*, Title 42, Part 435, Section 910(g), “The agency must verify each SSN of each applicant and recipient with SSA [Social Security Administration], as prescribed by the Commissioner, to insure that each SSN furnished was issued to that individual, and to determine whether any others were issued.” TennCare is also required to follow the *Rules of the Department of Finance and Administration, Bureau of TennCare*, Chapter 1200-13-12-.02 (2)(b), which state, “All non-Medicaid eligible individuals . . . 3. Must present a Social Security number or proof of having applied for one. . . .” Also, according to the *Rules of the Tennessee Department of Human Services, Division of Medical Services*, Chapter 1240-3-3-.02 (10), “As a condition of receiving medical assistance through the

Medicaid program, each applicant or recipient must furnish his or her Social Security Number (or numbers, if he/she has more than one) during the application process. If the applicant/recipient has not been issued a number, he/she must assist the eligibility worker in making application for a number or provide verification that he/she has applied for a number and is awaiting its issuance.”

#### Ineligible Enrollees Discovered

This portion of the audit finding was first reported in the prior audit. Management did not concur with this portion of the prior audit finding and stated that,

We do not concur that individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT [the Automated Client Certification and Eligibility Network] represent ineligible TennCare enrollees. As stated in the audit finding, existing business rules allow certain categories of eligibles to be extended for up to 12 months of eligibility within the TCMIS. We concur that Medicaid enrollees could remain eligible beyond the twelve month extended end date as a result of pended/incomplete applications. TennCare generates notices to all Medicaid enrollees 30 days in advance of reaching their TCMIS end date. If an application is entered into ACCENT or the TCMIS within the window allowed, the end date is opened until the application is completed. TennCare Information Systems has worked closely with the Department of Human Services to ensure these pended applications are reported accurately to TennCare, and TennCare reviews any incomplete/pended uninsured/uninsurable applications. Beginning in November 2001 TennCare is identifying the population who have been extended for greater than 12 months of eligibility with aged/pended or incomplete applications, loading end dates to those records and re-sending the 30 day advanced termination notice.

In its comments, management stated that TennCare’s unwritten “business rules” allow certain categories of Medicaid-eligible enrollees a 12-month extension of eligibility even though the enrollee’s eligibility on ACCENT ends before the 12-month extension ends. We determined that the TennCare waiver allows TennCare to grant eligibility for one year only for “medically needy” enrollees if they are eligible for any month of a calendar year. This extension does not appear to apply to any other categories of eligibility. During audit fieldwork, auditors made numerous requests of management to provide written documentation and justification giving TennCare the authority to grant eligibility to “categorically needy” Medicaid enrollees in segments of 12 months, or to allow enrollees to remain Medicaid eligible until all applications are processed. However, as in the previous year no such documentation was provided.

In November 2001, to respond to the prior finding, TennCare identified and started the termination process for enrollees mentioned above rather than citing unsubstantiated existing “business rules.”

A sample of the Medicaid population, excluding Supplemental Security Income (SSI) enrollees, was tested to determine if the enrollees were eligible for Medicaid on the date of service, based solely upon the information in ACCENT. Testwork revealed that TennCare did

not ensure that DHS maintained adequate documentation of the information entered into ACCENT. See finding 02-DFA-08 for further details on this matter. Medicaid enrollees are enrolled through DHS and Children's Services using ACCENT. TennCare receives daily eligibility data files from ACCENT, which update information in TCMIS. The Bureau of TennCare pays the managed care organizations (MCOs) and behavioral health organizations (BHOs) a monthly capitation payment to provide services to these enrollees. For the year ended June 30, 2002, the Bureau paid capitation payments totaling over \$2.3 billion to MCOs and over \$357 million to BHOs for TennCare enrollees. Of the 60 capitation payments for Medicaid enrollees tested, testwork revealed 3 enrollees (5%) were not eligible for Medicaid on the date of service, based solely upon the information in ACCENT. Of the three ineligible enrollees, two enrollees were no longer eligible for Medicaid according to ACCENT, and one enrollee enrolled through Children's Services was no longer in state custody. According to TennCare's eligibility policies and procedures manual, the two enrollees' Medicaid eligibility should have ended in TCMIS one month after eligibility ended in ACCENT.

Specific details from the sample testwork were as follows:

- For one enrollee, Medicaid ended per ACCENT on November 30, 1997, and should have ended in TCMIS on December 31, 1997. However, TennCare did not close the enrollee's Medicaid eligibility on TCMIS until December 31, 2001, which allowed this enrollee to continue receiving Medicaid services for four extra years. This enrollee was not classified as "medically needy."
- For another enrollee, Medicaid ended per ACCENT on August 31, 2001, after 18 months of "Transitional Medicaid." In Tennessee, Families First eligibility automatically qualifies an individual for Medicaid. According to the *Families First Policy and Procedure Manual*, "Transitional Medicaid" is Medicaid eligibility that is extended for 18 months after an individual loses Families First eligibility. This enrollee's Medicaid eligibility should have ended on September 30, 2001, in TCMIS. However, TennCare did not close this enrollee's Medicaid eligibility on TCMIS until February 1, 2002, which allowed this enrollee to continue to receive Medicaid services for an extra four months. This enrollee was not classified as "medically needy."
- One enrollee's Medicaid was open on ACCENT on the date of service, but the child was no longer in state custody. The Child Welfare Benefits Counselors within Children's Services are responsible for eligibility determinations and redeterminations of children in state custody. According to Children's Services' personnel, when a child leaves state custody, Children's Services ends the Medicaid eligibility in ACCENT after a 30-day extension. This enrollee was released from state custody on August 18, 2000. This enrollee's Medicaid eligibility should have ended on September 18, 2000. However, Children's Services did not end the Medicaid eligibility until March 31, 2002, which allowed this enrollee to continue receiving Medicaid services for an extra year and six months.

The Medicaid population, excluding SSI enrollees, makes up approximately 53% of the TennCare population. The total amount of capitation improperly paid during the audit period for all the errors noted above was \$541, out of a total of \$4,848 tested. Federal questioned costs totaled \$345. The remaining \$196 was state matching funds. We believe likely questioned costs exceed \$10,000.

Furthermore, because TennCare has not ensured that only Medicaid-eligible individuals are enrolled in TennCare as a Medicaid enrollee, ineligible enrollees could be inappropriately enrolled in other programs. For example, according to the *Code of Federal Regulations* Title 7, Part 247, Section 7(d)(2)(vi)(A), Medicaid enrollees are automatically income-eligible for the Department of Health's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

### **Recommendation**

**Note: For the issues that have been repeated in this finding over the years, this is the same basic recommendation that has been made in the many past audits.**

The Director of TennCare should ensure that adequate staff is assigned at DHS and Children's Services to verify information on all applications and that all information on the applications is verified. The Director of TennCare should ensure that documentation of all critical information used in an eligibility determination or premium determination is maintained in the enrollee's file.

The Director should ensure that valid social security numbers are obtained for all individuals in a timely manner. The Director should ensure that only eligible enrollees are receiving TennCare, and all ineligible enrollees should be removed from the program. When possible, TennCare should recover capitation payments made to the MCOs for ineligible enrollees.

### **Management's Comment**

#### **Inadequate Staff to Verify Information on Applications**

We concur that during the audit period we had inadequate staff for verification of information on applications. Under the modifications to the TennCare waiver, approved by the U. S. Department of Health and Human Services on May 30, 2002, the Department of Human Services (DHS) is the single point of entry for all TennCare applications. This process includes a face-to-face interview with verification of critical eligibility components. Once approved, the modified waiver became effective January 1, 2003, with eligibility determinations beginning July 1, 2002, at the county Department of Human Services offices.

TennCare has a contract with DHS that requires performance of eligibility determinations and redeterminations including verification of critical eligibility components.

### **No Verification of Applications for Individuals Losing Medicaid**

See comments above.

### **Inadequate Documentation of Eligibility Information (This portion of the finding has not been reported in prior years)**

We concur in part. Effective July 1 2002, all eligibility determinations are made by DHS through face-to-face encounters. Proof of information regarding income is required at the time of each face to face interview for eligibility determination.

DHS enters all critical information into the ACCENT system. Approval of the ACCENT system design, which includes the electronic recording of eligibility data, was obtained from the U.S. Department of Health and Human Services before implementation of the system in 1992. There has never been any indication from the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, that the process in place was not adequate to meet federal requirements. In addition, the State Attorney General also issued an opinion in 1992 that the use of an electronic eligibility file and the application form satisfied legal requirements for determining eligibility.

As required by federal law and to ensure program integrity, DHS has had a quality control system in place since implementation of TennCare (and previously under the Tennessee Medicaid program). In this quality control system, called Medicaid Eligibility Quality Control (MEQC), each month DHS uses a random sampling of Medicaid cases to validate eligibility determinations, whether active (eligible) or negative (denied). The MEQC system is designed to reduce erroneous expenditures by monitoring eligibility determinations, third party liability activities, and claims processing (State Medicaid Manual, Part 7, Quality Control). MEQC programs approved in Section 1115 waiver states are relieved of any liability for disallowances for Medicaid eligible enrollees and for individuals added under the waiver resulting from errors that exceed the 3 percent tolerance level established by federal regulations.

In addition, TennCare contracts with the University of Tennessee for the performance of MEQC procedures for the uninsured and uninsurable population.

TennCare believes that the eligibility procedures, including the level of documentation, and the MEQC reviews and follow-up activities provide adequate internal controls over the eligibility process and meet federal requirements.

### **Invalid and Pseudo Social Security Numbers Again Discovered**

We concur in part. The TCMIS assignment of pseudo social security numbers occurs for newborns to the system. Benefits for illegal/undocumented aliens are issued with pseudo numbers, since they cannot get a SSN legally. These are the only cases that will never have a 'real' SSN.

Effective July 1 2002, all eligibility determinations are made by DHS where eligibility information is entered into the ACCENT system. If a number is blank or invalid, ACCENT does an automatic front end match of SSN's entered into the system and provides an 'alert' to the case worker if an adjustment needs to be made. DHS also has a systems report of individuals for those that cannot be matched (usually newborns) that workers are to check. DHS also uses State on-line Query (SOLQ) to verify a number if an individual does not have a card. ACCENT does not allow two individuals to use the same SSN.

### **Ineligible Enrollees Discovered**

We do not concur that individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT represent ineligible TennCare enrollees. As stated in the audit finding, business rules (Member Services Policy – MS-002) allowed certain categories of eligibles to be extended for up to 12 months of eligibility within the TCMIS. We concur that Medicaid enrollees could remain eligible beyond the twelve month extended end date as a result of pended/incomplete applications.

Upon implementation of TennCare, it was apparent that the nature of sudden and retroactive loss of Medicaid eligibility was not in keeping with a good managed care environment. Therefore, methodology was adopted to assure continuity of care for Medicaid enrollees as outlined in the goals for the Waiver and the TennCare Program. Since Families First Legislation extends benefits for eighteen (18) months, it is no longer necessary to provide an additional extension in order to achieve continuity of care for enrollees and we have discontinued this practice.

TennCare generates notices to all Medicaid enrollees 30 days in advance of reaching their TCMIS end date. If an application is entered into ACCENT or the TCMIS within the window allowed, the end date is opened until the application is completed. TennCare Information Systems has worked closely with DHS to ensure these pended applications are reported accurately to TennCare, and TennCare reviews any incomplete/pended uninsured/uninsurable applications. Beginning in November 2001 TennCare identified the population who have been extended for greater than 12 months of eligibility with aged/pended or incomplete applications, loading end dates to those records and re-sending the 30 day advanced termination notice. Significant re-verification efforts were implemented at this time. Effective July 1 2002, DHS became the single point of entry for all TennCare determinations and redeterminations including verification of critical eligibility components.

### **Rebuttal**

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration (F&A) regarding the *Single Audit for the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material weakness, a material instance of noncompliance, and a repeat finding. We recommend 1) procedures be strengthened to ensure participant eligibility is accurately determined and periodically reviewed for any changes that would affect eligibility . . .

Regarding the lack of documentation, the *Code of Federal Regulations* (CFR), 42 CFR 431.17(d), “Conditions for optional use of microfilm copies,”

The agency may substitute certified microfilm copies for the originals of substantiating documents required for Federal audit and review [emphasis added]

While federal regulations do not explicitly define the form of the documentation to be maintained, this regulation establishes that there is an expectation that the department maintain original documentation of the information received.

Regarding the invalid or pseudo social security numbers again discovered, it is not clear from management’s comments which part of the issue management does not concur.

Regarding the ineligible enrollees discovered we did not state that all individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT represent ineligible TennCare enrollees. However, we did identify individuals in TCMIS who appear to be ineligible. Although management does not concur, it again has not provided any documentation to support the eligibility of those enrollees in question. Furthermore, there is no provision in the rules, written policies, or written “business rules” that allows individuals who submit incomplete applications to remain eligible for program services indefinitely. As stated in the audit finding, one enrollee’s Medicaid should have ended on December 31, 1997, but was not ended until four years later on December 31, 2001.

Management did not address the part of the recommendation concerning the recovery of capitation payments made to the MCOs for ineligible enrollees.

<b>Finding Number</b>	02-DFA-13
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Questioned Costs</b>	\$241,287.00

**TennCare incorrectly reimbursed Managed Care Organizations, Consultec, Volunteer State Health Plan, and the Department of Children’s Services for services that were unallowable or not performed, resulting in federal questioned costs totaling \$241,287; TennCare also claimed to have newly written procedures to address the Children’s Services issues, but would not provide those procedures during the audit**

**Finding**

As noted in the prior three audits, TennCare has paid the Department of Children’s Services (Children’s Services) for services that were unallowable or not performed. 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. During the year ended June 30, 2002, TennCare paid approximately \$140 million in fee-for-service reimbursement claims to Children’s Services. The prior audit noted \$576,721 improperly paid to Children’s Services. The current audit showed some improvements made by Children’s Services had reduced these improper billings to \$199,809 for the current audit period.

The three previous audit findings addressed three specific types of unallowable payments made by TennCare to the Department of Children’s Services:

- payments for incarcerated youth,
- payments for children on leave status, and
- payments for children under the age of three.

Regarding the unallowable costs to children under three years of age, testwork revealed that for children under the age of three who received services, those services appeared to be medically necessary. However, the two other issues remain.

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration (F&A) regarding

the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a repeat finding. We recommend 1) procedures be implemented to ensure Federal funds are not used for health care costs of a) children who are in youth development or detention centers, . . . c) children on runaway status, . . .

Testwork revealed the following deficiencies:

#### Payments for Incarcerated Youth

Since 1997, 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. Management concurred with this part of the prior audit finding and stated, "We will implement procedures to improve our monitoring of DCS's [Children's Services] billing activity to be sure that inappropriate payments requested are either denied or recouped, if payment has already occurred." The contract between TennCare and Children's Services requires Children's Services to submit monthly, beginning July 1, 2001, a listing of children who are incarcerated. However, based on discussions with TennCare's Children's Services liaison, TennCare received its first listing on June 7, 2002, and therefore was unable to perform necessary reviews of the billing activity for the period under audit.

Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional facilities operated primarily to detain children who have been found delinquent are considered to be inmates of a public institution and thus are not eligible for Medicaid (TennCare) benefits.

In addition, although TennCare's management had entered into a Memorandum of Understanding (MOU) in fiscal year 1999 with F&A Division of Resource Development and Support (RDS) to examine this area, TennCare still does not have adequate controls and procedures in place to prevent these types of payments.

As in the previous audits, we used computer-assisted audit techniques (CAATs) to search TennCare's paid claims records to find that TennCare made payments totaling \$268,582 for the year ended June 30, 2002, for juveniles in the youth development centers and detention centers. Of this amount, \$127,410 was paid to MCOs; \$77,667 to Children's Services; \$51,116 for TennCare Select fee-for-service claims; and \$12,389 for drug claims paid through Consultec. Federal questioned costs totaled \$163,510. The remaining \$105,072 was state matching funds.

The payments to the MCOs were monthly capitation payments—payments to managed care organizations to cover TennCare enrollees in their plans. Since the Bureau did not receive a listing of incarcerated youth until June 7, 2002, and was not aware of the ineligible status of the children in the youth development and detention centers for most of the audit period, TennCare incorrectly made capitation payments to the MCOs on their behalf. As a result, TennCare is making payments on behalf of these individuals to the MCOs, which incur no costs for providing services.

### Payments for Children on Leave Status

TennCare has paid Children's Services for enhanced behavioral health services for children who are in the state's custody but are on runaway status or placed in a medical hospital. No services were performed for these children because they have run away from the service providers or have been placed in a medical hospital. In response to the audit for fiscal year ended June 30, 1999, management stated:

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.

Regarding payments for children on leave status in the audit for fiscal year ended June 30, 2000, management stated:

TennCare has instructed DCS not to bill TennCare for services not provided to children on leave status. TennCare is developing a DCS Policies and Procedures Manual and will confirm this understanding in that manual. In addition, TennCare will request that F&A PAR strengthen its efforts to assure that inappropriate payments are better detected in the future.

Management again concurred with this portion of the prior audit finding in the 2001 audit report and stated that

TennCare should not be paying the Department of Children's Services (DCS) for services to incarcerated youth or for services for children on leave status. . . .

During fieldwork, management stated that TennCare had developed procedures and was in the process of reviewing these procedures. Although TennCare staff stated they were developing a procedures manual, we were unable to confirm its existence because TennCare would not provide it to us. In January 2003, management stated that they were still in the process of modifying some of the procedures. However, these procedures have not been implemented. As a result, the problems with this area continued during the audit period. According to 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 or are hospitalized in a medical hospital. In related findings in Children's Services audits for the previous three audits, Children's Services' management concurred in part with the audit findings. Auditor inquiry revealed that Children's Services still does not notify TennCare when children are on runaway status or are placed in a medical hospital. TennCare

relies upon Children's Services not to bill TennCare when the department has determined the child has run away or been placed in a medical hospital. The Children's Services' provider policy manual allows service providers to bill Children's Services for up to 10 days for children on runaway status. However, based upon HHS' response to the prior year audit findings as well as TennCare not obtaining written approval for the payment of leave days from CMS, Children's Services cannot bill TennCare for those leave days. Children's Services' provider policy manual also allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Children's Services Regional Administrator, the provider may bill Children's Services for up to 21 days while the child is in the hospital, but as stated above Children's Services cannot bill TennCare for any hospital leave days. In spite of repeat audit findings, the Bureau still has no routine procedures, such as data matching, to check for such an eventuality. Therefore, the Bureau has again elected to pay Children's Services without assuring that treatment costs were incurred by the service providers. However, based on the prior findings, TennCare was aware of the possibility of such costs and should have taken appropriate action to identify such situations.

During fieldwork, we asked management about the "new eligibility file update system" referenced in last year's management's comment and how through this system, eligibility information is updated daily. Based upon discussion with management these electronic updates are related to moving the child from the current managed care organization into TennCare select and are not related to the fee-for-service payments to children's services.

As in prior years, using CAATs, we again performed a data match comparing TennCare's payment data to runaway records from the Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that for the year ended June 30, 2002, TennCare had improperly paid \$86,917 to Children's Services for children on runaway status. Federal questioned costs totaled \$55,347. The remaining \$31,570 was state matching funds.

In addition, as in prior years using CAATs, we again performed a data match comparing TennCare's payment data to medical records from the MCOs. The results of the data match indicated that for the year ended June 30, 2002, TennCare had improperly paid \$35,041 to Children's Services for children while they were in hospitals. Federal questioned costs totaled \$22,313. The remaining \$12,728 was state matching funds.

### Targeted Case Management

The Department of Children's Services bills and receives reimbursement from TennCare for targeted case management. Targeted case management includes but is not limited to case manager visits with children, developing permanency plans, maintaining case files, and arranging TennCare related services such as health screenings and behavioral health services. Children's Services bills TennCare a daily rate for each child in its custody that has been assigned a case manager. Targeted case management billings were over \$56 million for the year ended June 30, 2002. We selected a sample of 42 children for which TennCare paid a total of \$10,719 to Children's Services for targeted case management. Based upon the testwork performed, there was no evidence that case management was provided to 2 of 42 children tested (5%) during the dates of services specified in the billing. TennCare paid \$184 for the two

billings in question. Federal questioned costs totaled \$117. The remaining \$67 was state matching funds. We believe likely federal questioned costs exceed \$10,000 for this condition.

#### TPL Edits Overridden

It was also determined that TennCare overrides TPL (third-party liability) edits for Children's Services claims. The TPL edits are designed to identify enrollees who have other insurance and deduct/adjust the amount of claim reimbursement owed to the providers by TennCare. Because TennCare chose to override these edits, the state and the federal government are paying for services that are the legal obligation of third parties. OMB Circular A-133 requires that "states must have a system to identify medical services that are the legal obligation of third parties," so that costs are not passed on to the federal government. Similarly, the state should not have to pay for these costs.

In total, \$199,809 was improperly paid to Children's Services; \$127,410 to the MCOs; \$51,116 for TennCare Select fee-for-service claims; and \$12,389 for drug claims paid through Consultec. A total of \$241,287 of federal questioned costs is associated with the conditions discussed in this finding. The remaining \$149,437 was state matching funds.

### **Recommendation**

**Note: This is the same basic recommendation, for the repeated portions of the finding, made in the prior three audits.**

In light of the multiple repeat findings over the years, the Director and staff of TennCare must realize the probability of such improper payments continuing in the absence of effective controls. They should at least ensure that computer-assisted monitoring techniques are developed by the Bureau to prevent or detect payments for incarcerated youth, children on runaway status, and children placed in medical hospitals. The Director of TennCare should ensure that Children's Services bills only for recipients who receive services and are eligible to receive services. The Director should ensure that targeted case management rates and billings by Children's Services are based on children receiving targeted case management services. The Director should ensure that TennCare does not override the third-party liability edits for Children's Services claims and that TennCare does not pass on to the state and federal government the cost of services that are the legal obligation of third parties.

### **Management's Comment**

We concur in part, including the notation that there were reductions in inappropriate billings. The staff of the Bureau worked assiduously with the Department of Children's Services (DCS) during the last quarter of fiscal year 2002 to develop policies and procedures for identifying and reporting children who are either in a youth development center (YDC) or on runaway status. According to the interagency agreement, beginning in June 2002, DCS provides a monthly list of children in YDCs and a list of children on runaway status. Currently, TennCare Fiscal staff review billings against these lists to identify any inappropriate billings and

subsequently recoups any funds paid for ineligible services. This, as the report has noted, has resulted in a reduction in the amount of inappropriate billings for both incarcerated and runaway youth.

The policies and procedures referenced in the finding were in still in progress while the auditors were performing the audit. Although the policies and procedures have still not been finalized, the listings generated as a result of the work done on them are available and are being used as stated previously. TennCare did not release these policies and procedures because after extensive internal review, it was determined that they did not fulfill the requirements of the interagency agreement with DCS. Specifically, while the procedures identified children who are ineligible for certain services and allowed TennCare to recoup inappropriate billings, they did not fulfill the requirement that DCS prevent inappropriate billings, and submit only “clean” billings.

Accordingly, four new policies and procedures have been requested of DCS: One each for identification of children in a YDC or on runaway status and one each to prevent inappropriate billings of children in a YDC or on runaway status. TennCare has also requested the assistance of the Department of Finance and Administration, Office of Program Accountability Review (PAR) to validate the listings as part of the Bureau's monitoring of DCS. TennCare is now in the process of working with DCS to ensure that these policies and procedures are established.

We will review the processes in place over TPL and the related edits to determine whether any changes should be made.

While improvements have been made in developing DCS' infrastructure (their process for identifying children who are ineligible due to their incarcerated or runaway status) and in reducing or recouping inappropriate billings, the Bureau is committed to continuing to work with DCS to ensure billings reflect only eligible services.

<b>Finding Number</b>	02-DFA-15
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

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

**Finding**

The previous five audits have reported that TennCare has not adequately monitored TennCare-funded activities of the Department of Children’s Services (DCS). TennCare uses the services of the Department of Finance and Administration’s Division of Resource Development and Support (RDS) to monitor DCS. The prior year’s audit finding addressed two specific areas where RDS did not follow the requirements of its agreement with TennCare.

- RDS did not test the accuracy of DCS billing rates.
- RDS did not submit quarterly monitoring reports.

These areas were not corrected. Management concurred with the prior audit finding and stated that TennCare had discussed the testing of billing rates with RDS in a planning meeting and had determined that TennCare would be responsible for monitoring these rates. Management also stated that TennCare would select a sample of claims on a periodic basis, test the rates billed by DCS, and resolve any discrepancies with DCS. In addition, management also stated that TennCare would work with RDS to ensure that the quarterly reports are submitted. However, based upon discussions during fieldwork with the Assistant Commissioner of Delivery Systems, the Chief Financial Officer, an Assistant Commissioner with the Department of Finance and Administration, and TennCare’s DCS liaison, none knew if any of these actions had occurred. Furthermore, testwork revealed that neither RDS nor TennCare has tested the accuracy of DCS billing rates. In addition, TennCare did not modify the contract with RDS to remove RDS’ responsibility to test the rates. Discussions with management during fieldwork revealed that an Assistant Commissioner had discussion with RDS regarding this matter. However, the Assistant Commissioner did not ensure that the contract was modified.

Testwork also revealed that RDS did not submit a monitoring report to TennCare for the first quarter of the audit period, and the monitoring efforts for the fiscal year did not include all procedures requested by TennCare. For example, according to the agreement between TennCare and RDS, RDS is also responsible for the following:

- determining whether DCS has implemented procedures to identify incarcerated youth and prevent charges related to the care and treatment of the incarcerated youth to TennCare and to provide TennCare with notification of the date of admission and release of a youth to/from a locked facility;
- testing to ensure that the rates charged to TennCare are consistent with the documentation of expenditures;
- testing whether DCS adjusted billings to TennCare with any reimbursements/credits received from third-party providers for services previously billed to TennCare; and
- testing for the consistency of amount billed by provider and paid by DCS and the amount billed to TennCare by DCS.

Based on discussions with RDS personnel, none of the above were performed during the fiscal year.

In accordance with the agreement between DCS and TennCare, DCS 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. DCS pays these providers and bills TennCare for reimbursement. For the year ended June 30, 2002, TennCare paid approximately \$140 million to DCS in fee-for-service reimbursement claims.

Because of the inadequate monitoring of DCS, TennCare cannot ensure that the amounts billed are correct and allowable.

### **Recommendation**

The Director of TennCare should ensure that RDS properly performs its responsibilities under the monitoring agreement and should require quarterly reports from RDS. The Director of TennCare should see that specific TennCare staff are assigned the duties of monitoring the DCS billing rates and that they fulfill that responsibility. The Director should ensure that staff are held accountable for actions promised in management's comments that do not occur.

### **Management's Comment**

We partially concur. The new contract with RDS that went into effect October 1, 2002 will be revised to no longer require testing of the DCS rates.

Although the agreement with RDS stated the contractor would test rates billed by DCS, the Bureau agreed with RDS to test the rates internally. However, these tests were not performed during the audit period. Because of the process in place for establishing and loading DCS rates, the determination has been made that rates do not require testing. DCS residential treatment rates are reviewed in advance by the Comptroller's Office and the methodology is approved by the Centers for Medicare and Medicaid Services. Rates for targeted case management are reviewed by the Comptroller's Office. All rates are verified for accuracy when loaded onto the payment

system. The system will identify and reject any billings that exceed the established rates. The new contract with RDS that went into effect October 1, 2001, was revised and no longer requires testing of the DCS rates.

RDS submitted quarterly monitoring reports for three quarters during state fiscal year 2002 and a memorandum report for the first quarter of the year. For the first quarter, monitoring of DCS residential providers was not performed; this information is clearly disclosed in the memorandum dated October 19, 2002. RDS performs the monitoring of these providers during the remaining three quarters of the year, thereby ensuring adequate monitoring.

Staff from the Bureau of TennCare worked with staff of DCS to develop a process to provide the Bureau a monthly report of children who are incarcerated (in youth development centers) and thus ineligible for TennCare services. Beginning in June 2002, DCS generated a monthly report of children in the centers. Reports submitted to the Bureau cover the last quarter of the fiscal year ending June 30, 2002. The Bureau has used these reports to send notices to DCS regarding inappropriate billings.

While a procedure to identify incarcerated youth has been implemented, currently the only procedure available to correct for these billings is to notify DCS and recover funds. Accordingly, TennCare requested, in January 2003, that DCS develop new policies to both identify youth in the centers and prevent billings for these services to TennCare.

### **Rebuttal**

This is the fifth consecutive year that the Bureau of TennCare has not ensured adequate monitoring of DCS. Management has concurred with the audit finding in each of the previous four audits.

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration (F&A) regarding the *Single Audit for the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material weakness and a repeat finding. We recommend procedures be strengthened to ensure billings from the Department of Children's Services are monitored to comply with grant requirements.

While RDS submitted quarterly monitoring reports for three quarters during the audit period, this monitoring did not include areas required by the agreement TennCare has with RDS which include:

- determining whether DCS has implemented procedures to identify incarcerated youth and prevent charges related to the care and treatment of the incarcerated youth to TennCare and to provide TennCare with notification of the date of admission and release of a youth to/from a locked facility;

- testing to ensure that the rates charged to TennCare are consistent with the documentation of expenditures;
- testing whether DCS adjusted billings to TennCare with any reimbursements/credits received from third-party providers for services previously billed to TennCare; and
- testing for the consistency of amount billed by provider and paid by DCS and the amount billed to TennCare by DCS.

During fieldwork, discussions with the Assistant Commissioner of Delivery Systems, the Chief Financial Officer, an Assistant Commissioner with the Department of Finance and Administration, and TennCare's DCS liaison, none knew if TennCare had selected a sample of claims on a periodic basis, tested the rates billed by DCS, and resolved any discrepancies with DCS as promised in the previous audit's management's comment.

It does not appear that "all rates are verified for accuracy when loaded onto the payment system" as described by management. During fieldwork we noted that one procedure code for a provider was incorrectly loaded as \$270.79 per day instead of \$275.79 per day. Further investigation with staff at Children's Services revealed that Children's Services had submitted a request to TennCare to correct this problem. According to TennCare's system, the rate was updated on September 16, 2002. Since TennCare did not have adequate rate monitoring in place, it appears that if Children's Services had not notified TennCare of the rate discrepancy, the problem would have gone on much longer without detection.

Given the high probability of errors when loading the rates, TennCare should improve its rate monitoring effort. Also as stated in finding 02-DFA-13, TennCare has turned off third-party liability (TPL) edits for Children's Services claims. Monitoring of the rates could assist the Bureau in determining that TPL amounts are appropriately being deducted from payments to Children's Services.

Finally, management stated that "the determination has been made that rates do not require testing." However, management contradicts this statement in the "State of Tennessee Summary Schedule of Prior Audit Findings for Years 2001 and prior" required by the *Office of Management and Budget Circular A-133*. In the reporting of the status of corrective actions for the prior year audit findings as of June 30, 2002 management stated that "TennCare will select a sample of claims on a periodic basis and test the rates billed by DCS."

<b>Finding Number</b>	02-DFA-18
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility
<b>Questioned Costs</b>	\$18,075.00

**TennCare has still failed to ensure that adequate processes are in place for approval of the recipient and for the review and payment of services under the Medicaid Home and Community Based Services Waiver**

**Finding**

As noted in the prior three audits, TennCare has not ensured that the Division of Mental Retardation Services (DMRS) appropriately reviews and authorizes the eligibility of and the allowable services for recipients under the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled (HCBS MR/DD) Waiver and the Elderly and Disabled waivers. DMRS allowed providers to render services to recipients before proper eligibility preadmission evaluations (PAEs) were performed and documented and before services were reviewed and authorized. As a result, claims were paid for unallowable and/or unauthorized services, and the required service plan and cost plans were inconsistent.

Management concurred with the findings reported in the audit reports for fiscal years ended June 30, 1999, and June 30, 2000, and stated it would review and modify the service authorization process. The only apparent change to the process occurred in June 2000 when TennCare began approving PAEs. For the audit period ended June 30, 2001, management partially concurred and indicated that it would continue to review the deficiencies noted in the finding. It is not clear from management's prior comments with which part of the finding it did not concur. Furthermore, as evidenced by the high percentage of errors, management apparently has not taken sufficient action to correct the numerous issues noted.

A sample of 60 claims from the HCBS MR/DD Waiver was selected. In the review of the 60 claims, testwork revealed that for 52 (87%) of the claims tested for the waiver recipients, deficiencies were noted. The deficiencies included the following:

- For 47 of the claims tested, the enrollee's service plans were not signed timely or were missing from the regional office. The *Operations Manual for Community Providers*, Chapter 2, states that billing cannot be claimed for services furnished prior to the development and authorization of the Service Plan.

- The services provided on the enrollee's service plan were not in agreement with the independent support plan (ISP) for two of the recipients tested.
- The enrollee's Freedom of Choice form was not completed properly or was missing for five of the claims tested. Chapter 1 of the *Operations Manual for Community Providers* requires the Freedom of Choice to be signed by the individual prior to enrollment, and the completed form should include the name of the individual considered for waiver services.
- Chapter 2 of the *Operations Manual for Community Providers* requires the service plan to be maintained for a minimum of three years by the organization funded to provide support coordination. However, for 10 of the 35 ISC (independent support coordination) claims in the sample, the service plans were either not approved by the regional office or were missing at the ISC agency.
- Proper supporting documentation was not retained by many of the vendors for the claims reviewed. In many instances, the support was inadequate because the hours or days recorded by the vendor differed from the hours or days paid by TennCare. In some cases, documentation could not be found, or the waiver recipient was absent from the provider on the day the claim was made.
- Testwork also revealed that in one case the services provided exceeded the levels approved in the service plans. For this claim, ten more hours of nursing were paid than were approved on the service plan. In another case, a service approved on a service plan was not provided to the enrollee.

The total amount of the 60 claims sampled was \$91,429. Costs associated with the errors noted above totaled \$27,967, of which \$17,809 is federal questioned costs. The remainder of \$10,158 is state matching funds. The total amount paid for HCBS MR/DD waiver claims was \$190,555,033.

A sample of 60 claims for the HCBS Elderly and Disabled waiver was selected. In a review of the claims for the elderly and disabled recipients, testwork revealed that for 57 of 60 claims tested (95%), the supporting documentation was not adequate. The following problems were noted:

- For 22 claims (37%), the supporting documentation for personal care obtained from the provider was not adequate for many of the claims examined because the hours paid did not agree with the hours the vendor recorded. Other differences occurred because office hours that should have been charged as administrative time were charged to personal care hours. Also, several discrepancies were noted between the meals provided and the meals paid. In some cases, vendors were paid for more units than the documentation showed. (See the questioned costs below.)
- For 55 claims (92%), the services were furnished pursuant to a written plan of care, and numerous individuals who should have been furnished two to four hours of personal care per the plan of care received less than two hours per day. Not following the written plan of care could result in enrollees not receiving services in accordance with their needs assessment.

The total amount of the 60 claims sampled was \$54,263. Costs associated with the overpayments noted above totaled \$417, of which \$266 is federal questioned costs. The remainder of \$151 is state matching funds. The total amount paid for HCBS Elderly and Disabled waiver claims was \$4,507,580. We believe likely questioned costs associated with this condition exceed \$10,000.

A sample of 25 PAEs from the HCBS waivers was selected from PAEs approved during the year ended June 30, 2002. TennCare uses PAEs to document the necessity of waiver services. Before enrollees obtain waiver services, TennCare requires an approved and completed PAE. In a review of the PAE approval process, testwork revealed that for 13 of 25 PAEs tested (52%) for the waiver recipients, the PAEs were not completed properly, or the supporting documentation was not adequate. Specifically, one or more of the following deficiencies were noted:

- For ten PAEs (40%), the supporting physical and/or psychological exams were not signed within the required time frame. Chapter 1 of the *Operations Manual for Community Providers* requires that the psychological and physical exams be performed within the preceding 12 months. If an exam was performed over 90 days but less than one year before the PAE date, the PAE must be updated.
- The regional office could not locate one of the approved PAEs selected for review.
- For three PAEs (12%), the Plan of Care on the PAE were not properly completed.

In addition, testwork noted that the TennCare Management Information System (TCMIS) does not have a system edit to prevent payment for duplicate services during the same time period for a person who receives services from more than one waiver. Although no duplicate payments were found, similar services could be provided to an enrollee through different waivers. Allowing individuals to receive services through multiple waivers could prevent others who need waiver services from obtaining access to the services because there are a limited number of slots available.

Since TennCare did not ensure that adequate processes were in place for the approval of recipient eligibility and for the review and payment of services under the Medicaid Home and Community Based Services Waiver, Medicaid providers of HCBS Waiver services were paid for recipients whose eligibility and services were not adequately documented. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that costs be adequately documented.

### **Recommendation**

**Note: This is the same basic recommendation made in the prior three audits.**

The Director of TennCare should determine why the measures taken in the previous year were inadequate and should ensure that the eligibility criteria for all individuals are documented

on the PAE. The Deputy Commissioner over DMRS should ensure that review and approval of services under the HCBS Waiver is adequately documented. Freedom of Choice forms should be appropriately completed for all enrollees. The Director should ensure that provisions are made to ensure documentation is kept for providers that cease providing services. The Director of TennCare should ensure that only properly supported and completed PAEs are approved. Waiver claims without adequate documentation should be denied. The Director should ensure that ISC agencies maintain proper service plans. The Director of TennCare should ensure that recipients are approved for only one waiver so as not to limit access to services by others.

### **Management's Comment**

We partially concur.

#### **HCBS MR/DD Waiver Issues**

We concur. Draft audit findings have been provided to Division of Mental Retardation Services (DMRS). The findings, as well as the auditor's documentation of these findings will be reviewed at the April TennCare/DMRS Steering Committee meeting. Potential corrective measures will be discussed as well. DMRS will be required to submit a corrective plan within 30 days and TennCare will review and approve the plan or make additional recommendations. TennCare Division of Long Term Care (TDLTC) will monitor implementation of the corrective actions.

TDLTC has hired a new staff member who will be responsible for tracking all corrective actions for programs under TDLTC's administrative oversight.

The Corrective Action and Infrastructure Development Plan created by TennCare and DMRS, with input from program stakeholders, includes measures intended to streamline the planning and service authorization process. Work plans with action steps will be developed for all areas of the Plan. All corrective actions identified in this plan will be tracked for completion by identified responsible parties at TennCare and DMRS. Some work plans have been developed with assistance from CMS technical assistance contractors. Development of remaining work plans will be discussed at the April TennCare/DMRS Steering Committee meeting.

#### **Elderly and Disabled /Waiver**

We concur with these findings. In fact, similar issues were identified during the last TennCare State Assessment of the ADAPT waiver. The report for the ADAPT State Assessment has been delayed due to staffing and workload issues; however, a summary of the findings has been compiled for review with Senior Services. A meeting will be scheduled to discuss findings with Senior Services management during the month of April, in advance of issuing the report of findings. The State Assessment Report will be issued by April 30, 2003. Senior Services will be

required to submit a plan of correction that will be reviewed by TDLTC. Upon acceptance of the plan of correction, TDLTC will monitor for implementation of corrective actions.

Senior Services has previously been advised in correspondence from TDLTC that travel/administrative time may not be billed as administrative hours.

### **PAEs**

We partially concur with these findings. Nurse reviewers who approve the PAE ensure that there is a physician's history and physical within 1 year of the physician's certification date on the PAE. If the H&P (History and Physician Certification) is more than 90 days old, an update is required. TDLTC policy is to consider the physician's signature on the PAE as an update to the H&P if "see attached" is written on the H&P section of the PAE. PAE nurse reviewers are aware of the policies for PAE reviews. Reviewers receive an average of 4-6 months training including follow-behind review by an experienced review nurse. However, approximately 32,000 PAEs are reviewed annually, and some human error is expected. TDLTC is in process of collecting and reviewing auditor documentation and will address any errors that are noted with the appropriate nurse reviewers.

In discussions with auditors, it was explained that while psychological dates may be after the date of the PAE certification and the H&P date, an individual may not be enrolled in the waiver until a PAE is approved. PAEs are not approved without an attached psychological. Consequently, payment for waiver services should not occur prior to the date of the documentation submitted with the PAE. Although TDLTC staff still do not fully agree with the auditors position, we have revised internal policies to hopefully avoid further audit findings related to this issue. Nurse reviewers who review MR waiver or ICF/MR PAEs were instructed to ensure that the date of the PAE certification and approval is on or after the date of the H&P and psychological prior to approval. Written TDLTC internal policies will be revised accordingly. We will follow this process point forward, but will not be able to make adjustments for PAEs approved in the past. Following meetings with auditors last fall, a conference call was held with DMRS intake staff to advise of potential audit findings. A formal memorandum will now be sent to DMRS Central Office and Regional Offices to outline changes in requirements for PAEs submitted. The memorandum will also advise of the importance maintaining required documentation in accordance with the contract between DMRS and TennCare, as well as TennCare rules.

We do not have sufficient information at this time to determine agreement or disagreement with findings related to Plans of Care. TDLTC staff will review auditor's documentation to determine what was improper about the Plan of Care on the PAE and address appropriately.

### **Systems Edit**

We concur that there is no edit to prevent payment for services in 2 different waiver programs simultaneously. However, no duplicate payments were found. Because of previous audit findings, TDLTC explored the possibility of establishing such an edit, but were told that it

was not possible at this time. Consequently, different avenues were explored to correct the problem. All Support Coordination agencies were advised that clients were not to be enrolled in other waiver programs if enrolled in the MR waiver. Senior Services were advised of the audit finding as well. Although these may not have been the corrective actions originally intended, there is no evidence at this point that these measures were not effective.

<b>Finding Number</b>	02-DFA-19
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

**TennCare’s monitoring of the pharmacy program payments still needs improvement**

**Finding**

As noted in the prior year, TennCare’s monitoring of the payments for the pharmacy program still needs improvement. TennCare contracts with Consultec, LLC (Consultec) to pay claims on a fee-for-service basis to providers for individuals who are both Medicare and Medicaid eligible as well as for behavioral health drugs for TennCare enrollees. Consultec pays the claims submitted by the pharmacy program providers, and then TennCare reimburses Consultec for the cost of the claims paid. TennCare reimbursed \$850,742,110 to Consultec for claims for the year ended June 30, 2002.

The prior audit finding discussed the following three specific problems:

- TennCare did not adequately monitor the payments for the pharmacy program,
- TennCare did not maintain all the weekly listings of claims submitted by Consultec, and
- TennCare could not locate the drug use review board annual report.

The last two issues have been corrected. However, the first and most critical issue remains.

In response to the prior finding, management stated:

We do concur with the need for monitoring procedures. The Bureau will coordinate efforts between the Fiscal Unit and the Pharmacy Unit to assure written policies and procedures are developed and followed to effectively monitor the contract between TennCare and Consultec (ACS). The monitoring effort will include procedures that will assure claims are paid correctly for eligible members and that Consultec pays providers exactly as they invoice the TennCare Bureau.

Furthermore, during the current audit fieldwork, management stated that they planned for the Internal Audit Unit to perform payment monitoring of Consultec and that management has begun developing a monitoring process.

Based on discussions with management, testwork, and observation, we have determined that TennCare has not developed the written policies and has not ensured adequate monitoring of the payments to Consultec. Some examples of the deficiencies in TennCare's monitoring of the contract between TennCare and Consultec include the following:

- TennCare did not monitor to ensure the amount paid to the providers for the drugs was correct and based on the average wholesale prices of the drugs prescribed, and that third-party liabilities were appropriately deducted from the amount paid.
- TennCare did not adequately monitor to ensure that an individual provider claim was not reimbursed more than once.
- TennCare did not monitor to ensure that Consultec paid providers only for claims for TennCare eligibles who should be receiving benefits through Consultec.
- TennCare did not monitor to ensure that Consultec paid the providers the same amounts billed to TennCare.
- TennCare did not monitor for claims paid for deceased individuals or incarcerated individuals.

Inadequate monitoring could lead to duplicate paid claims, ineligible recipients receiving benefits, Consultec's not paying providers what is billed to TennCare, and/or the incorrect amount being paid for drugs. In addition, TennCare's inadequate monitoring of the payments for the pharmacy program has resulted in payments for deceased individuals. (See finding 02-DFA-22 for further details regarding this matter.)

### **Recommendation**

**Note: This is the same basic recommendation for the remaining issues that has been noted in the previous audit finding.**

The Director of TennCare should ensure that staff perform adequate monitoring of pharmacy program contract payments and develop and implement written policies and procedures as necessary to effectively monitor the contract with Consultec. The monitoring effort should include procedures to ensure that claims are paid only for individuals who should be receiving benefits through Consultec, correct amounts are paid for drugs, third-party liabilities are appropriately deducted, no duplicate claims are paid, claims are paid only for living enrollees who are not incarcerated, and that Consultec is paying providers the same amount billed to TennCare.

## Management's Comment

### TennCare Pharmacy Program

We concur. TennCare has worked extensively with our internal auditors over the last year to develop a sound monitoring process for the TennCare Pharmacy Program's contract with Consultec. Our last meeting with the auditors was held on February 20, 2003. The auditors had requested changes in the reports and other data submitted by the pharmacy contractor to allow the TennCare Pharmacy Unit and TennCare Fiscal Unit to adequately monitor the contract. We expect final written recommendations from the auditors in the near future. TennCare is currently using an independent contractor to collect third party liabilities as that is not a duty performed by Consultec.

The new monitoring process will include mechanisms that ensure, at a minimum:

- Providers are paid accurately and TennCare is invoiced accurately for those claims
- Providers claims are not paid twice (duplicate billings)
- All paid pharmacy claims are for eligible TennCare members
- Pharmacy claims are not paid for deceased members; or recognizing the lag between death notices and claims submissions, recoupment of prescriptions that were paid in error

<b>Finding Number</b>	02-DFA-20
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

### **TennCare’s monitoring of the payments for TennCare Select needs improvement**

#### **Finding**

TennCare’s monitoring of the payments for TennCare Select enrollees needs improvement. TennCare contracts with Volunteer State Health Plan, Inc., for the administration of TennCare Select. According to the contract, the purpose of TennCare Select is to “(1) provide services to populations who are more difficult to serve because of their health care needs, their mobility, and/or their geographic location; and (2) to serve as a back-up in any area of the state where TennCare enrollees cannot be adequately served by other TennCare HMOs, either in the event of the unexpected exit of an existing risk HMO or a need for additional capacity.” Volunteer State Health Plan pays the claims submitted by the providers for individuals enrolled in TennCare Select, and then TennCare reimburses Volunteer State Health Plan for the cost of the claims. The amount TennCare reimbursed Volunteer State Health Plan for TennCare Select claims was \$312,061,645 for the year ended June 30, 2002.

Discussions with management revealed that TennCare staff have not adequately monitored the payments to Volunteer State Health Plan for claims of the TennCare Select enrollees. Some examples of the deficiencies in TennCare’s monitoring of the payments for TennCare Select include the following:

- TennCare did not monitor to ensure the amount paid to the providers for services provided to TennCare Select enrollees was correct and that third-party liabilities were appropriately deducted from the amount paid.
- TennCare did not adequately monitor to ensure that an individual provider claim was not reimbursed more than once.
- TennCare did not adequately monitor to ensure that Volunteer State Health Plan only billed TennCare for claims paid for eligible TennCare Select enrollees.
- TennCare did not monitor to ensure that Volunteer State Health Plan paid the providers the same amounts billed to TennCare.

- TennCare did not reconcile the amount TennCare reimbursed Volunteer State Health Plan to the TennCare Select claim encounter data received by the Division of Information Systems.

The inadequate monitoring could lead to duplicate paid claims, ineligible recipients receiving benefits, Volunteer State Health Plan not paying providers the same amounts it received from TennCare, and/or the incorrect amount being paid to providers.

### **Recommendation**

The Director of TennCare should ensure that staff perform adequate monitoring of the TennCare Select payments. The monitoring effort should include procedures to ensure that the amount paid to the providers for services provided to TennCare Select enrollees is correct and that third-party liabilities are appropriately deducted from the amount paid, an individual provider claim is not reimbursed more than once, Volunteer State Health Plan only bills TennCare for claims paid for eligible TennCare Select enrollees, Volunteer State Health Plan pays the providers the same amounts received from TennCare, and TennCare reconciles the amount TennCare reimburses Volunteer State Health Plan to the TennCare Select claims.

### **Management's Comment**

We concur. We will develop procedures to monitor for the items in the recommendation. We have begun reconciling payments to encounter data. We will have an audit performed of the amounts billed to the state for compliance with contract terms.

<b>Finding Number</b>	02-DFA-21
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$919,767.00

**For the second year, TennCare chose to go against the direction of the Centers for Medicare and Medicaid Services and inappropriately claimed federal matching funds for premium taxes related to the graduate medical education program and pool payments made to Meharry Medical College and essential provider hospitals**

**Finding**

As noted in the prior-year audit, against the direction of the Centers for Medicare and Medicaid Services (CMS), TennCare inappropriately claimed federal funds for premium taxes related to the graduate medical education program and a pool payment to Meharry Medical College for its dental program. In addition, during the current audit, it was found that TennCare also inappropriately claimed funds for premium taxes related to a pool payment to essential hospital providers. Management did not concur with the prior-year audit finding even though CMS specifically stated in both years' approval letters that TennCare could not claim federal financial participation for these taxes.

As noted in the prior finding, TennCare has contracted with four graduate medical schools to administer the graduate medical education program. For the years ended June 30, 2002, and June 30, 2001, these contracts with the schools totaled \$46 million for each year.

In addition to these four contracts, TennCare also contracted each year with Volunteer State Health Plan (VSHP), a managed care organization (MCO), to disburse the \$46 million to the four graduate medical schools. However, TennCare's payments to VSHP resulted in MCO premium taxes that were to be paid by VSHP back to the state. As a result, TennCare contracted with VSHP for a total of \$46,938,776 for each fiscal year to cover VSHP's premium tax cost. The approval letters from CMS to TennCare for the graduate medical education program specifically state,

. . . as we have already advised your staff, the State cannot claim Federal financial participation (FFP) for the \$938,776 that you intend to pay Volunteer State Health Plan for their cost of the MCO premium tax that will be paid back to the state.

An examination of TennCare's quarterly expenditure report revealed that TennCare again claimed federal financial participation for this premium tax. For the year ended June 30, 2002,

the premium tax totaled \$938,776, of which \$597,437 is federal questioned costs. The remaining \$341,339 is state matching funds.

TennCare also contracted with Xantus Healthplan to make a pool payment to Meharry Medical College for Meharry's dental program. The total amount paid to Xantus was \$4,917,276 for the year ended June 30, 2002. A similar amount of \$4,909,168 was paid in the year ended June 30, 2001. The fiscal year 2002 payments consisted of \$4,817,950 to Meharry; a 2% MCO premium tax of \$98,326; and an administrative fee to Xantus of \$1,000.00. The CMS approval letters for these pool payments also prohibited TennCare's claiming the federal financial participation on the payments to Xantus for premium taxes. However, TennCare again claimed \$62,575 in federal financial participation for the premium tax for the year ended June 30, 2002, which is federal questioned costs. The remaining \$35,751 is state matching funds.

In addition, TennCare contracted with VSHP to make a pool payment to essential provider hospitals. The total amount paid to VSHP was \$20,408,164, which consisted of the payment to the hospitals of \$20,000,001 and a 2% MCO premium tax of \$408,163. The CMS approval letter for this pool payment also prohibited TennCare's claiming the federal financial participation on the payment to VSHP for premium taxes. However, TennCare claimed \$259,755 in federal financial participation for the premium tax, which is federal questioned costs. The remaining \$148,408 is state matching funds.

In total, for the year ended June 30, 2002, TennCare claimed \$1,445,265 for premium taxes. A total of \$919,767 of federal questioned costs is associated with the conditions discussed in this finding. The remaining \$525,498 was state matching funds.

TennCare's continued failure to follow specific CMS guidance outlined in the approval documents has resulted in more federal questioned costs and could also jeopardize future federal funding.

### **Recommendation**

The Director of TennCare should ensure that TennCare follows directives of the federal grantor in determining which costs can be funded with federal dollars.

### **Management's Comment**

We do not concur. It is our opinion that these are allowable expenditures under Title XIX regulations. It is our responsibility to claim all expenditures eligible for federal funding. CMS officials are aware the state claimed the funding and we have not received any further correspondence from CMS on this issue.

## Rebuttal

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Tennessee Department of Finance and Administration regarding the *Single Audit of the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material instance of noncompliance. We recommend (1) procedures be implemented to ensure Federal funds are not used to pay premium taxes and (2) the questioned costs be returned.

In addition, CMS continued to specifically state in the approval letters that TennCare cannot claim federal financial participation for these taxes. CMS, not TennCare, is ultimately the judge as to which costs are allowable and which costs are not. OMB Circular A-133 defines a questioned cost as a cost which “resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds” [emphasis added].

<b>Finding Number</b>	02-DFA-26
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$4,636.00

**TennCare’s providers did not substantiate the medical costs associated with fee-for-services claims or provide evidence that the service was actually provided**

**Finding**

TennCare could not provide documentation to substantiate medical costs associated with fee-for-service claims. For claims to be allowable, Medicaid costs for medical services must be for an allowable service rendered which includes being supported by medical records or other evidence indicating that the service was provided and consistent with the enrollee’s medical diagnosis.

Although the state is operating under a waiver from the federal Centers for Medicare and Medicaid Services (CMS) to implement a managed care demonstration project, more and more services are being paid on a fee-for-service basis. This is occurring because the state has decided to shift the burden of high cost/high risk groups from the managed care organizations to the state. Services provided on a fee-for-service basis include: services provided in the long-term care facilities, services provided to children in the state’s custody, services provided under the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled, services provided to enrollees who are both TennCare and Medicare recipients (Medicare cross-over claims), services provided to TennCare Select enrollees, and pharmacy claims for individuals that are recipients of TennCare and Medicare as well as behavioral health drugs for all TennCare enrollees.

We tested a sample of claims for children in state custody, claims for services provided under the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled, claims for services provided to TennCare Select enrollees, and pharmacy claims, to determine the adequacy of documentation supporting the medical costs associated with these claims for service. Specifically, testwork revealed that TennCare’s providers could not provide documentation to support the need for the medical service, including pharmaceutical services, or that the service was actually provided for 13 of 65 claims (20%). The documentation for these claims could not be obtained for the following reasons:

- For one pharmacy claim, TennCare personnel indicated that a provider located in Florida prescribed the medication to the individual. When the provider was contacted, the provider stated that they had never seen the individual. This issue has been referred to the Special Investigations section of the Comptroller's Office and to the Bureau of TennCare's Office of Program Integrity for further investigation.
- For two pharmacy claims, the provider that prescribed the drug could not be located.
- For two pharmacy claims, the documentation received from the doctors that prescribed the drugs did not support the need for the drugs.
- For one of Children's Services' claims, the documentation could not be obtained because the medical records according to the provider had been destroyed in a fire.
- For one of Children's Services' claims, there was no documentation that the child was located in the facility for 6 days of the 28 days billed. There was an additional two days, where the child was allowed a leave of absence from the facility.
- For five of the HCBS claims, there was not adequate documentation that the services billed were provided.
- For one of the Children's Services' claims, the documentation received from the facility did not support the services billed.

The total amount of the errors noted above was \$7,281, out of a total of \$45,797 tested. Federal questioned costs totaled \$4,636. The remaining \$2,645 was state matching funds. TennCare paid \$1,524,319,677 in fee-for-service claims for the types of claims sampled. We believe likely questioned costs exceed \$10,000.

Without having adequate documentation that medical services, including pharmaceutical services, are provided and are consistent with the medical diagnosis, TennCare may be paying for and billing the federal government for unallowable medical costs.

### **Recommendation**

The Director of TennCare should ensure that providers maintain the required documentation to support costs charged to the program. In addition, TennCare should perform its own post-payment reviews to ensure providers are billing for appropriate, allowable medical costs.

### **Management's Comment**

#### **TennCare Division of Long Term Care**

We concur with regard to Home and Community Based Services claims. Adequate documentation was not provided to auditors to document provision of services billed. We do not know at this point if the documentation did not exist or if it was just not provided. We have obtained information regarding the claims tested and have provided this information to DMRS.

DMRS regional office staff are assisting in researching whether there is sufficient documentation to support the claims paid. If the documentation does not exist, recoupments will be initiated as appropriate.

## **Pharmacy**

We concur. On July 1, 2002 the use of a standardized prescriber identification system for all pharmacy claims (MCO and carve-outs) was implemented. The use of DEA numbers has improved encounter data and pharmacy utilization management. In the future, when asked similar pharmacy questions by state auditors, TennCare staff will not only provide prescriber identification information, but also research the specific claims by contacting the dispensing pharmacy to assure the claims correctly identified the prescriber. In one of the cases above, the pharmacist had incorrectly entered the prescriber identification number for a physician that happened to live in Florida.

TennCare is currently implementing an audit procedure for the pharmacy carve-out programs, based in large measure on the input and recommendations from TennCare Internal Audit. These new monitoring efforts of Consultec's (ACS) billings and data will assure that the payments to Consultec are correct. TennCare cannot audit pharmacy claims for dually eligible members to determine medical necessity because these patients are not typically seen by TennCare participating providers.

## **Children's Services Claims**

We concur that providers should maintain adequate support for services provided. The Bureau of TennCare contracts with the Department of Finance and Administration, Office of Program Accountability Review (PAR) to monitor the Department of Children's Services (DCS) residential treatment providers. Regarding the provider's records that were destroyed in a fire, there is no possible way that TennCare can ensure that these incidents do not occur. For the two remaining issues, TennCare will coordinate with DCS to determine the cause of the issues and make appropriate billing adjustments, if such are indicated.

<b>Finding Number</b>	02-DFA-34
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	\$2,241.00

**For the fourth consecutive year, internal control over provider eligibility and enrollment was not adequate to ensure compliance with Medicaid provider regulations**

**Finding**

As noted in the three previous audits, the TennCare program still did not have adequate internal control for provider eligibility and enrollment to ensure compliance with Medicaid provider regulations. Management partially concurred with the prior audit finding and corrected three issues concerning the following:

- TennCare’s contract with the Department of Children’s Services (Children’s Services) requiring Children’s Services to comply with Medicaid provider rules and regulations;
- TennCare’s providing the Division of Mental Retardation Services (DMRS) with the Medicaid provider rules and regulations that DMRS should follow; and
- TennCare’s maintaining documentation that the providers for all long-term care facilities (LTCF) met the prescribed health and safety standards.

However, the current audit revealed that TennCare still had the following internal control weaknesses and noncompliance issues that were noted in the previous audit:

- the licensure status of Medicare crossover, managed care organization (MCO), and behavioral health organization (BHO) providers was not reverified after the providers were enrolled;
- TennCare did not monitor the enrollment of Medicaid providers at Children’s Services and DMRS;
- provider agreements did not comply with all applicable federal requirements;
- departmental rules were not followed; and
- not all providers had a provider agreement, as required.

Responsibility for TennCare provider eligibility and enrollment is divided among the Provider Enrollment Unit in the Division of Provider Services and the Pharmacy Program in the Division of Pharmacy, both in the Bureau of TennCare; the Division of Resource Management in Children's Services; and the East, Middle, and West Tennessee regional offices in DMRS.

The Provider Enrollment Unit is responsible for enrolling MCO and BHO providers; Medicare crossover individual and group providers (providers whose claims are partially paid by both Medicare and Medicaid/TennCare); and long-term care facilities, which include skilled nursing facilities and intermediate care facilities. The Pharmacy Program is responsible for the eligibility of the providers that provide drugs to individuals who are both Medicare and Medicaid eligible and that provide behavioral health drugs to TennCare enrollees.

Children's Services is responsible for the eligibility of the providers it pays to provide Medicaid-covered services to eligible children. DMRS is responsible for the eligibility of the providers it pays to provide services under the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled program. (DMRS is responsible for the daily operations of this Medicaid program.) TennCare reimburses Children's Services and DMRS for payments to these providers.

#### Provider Licensure Not Reverified

In response to the prior-year finding, management stated, "The Provider Enrollment unit has developed procedures for reverifying the licensure renewal for providers participating in the Medicaid Program. The implementation of this new program will ensure providers participating in the program maintain a valid license. However, the implementation of the license reverification program is pending for mainframe system modifications and the hiring of three new staff members." Although the system modifications were made and the procedures developed, new staff positions have not been obtained; therefore, the positions cannot be filled. Testwork revealed that for 38 of 50 crossover providers tested (76%), there was no evidence in the TennCare Management Information System that the provider's license had been reverified. This appears to have occurred because, without the needed staff, the reverification process has not been fully implemented or performed on a continuous basis.

Testwork also revealed that the Pharmacy Program does not perform an initial verification or a reverification of pharmacy provider licenses. Although the Department of Commerce and Insurance has a Web site available to verify that a pharmacy has a license, the TennCare Pharmacy Program staff does not use the site for verification.

Because of the lack of reverification of providers, the Provider Enrollment Unit and the Pharmacy Program cannot ensure that only licensed providers are enrolled in the TennCare program as required. The *Rules of the Tennessee Department of Finance and Administration*, Section 1200-13-1-.05, "Providers," states 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."

## Children's Services and DMRS Did Not Always Comply With Medicaid Provider Rules and Regulations

Testwork revealed TennCare did not monitor the enrollment of Medicaid providers at Children's Services. On behalf of TennCare, the Division of Resource Development and Support (RDS) in the Department of Finance and Administration (F&A) performed fiscal monitoring procedures at Children's Services during the year ended June 30, 2002. At that time, RDS verified that providers had a current license. However, TennCare did not require RDS to examine Children's Services' provider agreements to ensure compliance with the Medicaid regulations discussed below.

Testwork revealed that Children's Services and DMRS did not always comply with Medicaid provider rules and regulations governing requirements of the provider agreements. Children's Services and DMRS did not comply with criteria (3) of the *Code of Federal Regulations* (CFR), Title 42 Part 431 Section 107, "Required Provider Agreement," and Children's Services did not comply with criteria 4 and DMRS did not comply with criteria 4 and 6 of the *Rules of the Tennessee Department of Finance and Administration*, 1200-13-1-.05, "Providers."

Section 4.13(a) of the Tennessee Medicaid State Plan says, "With respect to agreements between the Medicaid agency and each provider furnishing services under the plan, for all providers, the requirements of 42 CFR 431.107 . . . are met." Also, 42 CFR 431.107 (b)(1)(2)(3) 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 paragraph (b)(1) of this section 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 of this chapter.

The *Rules of the Tennessee Department of Finance and Administration*, Section 1200-13-1-.05 (1)(a), "Providers," states,

Participation in the Medicaid program will be limited to providers who

1. Accept, as payment in full, the amounts paid by Medicaid or paid in lieu of Medicaid by a third party . . . ;
2. Maintain Tennessee, or the State in which they practice, medical licenses and/or certifications as required by their practice;
3. Are not under a federal Drug Enforcement Agency (DEA) restriction of their prescribing and/or dispensing certification for scheduled drugs. . . ;
4. Agree to maintain and provide access to Medicaid and/or its agency all Medicaid recipient medical records for five (5) years from the date of service or upon written

authorization from Medicaid following an audit, whichever is shorter; 5. Provide medical assistance at or above recognized standards of practice; and 6. Comply with all contractual terms and Medicaid policies as outlined in federal and state rules and regulations and Medicaid provider manuals and bulletins.

#### Provider Agreements Not Adequate

In response to the prior finding, management stated, “The Provider Enrollment unit developed and implemented the use of a new Provider Participation Agreement form and revised the current Provider Enrollment application to comply with the requirements of 42 CFR 431.107. We implemented the use of these new forms in October 2001. Each provider must complete these forms to enroll and participate in the Medicaid Program.” However, these forms are only completed for new enrollees enrolling with the Provider Enrollment Unit after September 31, 2001. Therefore, the Children’s Services, DMRS, and Pharmacy Program provider agreements did not comply with federal requirements. Testwork performed on the Children’s Services, DMRS, and Pharmacy Program provider agreements noted that these agreements did not disclose ownership and control information and information on a provider’s owners and other persons convicted of criminal offenses against Medicare or Medicaid, as required by 42 CFR 455 subpart B.

In addition, TennCare’s agreements for individual crossover, MCO, and BHO providers enrolled prior to October 1, 2001, did not require providers to

- keep any records necessary to disclose the extent of services the provider furnishes to recipients;
- furnish to the Medicaid agency, the secretary, or the state Medicaid fraud control unit information required in 42 CFR 431.107; and
- disclose ownership and control information and information on a provider’s owners and other persons convicted of criminal offenses against Medicare or Medicaid.

Furthermore, TennCare’s agreements with group crossover providers enrolled prior to October 1, 2001, did not require providers to

- keep any records necessary to disclose the extent of services the provider furnishes to recipients; and
- furnish to the Medicaid agency, the secretary, or the state Medicaid fraud control unit information required in 42 CFR 431.107.

#### Departmental Rules Not Followed

The TennCare Provider Enrollment Unit, Children’s Services, DMRS, and the Pharmacy Program did not limit participation to providers that complied with the *Rules of the Tennessee Department of Finance and Administration*, Section 1200-13-1-.05 (1)(a), “Providers.”

Testwork revealed that the TennCare Provider Enrollment Unit did not require Medicare crossover, MCO, and BHO providers that enrolled prior to October 1, 2001, to

- accept, as payment in full, the amounts paid by Medicaid or paid in lieu of Medicaid by a third party;
- and/or dispensing certification for scheduled drugs;
- maintain and provide Medicaid and/or its agency access to all Medicaid recipient medical records for five years from the date of service or upon written authorization from Medicaid following an audit, whichever is shorter;
- provide medical assistance at or above recognized standards of practice; and
- comply with all contractual terms and Medicaid policies as outlined in federal and state rules and regulations and Medicaid provider manuals and bulletins.

Children’s Services did not require providers to

- maintain and provide Medicaid and/or its agency access to all Medicaid recipient medical records for five years from the date of service or upon written authorization from Medicaid following an audit, whichever is shorter.

DMRS did not require providers to

- maintain and provide Medicaid and/or its agency access to all Medicaid recipient medical records for five years from the date of service or upon written authorization from Medicaid following an audit, whichever is shorter; and
- comply with all contractual terms and Medicaid policies as outlined in federal and state rules and regulations and Medicaid provider manuals and bulletins.

The Pharmacy Program did not require providers to

- not be under a federal DEA restriction of their prescribing and/or dispensing certification for scheduled drugs; and
- provide medical assistance at or above recognized standards of practice.

#### TennCare Did Not Have Documentation That All Providers Had an Agreement

In response to the prior finding, management stated, “To ensure all intermediate care and skilled nursing facilities’ provider files contain the appropriate forms and agreements, the reviewer must complete an enrollment checklist. We currently depend on HCF [Health Care Facilities in the Department of Health] to notify our office of nursing home facilities needing new contracts. However, we are currently working with the IS [Information Systems] unit on system modifications to track all LTCF recertification due dates and to generate monthly reports to alert staff of upcoming contract termination dates.” Although the system modifications have been made, the Provider Enrollment Unit is not receiving the monthly reports. Also, even though the use of an enrollment checklist has been implemented, not all providers had an agreement in their file.

A sample of payments to intermediate care facilities and skilled nursing facilities was tested to determine if TennCare had documentation that the provider met the prescribed health and safety standards and that a provider agreement was on file for the dates of services for which each payment was made. Intermediate care facilities and skilled nursing facilities are long-term care providers. Each time the Board for Licensing Health Care Facilities recertifies a long-term care provider, it sends TennCare a Certification and Transmittal Form, and TennCare issues a new provider agreement to the long-term care provider for the certification period. As mentioned above, the State Plan and 42 CFR 431.107 require that providers have a provider agreement.

For one of 60 payments to intermediate care facilities tested (2%), TennCare did not have a provider agreement. The total amount of errors noted above was \$2,612. Federal questioned costs totaled \$1,663. An additional \$949 of state matching funds was related to the federal questioned costs. We believe that likely questioned costs would exceed \$10,000. For one of 60 payments to skilled nursing facilities tested (2%), TennCare did not have a provider agreement. The total amount of errors noted above was \$908. Federal questioned costs totaled \$578. An additional \$330 of state matching funds was related to the federal questioned costs. We believe that likely questioned costs would exceed \$10,000. However, after testwork was performed, the provider agreements were negotiated with the providers to correct the errors. TennCare paid approximately \$923 million to intermediate care facilities and \$104 million to skilled nursing facilities for the year ended June 30, 2002.

TennCare contracts with Consultec, LLC (Consultec), to pay claims on a fee-for-service basis to providers for individuals who are both Medicare and Medicaid eligible as well as for behavioral health drugs for TennCare enrollees. Consultec pays the claims submitted by the Pharmacy Program providers, and then TennCare reimburses Consultec for the cost of the claims paid. A sample of payments to Consultec was tested to determine if the pharmacy was licensed and that a provider agreement was on file for the dates of services for which each payment was made. Testwork revealed that 25 of 25 agreements tested (100%), were signed by the providers, but not by the Bureau of TennCare. The Pharmacy Participation Agreement, Section 9.5, "Application of Pharmacy," states, "This signing of this Agreement by Pharmacy shall constitute an offer only, unless and until it is executed by TennCare in the State of Tennessee." The agreements are not considered executed without containing all proper signatures. TennCare reimbursed approximately \$851 million to Consultec for claims for the year ended June 30, 2002.

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

### **Recommendation**

**Note: This is the same basic recommendation, for the remaining uncorrected issues, that has been made in the prior three audits.**

The Director of TennCare should ensure that adequate internal control exists for determining and maintaining provider eligibility. The Director should ensure that procedures are implemented to reverify licensure and to prevent future payments to non-licensed providers.

The Director should ensure that a knowledgeable staff monitors the enrollment of Medicaid providers at Children's Services and DMRS. Management and staff should ensure the Bureau of TennCare, Children's Services, and DMRS comply with all Medicaid federal and state provider rules and regulations. The provider agreements should be revised to comply with the State Plan and the *Code of Federal Regulations*. Participation should be limited to providers that meet the requirements of the departmental rules. Management should ensure that all Medicaid/TennCare providers have a provider agreement, the agreement is signed by the appropriate parties, and providers are otherwise properly enrolled before they are allowed to participate in the program.

### **Management's Comment**

#### **Provider Licensure Not Reverified**

##### **Provider Enrollment Unit**

We partially concur. As stated in the finding above, the Provider Enrollment Unit (PEU) verifies the license on all new providers enrolling in the TennCare program. In addition, in early 2002, the PEU implemented procedures to reverify licenses of active TennCare providers, which are those currently billing TennCare for crossover claims. During 2002, PEU reverified the license renewals of over 6,000 (90%) providers currently participating in the TennCare program. Active TennCare providers were determined by using the 2001 provider payment report and/or the IRS 1099 reports. During this reverification effort, only one provider was identified that had not renewed his license; this issue was subsequently resolved as the provider was in the process of renewing it.

Because provider licenses are renewed biennially, PEU will reverify license renewal for active providers every other year. During 2003, the reports mentioned above will again be used to identify active providers. With the current staffing levels and the huge number of registered providers, it is not possible to implement a full reverification program for all providers in the system. We believe that reverification of the active providers fulfills the requirement of the Rules since these are the providers participating in the program.

##### **TennCare Pharmacy Unit**

We concur. The TennCare Pharmacy Unit will begin a process of reviewing all pharmacy provider agreements to assure the pharmacy providers' licenses are current. For all new providers, this review is performed before their participation is approved.

## Children's Services and DMRS Did Not Always Comply With Medicaid Provider Rules and Regulations

### **Children's Services issues**

We concur. TennCare will immediately request monitoring of Children's Services provider agreements by the Program Accountability Review section of the Department of Finance and Administration. We will request that the monitors confirm compliance with the required Medicaid provider rules and regulations regarding provider agreements.

### **TennCare Division of Long Term Care (TDLTC)- DMRS issues**

We do concur that DMRS was not compliant with all Medicaid Provider rules and regulations. Following last year's audit, DMRS was advised of their responsibility to maintain compliance with all state and federal Medicaid rules, regulations and policies related to providers. A suspension/debarment policy has been drafted. The draft policy has been forwarded to DMRS management staff with instructions to prepare for implementation of the policy. The final policy will be forwarded when available. Specific language related to suspension/debarment was included in the FY 2002 and FY 2003 contracts between TennCare and DMRS at D.5.d.

The contract between DMRS and TennCare was revised for FY 2002 and FY 2003 to be inclusive of specific requirements for maintenance of records. The contract contains language requiring DMRS to comply with state and federal rules and regulations and TennCare policies and procedures as well. TennCare and DMRS continue to work together to ensure compliance with the contract and with State and Federal requirements for the waiver program. Throughout the past year, numerous meetings were held between TennCare and DMRS to work through compliance issues. Weekly meetings between DMRS, TennCare and the Commissioner of Finance and Administration were initiated in February 2003. Monthly steering committee meetings between TennCare and DMRS central office staff were initiated in March 2003 for the purpose of monitoring the progress of corrective actions and discussing compliance and other programmatic issues.

### Provider Agreements Not Adequate Departmental Rules Not Followed

### **Provider Enrollment Unit**

The Provider Enrollment Unit developed and implemented the use of a new Provider Participation Agreement form and revised the current Provider Enrollment application to comply with the requirements of CFR-431.107. PEU implemented the use of these new forms in October 2001 and effective with the implementation date all providers enrolling in TennCare Medicaid must complete the new forms. With respect to providers enrolled before October 2001, PEU will use the 2002 provider payment report and/or the IRS 1099 report to identify providers that are actively participating in the TennCare program. All providers identified as

currently participating in the TennCare program and enrolled before October 2001 will be notified and requested to complete the new agreement.

With the current staffing limitations and the huge number of providers registered, it is not possible to obtain new agreements on both active and inactive providers. We believe that obtaining new agreements on active providers fulfills the requirements of the Rules since these are the providers participating in the TennCare program.

## **TDLTC**

We concur for the audit period; however, the finding has been corrected. The FY 2002 DMRS provider agreements were revised to add suspension/debarment language. The FY 2003 provider agreements were revised to add disclosure of ownership and control.

## **TennCare Pharmacy Unit**

We concur. TennCare's Pharmacy Unit will soon be issuing amendments to the current Pharmacy Participation Agreement that will include requirements for compliance with the Tennessee state plan, 42 CFR 431.107, 42 CFR 455 subpart B and Section 1200-13-1-.05(1)(a), as appropriate. The new amendments of the agreement will also change the language in Section 9.5 to be more consistent with other TennCare provider agreements in that it will not require signature by the state, only the provider.

The TennCare Pharmacy Unit will begin a process of reviewing all pharmacy provider agreements to assure the pharmacy providers' licenses are in order. All new providers will have this review performed before their participation is approved.

## **Children's Services**

We concur. We will work with Children's Services to revise the current provider agreements to ensure that all federal requirements are included. Also, as stated above, we will request that the monitors confirm compliance with the required Medicaid provider rules and regulations regarding provider agreements.

## **TennCare Did Not Have Documentation That All Providers Had Agreements**

### **Provider Enrollment Unit**

We concur. The provider agreement referenced in the finding was obtained and on file for the new owners; however, due to the facility's change of ownership, the effective date of the new ownership was not clearly communicated to TennCare PEU. We contacted Health Care Facilities regarding the error on the Certification and Transmittal (C&T) Form and requested a corrected copy. The facility received and signed a new agreement.

To ensure all intermediate care skilled nursing facilities provider files contain the appropriate forms and agreements; the reviewer must complete a checklist and verify the C&T effective dates. In addition, all provider agreement contracts will be reviewed to verify any lapses in coverage dates.

**TennCare Pharmacy Unit**

See comments above regarding pharmacy provider agreements.

<b>Finding Number</b>	02-DFA-35
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

**For the fourth consecutive year, TennCare did not comply with federal regulations and the Tennessee Medicaid State Plan concerning unnecessary utilization of care and services and suspected fraud**

**Finding**

As noted in the previous three audits, the Bureau of TennCare still has not complied with federal regulations and the Tennessee Medicaid State Plan concerning unnecessary utilization of care and services and suspected fraud for areas of the program that are still under the fee-for-service arrangement. Management concurred with the prior-year finding and stated,

. . . Significant steps have been taken toward implementing a Post-payment review process for LTC [long-term care] waiver programs. . . . Two nurse auditors from the Comptroller's office have been reassigned to TDLTC [the TennCare Division of Long-Term Care] and are being trained to review records for HCBS [Home and Community Based Services] Waiver programs. . . . These nurses began formal record reviews in November 2001. A process for post-payment reviews for the MR [Mentally Retarded] Waiver program is being developed first, due to the need to develop such process for compliance with the MR Waiver Corrective Plan. The process developed will then be modified and implemented for other LTC waiver programs.

The nurses performed one limited post-payment review, consisting of a sample size of 40, on the HCBS Waiver for the Mentally Retarded and Developmentally Disabled. Per discussion with the Director of Long-Term Care, no other reviews were performed on the HCBS Waiver claims or LTC facility claims. She also stated that because TennCare has been unable to hire staff to perform post payment reviews, it plans to contract with an outside vendor to perform these reviews. However, TennCare did not use an outside vendor during the audit period, nor did TennCare have other procedures in place for the ongoing post-payment reviews for the HCBS Waiver or LTC services. The Director of Long-Term Care was not aware of any formal cost/benefit analysis performed to arrive at the outsourcing decision.

In addition in its comments from the prior audit, management stated,

With respect to fraud and abuse, a new process will require the respective programs and the TennCare Quality Oversight and Program Fraud organizations to work together to assure the finding is addressed. The Bureau will develop a plan to address this issue in collaboration with Program Fraud organizations.

For the past three audits, management's comments have basically remained the same stating that they would address changes in the program and develop a plan to address utilization of care and suspected fraud in the areas of the program that were still on a fee-for-service basis. In the audit report for the year ended June 30, 2001, we reported that TennCare had begun developing, but did not complete a comprehensive plan to address these requirements.

Finally, during the audit for the year ended June 30, 2002, discussions with management revealed that a new committee called PRIQ, consisting of members from the Provider Network, Provider Relations, Program Integrity, and Quality Oversight, was formed to address issues of fraud, abuse, complaints, and audit findings. The committee conducted its first formal meeting in February 2002 and now meets monthly. The group focuses primarily on providers for which complaints have been received. Formal written procedures were developed in October 2002, after the end of the audit period.

Although the state is operating under a waiver from the federal Centers for Medicare and Medicaid Services (CMS) to implement a managed care demonstration project, more and more services are being paid on a fee-for-service basis. This is occurring because the state has decided to shift the burden of high cost/high risk groups from the managed care organizations to the state. Services provided on a fee-for-service basis include: services provided in the long-term care facilities, services provided to children in the state's custody, services provided under the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled, services provided to enrollees who are both TennCare and Medicare recipients (Medicare cross-over claims), services provided to TennCare Select enrollees, and pharmacy claims for individuals that are recipients of TennCare and Medicare. Discussions with key TennCare management during the current audit and in the previous audits 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," except for the one post-payment review performed for the HCBS waiver during the audit period; 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.

These same conditions existed during the three preceding audits.

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, in 1992 the State Medicaid Agency told the federal grantor in the Tennessee Medicaid State Plan,

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 that during the audit period, there was no statewide program of surveillance and utilization control. This condition has existed during the previous three audit periods.

An example of an area needing utilization review is TennCare's pharmacy program. During testwork we noted an enrollee who averaged more than 40 prescriptions a month and two enrollees for whom TennCare paid over \$100,000 each for drugs for the year ended June 30, 2002. While all or some portion of these billings may be appropriate, the lack of procedures to identify enrollees with possible excessive use and investigate these billings could cause TennCare to be incurring costs for drugs that are not needed by the enrollee.

Although much of the TennCare program operates differently than the former Medicaid fee-for-service program, for areas that still operate under the Medicaid fee-for-service program, effort is needed in the form of program-wide surveillance and utilization control and identification of suspected fraud, to help ensure that state and federal funds are used only for valid medical assistance payments.

### **Recommendation**

**Note: This is the same basic recommendation we have made for the three consecutive prior audits.**

The Director of TennCare should ensure development of the comprehensive plan for utilization control and identification of fraud for all areas of the program that are fee-for-service

based. When the plan is completed, the Director should ensure that it is implemented promptly. The Director should ensure that procedures are performed to identify and investigate enrollees who might be receiving excessive prescriptions.

## **Management's Comment**

### **Program Integrity Unit and PRIQ Group**

We concur. As stated in the finding, the PRIQ team meetings began in February 2002 and continue on a bi-monthly basis. This group focuses on complying with federal regulations and the state plan regarding unnecessary utilization of care and services and suspected fraud for fee-for-service areas of the program by providing opportunities to discuss trends identified in provider behavior which appear outside the norm. These meetings have resulted in some case referrals to the Program Integrity Unit (PIU), which performs investigations as indicated by circumstances of each case. Referrals are also received by the PIU from other sources, including mail, fax, hotline calls and the Fraud and Abuse web-site. A representative from the Long Term Care Division has been asked to join the PRIQ group at the next meeting in March 2003.

PIU also meets with representatives of Health Related Boards (HRB) and the Tennessee Bureau of Investigation (TBI) Medicaid Fraud Unit on a regular basis regarding allegations of potential provider abuse of the TennCare program. These meetings have resulted in referrals to the PIU for validation of allegations. If an allegation is validated, the case is referred to TBI and/or HRB for further action on licensure or prosecution.

The PIU has actively participated in the development of the Fraud and Abuse program in the replacement TCMIS, which is being designed. This program will allow the PIU to perform statistical analysis and peer review reports and identify outliers (both enrollees and providers) in addition to other fraud and abuse monitoring activities. Both on-demand reports and targeted queries have been developed for the new system, which will assist Program Integrity in initiating investigations in a timely manner and will allow for movement towards more proactive investigations.

### **TennCare Division of Long-Term Care**

We partially concur. The TennCare Division of Long Term Care (TDLTC) has had difficulties recruiting and retaining staff in the Quality Monitoring (QM) Unit. Resources were stretched in training new QM staff, given the fact that there was only one existing staff member with QM experience. TDLTC did get two nurse auditors on loan from the Comptroller's Office to assist with QM functions. However, one of these nurses has since retired and the position has been abolished. TDLTC continues to attempt to fill vacant positions within the QM Unit. Although outsourcing had been planned for this unit because of the inability to adequately staff it, the current fiscal environment may not allow this flexibility.

A tool was developed for the two nurses to review approximately 40 records. The review process took longer than anticipated due to the training needs of the reviewers, the complexity of

the program, the volume of records involved, and the need for the reviewers to assist the Comptroller's Office with some special audits. The reviews are now completed and draft handwritten findings have been submitted to the TDLTC director. There have been insufficient staff (given the volume of work) available within TDLTC to compile these findings into an acceptable report.

TDLTC and the Division of Mental Retardation Services (DMRS) are currently working with the Centers for Medicare and Medicaid Services (CMS) technical assistance consultants to develop a comprehensive quality assurance system. Staff from TDLTC and DMRS is meeting regularly with and without representatives from the CMS consultant group to complete this project. A technical assistance contract has been developed, a draft initial report has been issued, and a work plan with time frames has been developed. Utilization review will be a part of the comprehensive quality assurance program. Utilization Review is noted in the Infrastructure Development and Corrective Action Plan.

In addition, DMRS is currently testing a Utilization Review tool for select services. The tool is being tested in reviewing randomly selected files of 25 individuals receiving behavior services and 25 individuals receiving therapy or nutrition services through the Arlington Waiver. The results will be available in late March 2003. This tool/process will be evaluated for use in both waiver programs.

## **Pharmacy**

We concur. TennCare has developed a Request for Proposal (RFP) to secure the services of a vendor that could perform fraud, waste and abuse audits of pharmacy claims data. This vendor would be required to perform computer audits, desk audits and onsite audits of every pharmacy provider every year. This audit process will identify waste, fraud and abuse in both the provider community (pharmacists and physicians) and among enrollees. This contractor would work closely with TennCare, the TBI and the TennCare Program Integrity Unit to share and integrate information regarding overuse or abuse of the pharmacy program. If the funds become available, this RFP will be released, evaluated and a contract awarded this calendar year. TennCare has announced its intention to develop a single statewide drug formulary and the fraud/abuse contractor will be able to more easily monitor all of TennCare's pharmacy expenditures when that occurs.

## **Auditor's Comment**

Regarding the comments by the TennCare Division of Long-Term Care, it is not clear from management's comments with which part(s) of the finding management does not concur.

<b>Finding Number</b>	02-DFA-36
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**The TennCare Management Information System lacks the necessary flexibility and internal control**

**Finding**

As noted in four previous audits, 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 \$6.2 billion federal/state health care reform program effectively and efficiently. Management partially concurred with the prior finding and indicated it has begun preparations for implementing a new TennCare Management Information System. Management also stated that the "current work schedule calls for the RFP to be released on February 28, 2002." According to the Director of Information Systems, the RFP was released on April 22, 2002. According to Information Systems (IS) staff, the implementation of a new TCMIS is to occur in 2003 and is a top project for the Bureau of TennCare.

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 organization, behavioral health organizations, and the state's nursing homes rather than developing and enhancing internal control of the system. This has contributed to a number of other findings in this report.

**Recommendation**

The Director of TennCare should continue to 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 system's internal control to prevent or recover erroneous payments. TennCare should ensure that an updated system is implemented timely that more effectively supports TennCare's operations.

## **Management's Comment**

We concur. TennCare Information Systems contracted with EDS to design, test, implement, and maintain a modern, efficient replacement TennCare Management Information System (TCMIS). The new TCMIS, which is scheduled to become fully operational by October 2003, will be a highly sophisticated, feature-rich system centered on a strong, Medicaid-specific relational data model which divides the application into components so that they process on different networked computers, leveraging the true power of client/server architecture.

The new TennCare system will employ modern graphic capabilities and native Windows-based features that only a true graphical user interface (GUI) can provide. Features such as pull-down menus, tabs, and buttons will be programmed for users in each individual application. These features will simplify the windows' uses and reduce the learning curve for new users, which is a significant concern in the new system.

The new TCMIS will be based on a true client/server design utilizing industry-leading Sun servers. The applications will take advantage of the client/server platform capabilities that yield such benefits as concurrent processing and load balancing in a readily scalable environment.

Preliminary testing on the new system indicates that it will effectively solve the shortcomings evident in the current system. The new system will provide for all current functionality plus additional enhanced reporting, tracking, and fraud detection capabilities. This new system will have a vastly superior database as a foundation, which will allow for more expeditious access to any necessary information.

Access to information will be one of the strengths of the new TCMIS. The new system will employ a standard Structured Query Language (SQL) data access methodology. The online application will allow users to query key information using multiple parameters, which will bring extensive flexibility from online information access to users.

The new TCMIS will feature Sun Microsystems servers running Sun Solaris UNIX with server applications coded in ANSI Standard C. Other functions and servers that support the various TCMIS functions will connect off this solid foundation.

In the interim, TennCare has implemented various financial ad-hoc monitoring reports for both the fiscal and program integrity units.

<b>Finding Number</b>	02-DFA-37
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**Management has misrepresented the corrective action taken regarding controls over access to the TennCare Management Information System**

**Finding**

As noted in the four previous audits, 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 ensuring, but did not ensure that, adequate TennCare Management Information System (TCMIS) access controls were in place during 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 are critical to the integrity and performance of the TennCare program. Good security controls provide access to data and transaction screens on 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.

**Justification Forms Not Obtained for Existing Users**

The lack of authorization forms was first reported in an audit finding for the year ended June 30, 1998. Management then responded that a new security authorization form was being developed. However, in the audit report for the year ended June 30, 1999, we reported that system users still did not have authorization forms. In response to that finding management responded that action had been taken in July 1999 to resolve the issue. However, in the 2000 audit report our finding stated that while authorization forms were being completed by new users beginning in July 1999, no forms had been obtained from existing users. At that time TennCare’s security administrator stated that forms were not obtained for all existing users because she was not instructed to obtain these forms. In response to that finding, management stated that they would continue their efforts to ensure that proper access forms are obtained for all TennCare and other users who require interaction with the TennCare system. However, in the

2001 audit report we indicated that authorization forms still had not been obtained for all existing users outside the Bureau of TennCare.

Management concurred with this portion of the audit finding for year ended June 30, 2001, and stated that staff was “currently obtaining justification from users in the Department of Human Services (DHS).” However, once again TennCare has misrepresented the corrective action which has been taken. In fact, our testwork revealed that justification forms have not been obtained for any of the more than 1600 DHS employees who have access to TCMIS.

Access to TCMIS is controlled by Resource Access Control Facility (RACF) software, which prohibits unauthorized access to confidential information and system transactions. The TennCare security administrator in the Division of Information Systems is responsible for implementing RACF, as well as other, system security procedures; for assigning a “username” (“RACF User ID”); and establishing at least one “user group” for all TennCare Bureau and TCMIS contractor users. RACF controls access by allowing each member of a user group to access a set of transaction screens. Not requiring users outside the Bureau of TennCare to sign justification forms makes it more difficult to monitor and control 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.

#### Unnecessary Access to TCMIS

In the audit report for the year ended June 30, 1998, we reported that users in the default group had access to at least 44 TCMIS transaction screens, some of which were not necessary for the performance of each user’s job duties. Management responded that a review was being done of the user groups to verify that the types of transactions for all groups were as needed and that changes would be made as needed.

In the audit report for the year ended June 30, 1999, it appeared that the previous problem had been corrected, but that users in the default group had the ability to update at least two screens. Management sent a work request to the contractor in August 1999 to make corrections. An audit finding in the 2000 report indicated that the problems had still not been corrected. Management’s response indicated they were still awaiting corrective action by the contractor.

In the 2001 audit report we indicated that unauthorized access to one screen was still permitted.

Management concurred with this portion of that audit finding and requested Electronic Data Systems (EDS) (the contractor hired to operate and maintain the TCMIS) to restrict unnecessary access to TCMIS. However, during the audit period, there was still a problem with access to one screen. User access testwork revealed that auditors and users in TennCare’s default group could obtain unauthorized access and inappropriately add or change information regarding an enrollee’s application for the TennCare/Medicaid program. Thus, it appears that management has not ensured that transactions are protected against unauthorized users making changes. Management did correct this problem after we brought it to their attention.

### Security Administration Not Centralized

In the audit report for the year ended June 30, 1998, it was first reported that security administration was not centralized. Both security administrators at the Department of Health and at the Bureau of TennCare could give users access to TCMIS. In response to the finding management agreed that it was necessary for the Security Administrator to be centralized. The audit report for the year ended June 30, 1999, indicated that the Security Administrator for the Department of Health was still giving access independent of TennCare's Security Administrator. Management responded that "effective immediately, only the TennCare Security Administrator can now authorize access to TCMIS." However, the 2000 audit indicated that management's response to the prior audit finding was incorrect and that the situation remained the same. Management then responded that "Centralization of TCMIS security under TennCare Information Systems' security administrator was implemented as of November 3, 2000." The 2001 audit indicated that an attempt had been made to correct the situation by removing the TCMIS transactions from the Department of Health's default group. However, the removal interrupted the ability of users in the Department of Health to perform their TennCare responsibilities. As a result, the transaction screens were added to the default group once again and no other attempt to correct the problem had been made.

Management partially concurred with this portion of the audit finding for the year ended June 30, 2001, and stated that TennCare, the Department of Health, and the Department of Human Services (DHS) were currently in negotiations "to develop a no-cost inter-departmental contract that will include enhanced procedures to control access to the TCMIS." TennCare corrected the problem with the Department of Health Security Administrator granting access. However, as of December 17, 2002, the contract has not been developed, and the security administrator for DHS continues to have the ability to add users to TennCare user groups without notifying TennCare's security administrator. Furthermore, as noted earlier in the finding, neither TennCare nor the DHS security administrator obtained justification forms for users added to these groups. In addition, TennCare did not monitor the activities of the DHS security administrator as they relate to TennCare. When access to TCMIS is decentralized, it is more difficult to monitor and control.

### Dataset Modifications Not Monitored and Access not Documented (This portion of the finding has not been reported in previous years.)

Auditor inquiry determined that TennCare does not monitor EDS programmers with TCMIS access to production datasets. Production datasets are computer files used by TCMIS that contain critical information about enrollees. When making system changes, sometimes it is necessary for an EDS programmer to change information in a production dataset. TennCare, however, does not monitor the changes made by the programmers to ensure changes are made correctly and are authorized.

Testwork also revealed that TennCare has not maintained documentation of state employees who have access to TCMIS datasets. Management stated that the Director or a manager in the Division of Information Systems must first approve a request for access to a dataset before access is granted; however, testwork revealed that this approval is not documented. The 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.

### **Recommendation**

**Note: This is the same basic recommendation we have made for the four previous audits.**

The Director of TennCare and the TennCare security administrator should ensure that the authorization forms are obtained for all current and future users who have access to TCMIS, including users who have dataset access. Access levels for all TCMIS 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. Formal monitoring procedures should be developed to monitor all TCMIS dataset activity and the DHS security administrator's activity as it relates to any TCMIS security issues.

### **Management's Comment**

We do not concur. TennCare Information Systems has worked with the Department of Human Services to ensure that signed agreements are obtained for all users. However, the agreement between the agencies has not been signed. We will continue to work with DHS to get the contract in place and/or obtain copies of all signed agreements that DHS currently possesses.

### **Rebuttal**

Despite management's refusal to acknowledge the problem, significant deficiencies existed in controls over access to TCMIS during the audit period. Indeed, because management has continuously failed to fully acknowledge these deficiencies and to take appropriate corrective actions, this finding is being repeated for the fifth consecutive year. As stated in the finding, our testwork revealed that justification forms have not been obtained for any of the more than 1600 DHS employees who have access to TCMIS.

Management's comments did not address the following recommendations:

- Access levels for all TCMIS 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.
- Formal monitoring procedures should be developed to monitor all TCMIS dataset activity and the DHS security administrator's activity as it relates to any TCMIS security issues.



**State of Tennessee**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2002**  
**(continued)**

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**Section III – Federal Award Findings and Questioned Costs**

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<b>Finding Number</b>	02-DHS-01
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Department of Agriculture, Department of Health and Human Services
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Material Weakness; Noncompliance
<b>Compliance Requirement</b>	Reporting; Cash Management
<b>Questioned Costs</b>	None

**The department’s Federal Cash Transaction Report did not reconcile with the Schedule of Expenditures of Federal Awards, and requests for federal funds were not always based on actual federal disbursements, requiring the state to pay interest to the federal government on excessive receipts**

**Finding**

The amounts reported as disbursements on the Federal Cash Transaction Reports prepared by the Department of Human Services (DHS) are not reconciled with the accounting records. Furthermore, such amounts did not reconcile with the amounts shown on the Schedule of Expenditures of Federal Awards (SEFA). In addition, the department does not always calculate federal receipt requests based on actual federal disbursements.

On a quarterly basis, the federal Department of Health and Human Services, Division of Payment Management, electronically sends DHS a Federal Cash Transaction Report for several of the department’s federal programs. This report contains the cumulative receipt information from the inception of the grant through the end of the current quarter and the cumulative disbursement information from grant inception through the end of the previous quarter. DHS is required to provide, by grant number, the cumulative quarter-to-date disbursement totals. When the disbursement totals shown on the Federal Cash Transaction Report for the year ended June 30, 2002, were compared to the Schedule of Expenditures of Federal Awards, significant variances were noted in the following federal programs: Child Care and Development Block Grant (CCDBG), Refugee and Entrant Assistance\_State Administered Programs (REA), Child

Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF), Temporary Assistance for Needy Families (TANF), and Child Support Enforcement Program (CSEP). Details about the variances are displayed below.

<b>Federal Program</b>	<b>Federal Cash Transaction Report</b>	<b>Schedule of Expenditures of Federal Awards</b>	<b>Variance</b>
CCDBG	\$28,844,067.00	\$48,460,739.00	(\$19,616,672.00)
REA	\$1,262,628.00	\$1,104,117.73	\$158,510.27
CCDF	\$66,390,225.00	\$45,984,860.15	\$20,405,364.85
TANF	\$135,240,082.00	\$120,378,382.41	\$14,861,699.59
CSEP	\$27,314,590.00	\$28,717,338.67	(\$1,402,748.67)

It appears, based on discussions with management, that total disbursements reported on the Federal Cash Transaction Report are incorrectly based on estimates of the federal share of actual disbursements. The amounts requested should have been based on actual federal disbursements. In some cases, information in the state’s accounting system does not reflect the correct federal matching percentages; and the department does not allocate administrative costs in a timely manner. For these reasons, the department is not in compliance with the federal reporting requirements as it applies to these programs and this report.

The Department of Finance and Administration’s *Year-End Accounting Procedures Manual* contains instructions for the preparation of the Schedule of Expenditures of Federal Awards. Part III, B, requires a reconciliation of disbursements per the schedule to the federal financial reports. The department has not performed this reconciliation for this report.

OMB Circular A-133, Part 3, “Compliance Requirements,” Subpart L, Reporting, states “Each recipient must report program outlays . . . on a cash or accrual basis . . . .”

As a result of the problems mentioned above, federal receipts in some programs were significantly greater than federal disbursements supported by the accounting records. For example, federal receipts for the Temporary Assistance for Needy Families, Social Services Block Grant, and Refugee and Entrant Assistance-Discretionary Grants exceeded disbursements by \$15,843,559.68 for the fiscal year ended June 30, 2002. This amount was recorded as deferred revenue in the accounting records. Also, in the Food Stamp program, for the federal fiscal year ended September 30, 2001, receipts exceeded disbursements by \$1,154,841.32. When federal receipts exceed federal disbursements, the state is not in compliance with federal cash management principles and at times is required to pay the federal government interest on the excessive receipts.

### **Recommendation**

The Commissioner should ensure that amounts shown on federal reports reconcile to the Schedule of Expenditures of Federal Awards. Also, the federal receipt requests should be based on actual cash disbursements. This will require that the department enter into the state’s

accounting system the proper federal matching percentages for each grant and make a timely reallocation of related administrative costs.

### **Management's Comment**

We do not concur. The department always reconciles the Schedule of Expenditures of Federal Awards (SEFA) to the appropriate federal expenditure reports. We are not aware of any federal requirement to reconcile SEFA to the Federal Cash Transactions Report, nor do we believe that the Department of Finance and Administration's *Year-End Accounting Procedures Manual* requires a reconciliation of the SEFA to the Federal Cash Transactions Report.

The Federal Cash Transactions Report must be submitted each quarter prior to the completion of all federal expenditure reports and before a reconciliation of disbursements reported on the federal expenditure reports to cash drawdowns is completed. Once the final expenditure report and cash analysis are completed, the amounts on the SEFA, federal expenditure reports, and Federal Cash Transactions Report will be reconciled.

We also do not concur that our draws of federal funds are not based on actual disbursements. We draw federal funds daily based on the Daily Grant Drawdown Report in the State of Tennessee Accounting and Reporting System (STARS). Each of these draws is supported by actual disbursements. At the end of each quarter and fiscal year, an analysis is completed of each disbursement. Based on this analysis, adjustments to the funding will be made to ensure compliance with maintenance-of-effort (MOE) and matching requirements. We are required by statute to complete this analysis. The Block Grant Review Act of 1996 (Public Chapter No. 1062, Section 3.a) states that each state agency shall make decisions concerning block grant funding that will minimize harmful impacts to the program and the state's economy.

MOE requirements are different from traditional matching requirements; there is no "correct" or "proper" federal matching percentage. We must ensure that we spend a set amount of non-federal funds in order to maintain eligibility to receive the federal funds. In order to satisfy the MOE, expenditures made by multiple allotment codes within the department, other state agencies, or contract agencies outside of the state may be pooled. This makes it impossible to establish a daily drawdown percentage that will exactly ensure we meet our MOE requirements for the fiscal year.

We also do not concur with the assertion that costs are not allocated timely. The department is currently using a cost allocation plan approved by the U.S. Department of Health and Human Services. This approved plan includes the use of quarterly allocations. Any allocation made more frequently than quarterly would necessitate estimations based on a previous quarter. We do not feel the use of estimates in order to allocate on a more frequent basis would improve our federal reporting process. We feel a quarterly allocation of costs is logical in that most of our federal reports are due on a quarterly basis.

## Rebuttal

The Office of Management and Budget Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C-*Post Award Requirements*, Sec. 20 *Standards for Financial Management Systems*, (a) requires each state to account for grant funds in accordance with the same state laws and procedures that the state uses for its own funds. The process should be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of restrictions and prohibitions of applicable statutes. While the reconciliation process can be, at times, very time consuming; it appears that if the reconciliation can be done for the other reports, it can also be done for the Federal Cash Transaction Report. In the particular quarter that was tested, the Federal Cash Transaction Report was submitted 14 days after the Federal Financial Status Report. It would appear that if the necessary information was available for the Federal Financial Status Report, it was available for the Federal Cash Transaction Report.

With regard to the Department of Finance and Administration's *Year-End Accounting Procedures Manual*, the instructions for preparing the Schedule of Expenditures of Federal Awards specifically state "In any instances where disbursements per the schedule(s) do not agree with federal financial reports, reconciliation must also be submitted."

Although the draws may be based on actual disbursements, the amount of federal funds drawn is based on management's application of various reallocations and assumptions about federal matching percentages which have been applied to actual disbursements. The testwork results indicated that management's applications resulted in drawdowns which were significantly different from the actual amounts ultimately eligible for federal funding. While an "exact" matching percentage may not be practicable, the department should be able to calculate a closer approximation of the final amount than what was used to determine the amounts on the cash transaction report.

The recommendation that timely reallocations of administrative costs be made did not recommend that drawdowns be based on or made in violation of the currently approved cost allocation plan. However, the Department of Finance and Administration's Policy 20 requires recoveries of indirect costs on a timely basis. Although the department is exempted from monthly reallocation, it is not exempted from the 30-day time limit for preparing the reallocation journal voucher. The quarterly reallocations should be determined within 30 days of the end of each quarter.

<b>Finding Number</b>	02-DHS-04
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Various
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Material Weakness; Noncompliance
<b>Compliance Requirement</b>	Subrecipient monitoring
<b>Questioned Costs</b>	None

**The department still does not have adequate procedures in place to ensure that vendors and subrecipients file a single audit report**

**Finding**

As noted in the prior year's audit report, the Department of Human Services (DHS) has not adequately maintained a listing of vendors and subrecipients who are required to file a single audit report. Also, there are inadequate procedures in place to ensure that program directors receive these reports, review them for compliance with federal requirements, and follow up with the vendors and subrecipients to ensure that they take prompt corrective action on any findings. Management concurred with the prior audit finding and outlined a number of ways in which it intended to correct this finding. Management stated that it intended to fill a position that would be responsible for updating and monitoring the audit report tracking system. It also planned to update the database and contact subrecipients to have them submit the required audit reports to the Internal Audit section. Internal Audit would then be responsible for distributing the audit reports to the fiscal and program staff who would be responsible for reviewing the reports and following up on the corrective actions on any findings. Management also stated that the tracking system should be updated by June 30, 2002. In March 2001, the Internal Audit staff began the process of recording the receipt of single audit reports in the tracking system. However, no other updating or monitoring of the system has been put in place. Also, there has been an inadequate effort by the department to determine all of the organizations that are required to submit a single audit report to DHS, and no organizations have been contacted with regard to this report. As a result, problems still persist.

Testwork was performed on 25 organizations that received at least \$300,000 in funding from DHS. Seventeen of these organizations were subrecipients, and eight were vendors. Fourteen of the 25 tested (56%) had not submitted a single audit report to the department for fiscal year 2001, and the department had not contacted these organizations. Six of the 14 were subrecipients (43%) and 8 were vendors (57%).

The Internal Audit Section maintains an EXCEL spreadsheet to track the single audit reports. Eight of the 25 organizations tested (32%) were not in the EXCEL spreadsheet. Seven were vendors, and one was a subrecipient. Also, there were two subrecipients that had submitted a single audit report; however, the report receipt date was not shown in the EXCEL spreadsheet.

The department is responsible for ensuring that the subrecipient submits a single audit report. Also, contracts with certain vendors contain a clause requiring them to obtain a single audit report. As a result, the department should ensure that it receives and reviews these reports to determine compliance with federal requirements. If the report contains findings, the department should ensure that the subrecipient or vendor takes prompt corrective action.

OMB Circular A-133 requires that the department monitor subrecipient and vendor activities to provide reasonable assurance that subrecipients and vendors administer the federal awards in compliance with federal requirements. OMB A-133 also requires the department to ensure that required audits are performed and that there is prompt corrective action on any findings. The department cannot determine subrecipient and vendor compliance with applicable regulations if the required audits are not obtained and reviewed. Furthermore, funds could be used for objectives not associated with the grant, and subrecipient errors and fraud could occur and not be detected.

### **Recommendation**

The Commissioner should establish procedures which ensure that the list of vendors and subrecipients requiring a single audit is properly maintained. These procedures should ensure that the any tracking system includes all organizations required to submit a single audit report. The tracking system should also be monitored and updated when reports are received, and if the single audit report is not received, the vendor or subrecipient should be contacted. Also, reports should be reviewed by appropriate personnel in a timely manner, and program directors should ensure that prompt corrective action has been taken on all findings.

### **Management's Comment**

We concur. The department has not completely resolved the issues related to single audit reports and our subrecipients. We have made significant progress in resolving this issue since last year. The department has identified all subrecipients receiving more than \$300,000 from the department and has loaded this information into our audit report tracking system. The system also has been updated to reflect the submission of audit reports from a number of our subrecipients. We plan to work with Municipal Audit to identify those entities that might exceed the \$300,000 threshold because of funding from additional state agencies. We concur that follow-up phone calls have been made to a limited number of subrecipients.

The resolution of the single audit report issue will continue to move forward as the department fully implements the plan outlined in the previous report. The database will be fully populated with all subrecipients identified as requiring submission of a single audit report and the Office of Program Integrity will serve as the single point of contact for the collection of these reports. Failure to receive an audit report will initiate action by the Office of Program Integrity to contact the subrecipient. The audit reports will be reviewed and forwarded to the appropriate department staff for resolution of any shortcomings identified.

<b>Finding Number</b>	02-DHS-08
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Various
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Procurement and Suspension and Debarment
<b>Questioned Costs</b>	None

**The department received advertising services without going through the required bid process and inappropriately used a contract initiated by the Department of Economic and Community Development**

**Finding**

The department improperly obtained advertising services by using a contract between the Department of Economic and Community Development; the Tennessee Film, Entertainment and Music Commission; and Akins and Tombras, Incorporated. This action circumvented the required bid process. Furthermore, the services provided to the department were not within the scope of services described in the contract.

The *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.03 (1)(a), state “. . . contracts representing the procurement of services shall be made on a competitive basis. (b) To be competitive, a procurement method must include a consideration and comparison of potential contractors, based upon both cost and quality.” Chapter 0620-3-3-.12 allows the Commissioner of Finance and Administration to make exceptions to the rules. Approved exceptions are to be filed with the Comptroller of the Treasury. The department did not get an exception from the Commissioner of Finance and Administration to forgo the competitive bid process. However, the Commissioner of Finance and Administration did approve the department’s request for usage of \$100,000 of advertising assistance in the advertising contract. The department stated in its request that these services were needed to help with child care reform legislation and other pending initiatives.

In addition, the department received services that were outside the scope of services detailed in the contract previously mentioned. Section A.1 of the contract states that the contractor will provide advertising and marketing “as needed to best promote the business advantages of Tennessee” and that “would best reach prospective industrial and corporate clients.” The contractor will also “make specific promotional and media recommendations on how to promote and advertise Tennessee to prospective clients” and “maintain an expert knowledge of all media opportunities and options available to best reach Tennessee’s potential customer.” Section C.9 of the contract states that the services of the Contractor may be extended “. . . to perform work related to Workforce Development Initiative for other departments and agencies of the State of Tennessee.”

According to management and a review of the supporting documentation, the services provided to the department at a cost of over \$72,000 included posters, brochures, and videos promoting quality child care. The services provided do not appear to be not related to promoting the business advantages of Tennessee, promoting the state of Tennessee to prospective clients and customers, or the Workforce Development Initiative.

The *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.05, also state, “The purpose of a written contract is to embody, in writing, the complete agreement between parties. No terms shall be left to an unwritten understanding. A contract shall be explicit and clearly state the rights and duties of each party.” However, the Department of Human Services was not a party to this contract, and the scope of services mentioned in the contract did not include the advertising services that were provided.

The purpose of the state’s purchasing rules is to ensure that state agencies and departments enter into arrangements that are in the best interest of the state. In addition, not having all services documented in the contract could lead to confusion as to the scope of services, payment terms, and other conditions. Not obtaining bids could result in the state paying more than is necessary for desired services.

### **Recommendation**

The Commissioner should not bypass bidding procedures by obtaining services through other state contracts, unless those contracts conform exactly to the needs of the department. Initiation of new contracts for services should follow the states’ competitive bid requirements. All agreements with contractors should be sufficiently detailed to outline each party’s responsibilities.

### **Management’s Comment**

We do not concur. The use of the Department of Economic and Community Development contract by the Department of Human Services is permitted under Section C.9. This section states that the services of the contractor may be extended “. . . to perform work related to Workforce Development Initiative for other departments and agencies of the State of Tennessee.” The department plays a critical role in all workforce development initiatives undertaken by the state. The Department of Human Services is a partnering agency with the Department of Labor and Workforce Development in implementing the Workforce Investment Act in Tennessee. The availability of quality childcare is a key ingredient to sustaining a skilled labor force. It is the department’s responsibility to ensure access to quality childcare for all Tennessee citizens. Further, the Employment and Training Administration of the U.S. Department of Labor has recognized the importance of quality childcare. The Administration awarded grants to 11 states to implement the “Quality Child Care Initiative”. Congress also officially recognized the close link between workforce development and childcare by including a specific credit for this type of expense in the tax code. In defining who may claim this credit, the IRS is very specific about the association to work. According to the IRS, “This credit is

available to people who, in order to work or to look for work, have to pay for childcare services for dependents under age 13.”

According to the Economic Opportunity Institute, “An investment in quality childcare doesn’t just benefit the workforce of today – it’s an investment in the workforce of the future. Communities with necessary services such as childcare are better able to attract and retain workers.”

We believe that there is a link between quality child care and workforce development which supports our use of the ECD contrast in question.

### **Rebuttal**

Management was unable to provide any documentation to support the department’s initial intent for using the Department of Economic and Development’s contract was to perform work related to Workforce Development Initiative.

<b>Finding Number</b>	02-DHS-09
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Various
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

### **Security over computer systems needs improvement**

#### **Finding**

As noted in the prior five audits, the Department of Human Services (DHS) does not have adequate controls over access to the Automated Client Certification and Eligibility Network (ACCENT). During the review for the fiscal year ended June 30, 2002, the auditors noted that security authorization forms were missing, not properly completed, or did not match the current access privileges of the users. The prior-year audit report contained a finding concerning discrepancies related to security over the agency's computer systems, notably that authorization forms were discovered to be missing, incomplete, or inconsistent with the employees' actual access rights. During the current audit period, the same conditions were found to be present in the Tennessee Rehabilitation Agency Tracking System (TRACTS) and the Tennessee Child Care Management System (TCCMS).

Management concurred with the prior audit finding relating to ACCENT. Review during the current year revealed that the Security Focus Group had continued to work to assess the security environment and to attempt to revise and update the security policies and procedures followed by DHS personnel. Additionally, the consolidated security form created by the Security Focus Group has been implemented beginning with new users to the agency's systems, and the Security Focus Group is continuing work related to DHS security issues. However, additional effort is still needed in order to correct continuing weaknesses in ACCENT security along with the newly identified weaknesses in both TRACTS and TCCMS.

#### **Authorization forms were missing, incomplete, or inconsistent with users' actual access rights.**

- Department personnel were unable to locate one of the 20 ACCENT User Authorization forms selected for testwork (5%).
- Seventeen of the 20 ACCENT User Authorization forms selected for testwork (85%) were not properly authorized by management.
- Department personnel were unable to locate 3 of the 19 TRACTS User Authorization forms selected for testwork (16%).

- Seven of the 19 TRACTS User Authorization forms selected for testwork (37%) were not properly authorized by management.
- None of the 19 TRACTS User Authorization forms selected for testwork (0%) specified the type of access requested by the user.
- Department personnel were unable to locate 3 of the 25 TCCMS User Authorizations forms selected for testwork (12%).

As noted in the prior audit, good security practices require an access authorization form be completed for each employee using departmental or state application systems. This authorization form should be authorized by the employee's management and should specify the employee's access authority. If the access privileges required by an individual legitimately change, a new authorization form should be completed prior to the changing of access rights by the security administration staff. All of the completed authorization forms should be maintained in a secure location by appropriate security administration personnel. The failure to prepare, collect, and maintain access authorization forms as suggested above increases the possibility that access to sensitive systems and information may be granted to ineligible individuals, and that authorization may be granted to employees in excess of what is warranted for their job responsibilities.

### **Recommendation**

As noted in the prior five audit reports, DHS management should improve security for ACCENT. In addition, management should improve security in response to the newly identified weaknesses in the TRACTS and TCCMS systems. Users should be granted the appropriate level of system access based on their job responsibilities. Security authorization forms should be completed by management and maintained in a secure location. DHS management should monitor system security for ACCENT, TRACTS, and TCCMS and take appropriate action if problems are noted.

### **Management's Comment**

We concur. We are continuing in the development of the department's security management system, Security Administration Facility for Everyone (SAFE). This system will assist Systems and Program management with the process of requesting, approving, providing, or terminating system access to staff and contractors that are under the department's control (including ACCENT, TCCMS, and TRACTS). The system logic will support user access based on pre-approved conditions for types of users. The system will maintain a history of the requests and access approvals.

<b>Finding Number</b>	02-DHS-10
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Various
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

### **Security over RACF needs improvement**

#### **Finding**

The Department of Human Services (DHS) does not have adequate control over the Resource Control Access Facility (RACF) security system. RACF is the state mainframe security software, which is used to provide an initial level of access security before a user can access the department- or agency-level systems. During the review for the fiscal year ended June 30, 2002, the auditors noted that there were active RACF IDs for terminated DHS contractors, RACF User ID application forms were not properly authorized by DHS management, and RACF password intervals for high-level system users were not set at 30 days.

#### **Terminated employees' access privileges were not revoked in a prompt manner.**

- Sixty-two contract users who had terminated employment possessed active RACF privileges.

Good security practices require that terminated employees' system privileges within all agency systems and within RACF are promptly revoked upon their termination. The failure to promptly revoke terminated employees' system privileges increases the possibility that sensitive information could be inappropriately modified.

#### **Authorization forms were not properly authorized by management.**

- Five of the 30 RACF User ID Application forms selected for testwork (17%) were not properly authorized by management.

User ID Application forms are required to be signed by the appropriate manager before the user is assigned a RACF user ID. Without duly authorized forms, a risk exists that a user may have access rights granted that were never approved by the appropriate supervisor. These access rights could be utilized by the user to perform unauthorized activity within the agency systems.

#### **Password Intervals for high-level users are not set at 30 days.**

- RACF passwords for high-level system users are not being changed every 30 days.

According to security standards issued by the Department of Finance and Administration's Office for Information Resources (OIR), "All passwords must be changed (as a maximum) every 90 days (30 for system administrators)." Failure to change passwords for privileged accounts on a more frequent basis increases the potential that a privileged account could be accessed by an unauthorized individual.

### **Recommendation**

DHS management should ensure that RACF system IDs are promptly revoked upon the termination or transfer of the ID owner. Security administration should not rely upon the RACF system to automatically revoke the IDs after 30 days of inactivity, as the IDs could be appropriated and used by other parties within that time frame. Periodic review of vacant IDs should be performed to ensure that those IDs are not being misused.

RACF security administration staff should ensure that all RACF User ID application forms are properly authorized before assigning a RACF user ID. In circumstances where it is discovered that an existing user does not have the appropriate signed forms, replacement forms should be completed and fully authorized by the appropriate supervisor.

Additionally, RACF security administration staff should ensure that RACF password intervals are set at 30 days instead of the current 90-day intervals for high-level users in accordance with OIR's security standards.

### **Management's Comment**

We concur. We are continuing in the development of the department's security management system, Security Administration Facility for Everyone (SAFE). This system will assist Systems and Program management with the process of requesting, approving, providing, or terminating system access to staff and contractors that are under the department's control (including RACF). The system is also designed to help Systems and Program management identify RACF IDs that should be deleted upon termination of state employee or contractor.

We are in the process of changing the RACF password intervals to 30 days. We are expecting the change to be completed by March 2003.

<b>Finding Number</b>	02-DOT-02
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Department of Transportation
<b>State Agency</b>	Department of Transportation
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**DOT STARS disaster recovery plan is insufficient**

**Finding**

As noted in the prior three audit reports, the disaster recovery plan for the Department of Transportation (DOT) State Transportation Accounting and Reporting System (STARS) is insufficient. DOT STARS is a mission-critical system that processes virtually all of the department's accounting data. The DOT STARS disaster recovery plan lacks the specific instructions necessary to restore the system in an emergency. Much of the plan is simply a set of generic guidelines. For example, the plan states, "If a (DOT) STARS application receives data from or provides data to another application or department . . . it will be necessary to coordinate with that application or agency in planning for your application's recovery." The plan also states, "If production programs, database definitions, record layouts, etc. have changed since the point of recovery, you must coordinate a plan with DBA/SDS for reapplying these changes." However, there is no documentation indicating that these issues have been considered. Developing specific instructions and information for all critical systems and training employees on the procedures necessary to restore the system are vital to the execution of a sufficient plan.

A comprehensive plan also includes instructions indicating where employees should go to use DOT STARS in the event their offices are unavailable, and describes the method of communicating with employees during an emergency. Although the current plan indicates that if "DOT headquarters were not available, access to the STARS mainframe application could be made from any PC on the State network with 3270 capability," the plan neither identifies specific locations with adequate space and equipment that could be used as an alternate location nor informs employees where to report for work.

In addition to the lack of specific documentation, the same employee has been responsible for testing the process each time a mock disaster was performed. Since the availability of any individual employee cannot be guaranteed in an actual disaster, exposing multiple employees to all aspects of the testing process will help to ensure a more efficient recovery.

In the three prior audit reports, management concurred and stated that the department's Information Technology Division (IT) was completing revisions. The reports also stated that

management planned to follow up to ensure completion of the plan. While some changes to the plan have been added, the plan is still not sufficiently comprehensive and lacks many specific instructions.

### **Recommendation**

The department should thoroughly document specific disaster recovery procedures and specific actions to be taken from the declaration of a disaster until the time that normal business operations are resumed to help ensure that business and accounting functions are quickly restored.

The guidelines presented in the current plan for considering specific issues should be addressed and incorporated into the comprehensive plan. The comprehensive plan should be reviewed, updated, and reapproved periodically. The procedures should be prioritized and should list the specific actions to be taken from the declaration of a disaster until the time that normal business operations are resumed.

### **Management's Comment**

We concur. TDOT STARS is a mission critical system. The current Disaster Recovery Plan attempts to be generic enough to address as many situations as possible yet still be specific enough to allow execution of the plan. While progress has been made in addressing some items, TDOT Information Technology staff and Comptroller staff will meet to address the remaining specific concerns disclosed during the audit.

<b>Finding Number</b>	02-DOT-03
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Department of Transportation
<b>State Agency</b>	Department of Transportation
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**The Department of Transportation should improve control over programmer access to DOT STARS production data sets**

**Finding**

Resource Access Control Facility, or RACF, is the security software that protects the state's mainframe computer programs and data files from unauthorized access. As noted in the prior audit, the auditors found that the RACF user group AGRM041, which contained Office for Information Resources' (OIR) Systems Development Support (SDS) programmers as members, had ALTER access to DOTSTARS data sets. ALTER access grants users the ability to directly change or delete the contents of application data sets. Anomalies during processing sometimes cause data elements or control tables to become corrupted and, because of their technical expertise, OIR's SDS programmers may be asked to make corrective changes to the affected databases. However, making such changes is not a normal application programmer duty and must be controlled. The preferred procedure is for the agency's security administrator to set access privileges for the programmers' user group to ALTER only long enough for the corrections to be made and then to promptly reset them back to NONE or READ. Under no circumstances should the programmers' user group access be continuously set to ALTER. Failure to follow this procedure could result in illegal or inappropriate changes to or destruction of state data. Although the department concurred with the prior finding and indicated that closer controls would be established to give programmers access only as needed, the problem has not been resolved.

**Recommendation**

The department should change the access privileges for RACF user group AGRM041 to READ or NONE. In addition, the department should provide ALTER access to SDS programmers on a needed basis and promptly remove ALTER access after the necessary modifications have been completed.

### **Management's Comment**

We concur. Currently the RACF user group AGRM041 contains Finance and Administration Office for Information Resources (OIR) and Systems Development Support (SDS) programmers as members. This group is responsible for making requested changes to source code for DOT STARS. In addition, this group is responsible for the various activities necessary for each nightly run of the system. The access code for this group is set to "alter," as opposed to the more restrictive "read" or "none." While the setting of "alter" would potentially allow a programmer to make inappropriate changes to DOT STARS data sets, the setting of "read" or "none" interferes with the nightly operation of the system. Changing the setting to "read" or "none" does not allow SDS to copy production data sets to temporary files, which contain 'JJ005', somewhere in the name. They also could not update JJ.JJ005SYS, which contains all of the control cards for production programs and several other problem areas. Appropriate individuals from TDOT Information Technology, OIR, and SDS will meet to determine a mutually acceptable solution.

<b>Finding Number</b>	02-LWD-03
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Department of Labor
<b>State Agency</b>	Department of Labor and Workforce Development
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition; Noncompliance
<b>Compliance Requirement</b>	Allowable Cost/Cost Principles
<b>Questioned Costs</b>	None

**The department did not appropriately monitor the activities of two Information Technology Professional Services contractors**

**Finding**

The Department of Labor and Workforce Development did not appropriately monitor the activities of two Information Technology Professional Services (ITPRO) contractors who had been hired by the department in the information systems area. Both contractors, who were working on the department's Case Management and Activity Tracking System (CMATS), admitted that they had overbilled the department when questioned about their time billings by the auditors. One of the contractors was a project manager, and the other was a database administrator. The Division of State Audit is currently reviewing their billings, and a subsequent report will be issued when that review is completed.

The objective of the ITPRO contract is to provide state agencies with qualified Information Technology professionals to perform software programming, software system modifications, and database administration services. Through the ITPRO contract between the Department of Finance and Administration and various vendors, state agencies obtain qualified professionals (contractors) by providing a Statement of Work to the vendors, receiving and evaluating vendor-provided information, and selecting the contractors. The contractors are employees of the vendors, not the state. However, the contractors typically work in state Office buildings during state working hours alongside state employees and under the supervision of state supervisors.

A review of internal controls related to two ITPRO contractors utilized by the department for its CMATS project disclosed that the ITPRO contractors were not appropriately monitored. The departmental employee who supervised their work and signed their time sheets acknowledged that he provided little oversight because the two contractors were responsible for a major system development effort, they were the experts in the areas of project management and database administration, and the system needed to be developed and implemented quickly. The contractors were authorized, and were expected, to work the hours necessary to complete their tasks. As trusted members of the CMATS development team, they were authorized to work whatever hours were necessary to complete the project, and the expectation was that they would only bill for their hours actually spent working on CMATS. The department did not establish

time-in and time-out logs and also did not establish any parameters related to work that occurred off-site or outside the normal work week. None of the controlling documents related to the ITPRO contract contained any specifications related to hours of work, place of work, or authorization for overtime work or work off-site. In addition, the department did not place in operation a routine monitoring system to determine when the contractors were working on department matters. Based on presently available information, the contractors took advantage of the lack of effective monitoring and improperly inflated their work hours.

### **Recommendation**

The Commissioner and the Director of Information Systems should ensure that the activities of ITPRO contractors are appropriately monitored. Specifically, the department should establish written requirements related to hours of work, place of work, and authorization for overtime work and off-site work. These requirements should be documented in a Statement of Work, a Memorandum of Understanding, or other controlling documents. The department should implement time-in and time-out logs and other appropriate forms of documentation of work performed. In addition, the department should develop routine monitoring procedures, such as reviewing computers used by the contractors, to obtain evidence of their work activities.

### **Management's Comment**

We concur. The two contractors mentioned in the report were treated as trusted members of management and given greater latitude than the department's other ITPRO contractors. We will develop written guidelines to govern the department's use of contractors to improve controls over them. Other contractors who work for the department have designated work hours and do sign in and out each work day. Their overtime is pre-approved to perform specific tasks, and the contractors do not perform work at home unless they are called about a specific problem.

<b>Finding Number</b>	02-TDH-01
<b>CFDA Number</b>	Various
<b>Program Name</b>	Various
<b>Federal Agency</b>	Various
<b>State Agency</b>	Department of Health
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Noncompliance
<b>Compliance Requirement</b>	Subrecipient Monitoring
<b>Questioned Costs</b>	None

**The department did not inform subrecipients of all CFDA numbers and program names**

**Finding**

The Department of Health has not informed subrecipients of all Catalog of Federal Domestic Assistance (CFDA) Numbers and federal program names. The department has entered into contracts with a nonprofit organization, community services agencies (CSAs), and human resource agencies (HRAs) to assist in implementing different state and federal grant programs. When these entities invoice the department, the department pays and accounts for expenditures in a clearing account, which is reallocated to all of the different programs provided at the appropriate county health department. Once the reallocation is performed, appropriate federal funds are drawn to cover these expenditures. The department reallocates and draws down grant money from multiple federal programs. However, the department has informed these subrecipients of only one CFDA Number and program name, which is mentioned in the grant contracts. Therefore, the local agencies are not aware of the sources of their funding.

Office of Management and Budget Circular A-133, Section 400 (d)(1), states that the pass-through entity is responsible for identifying all “federal awards made by informing each subrecipient of CFDA title and number.”

Failure to inform subrecipients about all CFDA numbers and program names could result in subrecipient noncompliance with the applicable federal regulations.

**Recommendation**

Management should take steps to ensure that subrecipients are informed of all CFDA numbers and program names that are used to fund the subrecipients programs.

**Management’s Comment**

Management concurs and will ensure that all recipients are furnished with all applicable CFDA numbers and program names.

<b>Finding Number</b>	02-LWD-01
<b>CFDA Number</b>	17.225
<b>Program Name</b>	Unemployment Insurance
<b>Federal Agency</b>	Department of Labor
<b>State Agency</b>	Department of Labor and Workforce Development
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition; Noncompliance
<b>Compliance Requirement</b>	Equipment and Real Property Management
<b>Questioned Costs</b>	None

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

**Finding**

The Department of Labor and Workforce Development does not always record the correct grant-funding information in the state's property records. A review of the department's listing of equipment purchased during the audit period revealed that none of the equipment had been coded as purchased, in whole or in part, with federal grant funds. This was discussed with management, and the property officer was asked to make corrections to the ownership codes recorded in the Property of the State of Tennessee (POST), the state's property and equipment tracking system. Upon reviewing information obtained from the fiscal office, it was noted that 35 of 38 equipment items (92%) purchased during the audit period were purchased, in whole or part, with federal funds, as follows:

- Eighteen equipment items were purchased for the Occupational Safety and Health\_State Program (50% federally funded) with federal funding of \$64,015.46.
- Twelve equipment items were purchased for Unemployment Insurance (100% federally funded) with federal funding of \$144,266.10.
- Two equipment items were purchased for Employment Service (100% federally funded) with federal funding of \$26,003.59.
- Two equipment items were purchased for Workforce Investment Act (100% federally funded) with federal funding of \$25,569.96.
- One equipment item was purchased for Adult Education\_State Grant Program (75% federally funded) with federal funding of \$5,354.40.

However, based on the subsequent review of the equipment listing from POST, it was revealed that the property officer had still not made all of the appropriate changes. The ownership code for 20 of the 35 equipment items purchased in whole or part with federal grant funds (57%) still did not agree with fiscal records. Seventeen equipment items were coded with an F (federal participation only) but should have been coded with an A (for joint federal and state participation). Two were incorrectly coded with a G (state participation only) but should have

been coded with an A and one was coded with a G but should have been coded with an F. Also, one of three equipment items purchased with state funds (33%) was coded with an F but should have been coded with a G.

The department must be able to distinguish between state and federal property. According to Office of Management and Budget Circular A-102, "Common Rule," and the *Code of Federal Regulations*, Title 29, Part 97, Section 32, the property records are required to include the percentage of federal participation in the cost of the property. If equipment purchased with federal 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.

### **Recommendation**

The Commissioner should ensure that the property officer completely and correctly enters all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

### **Management's Comment**

We concur that the Department of Labor and Workforce Development did not always record the correct grant-funding information in the state's property records. The Department's property officer has been instructed to completely and correctly enter all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

<b>Finding Number</b>	02-DOE-01
<b>CFDA Number</b>	84.048
<b>Program Name</b>	Vocational Education_Basic Grants to States
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	Department of Education
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Subrecipient Monitoring
<b>Questioned Costs</b>	None

**The department needs to improve areas of deficiency and noncompliance over subrecipient monitoring**

**Finding**

A review of the Department of Education’s monitoring of subrecipients revealed areas of deficiency and instances of noncompliance with federal regulations.

The department has not assigned accountability to ensure that corrective action is taken on findings from audits of subrecipients performed in accordance with OMB Circular A-133. According to OMB Circular A-110, paragraph .51(a), “Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements.” Also, according to the A-133 *Compliance Supplement*, a pass-through entity is responsible for “ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.” The department could not provide audit reports for 8 of 25 Local Education Agencies (LEAs) (32%) tested.

In addition, a lack of internal control was noted during the monitoring testwork for the Innovative Education Program Strategies program. The department requires all LEAs to send an annual self-monitoring report to regional consultants throughout the state. The LEAs use the monitoring report to document areas of noncompliance, and the regional consultants follow up on each area noted. The department groups the LEAs by region into East Tennessee, Middle Tennessee, or West Tennessee and requires the regional consultants to forward one-third of the LEA monitoring reports to the department to document that monitoring has occurred and to ensure that any deficiencies noted in the report have been corrected. Testwork revealed several problems. (1) Monitoring reports submitted by the regional consultant for West Tennessee did not agree with the department’s listing of the LEAs to be monitored. (2) The department’s listing of LEAs did not agree with the regional consultant’s listing for the Middle Tennessee region. (3) Two LEAs designated by the department as being in the East Tennessee region and whose reports were required to be submitted to the department in fiscal year 2002 were designated as being in the Middle Tennessee region on the consultant’s listing. In addition, the consultant’s listing showed the year of submission as fiscal year 2001 for one of the LEAs and fiscal year 2000 for the other LEA. (4) A Middle Tennessee LEA report designated by the

department as being due for submission in fiscal year 2002 was designated on the consultant listing as being due for submission in fiscal year 2001.

Finally, the department did not communicate the Catalog of Federal Domestic Assistance (CFDA) number to subrecipients for the Innovative Education Program Strategies, Class Size Reduction, and Vocational Education-Basic Grants to States programs, as required by OMB Circular A-133.

### **Recommendation**

The department should assign the responsibility of obtaining audit reports, reviewing subrecipient audit findings, and ensuring that subrecipient audit findings are corrected. In addition, the department should improve communications with regional consultants to ensure that the correct monitoring reports are submitted. The department should communicate to all subrecipients the CFDA numbers for federal programs passed through to the subrecipients.

### **Management's Comment**

We concur. Responsibility for obtaining audit reports and review of audit findings for corrective action will be assigned to finance staff. Communications between regional consultants and school districts will be improved to assure compliance with federal regulations.

<b>Finding Number</b>	02-DHS-03
<b>CFDA Number</b>	84.126
<b>Program Name</b>	Rehabilitation Services_Vocational Rehabilitation Grants to States
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	H126AO10063; H126A020063
<b>Finding Type</b>	Reportable Condition; Noncompliance
<b>Compliance Requirement</b>	Subrecipient Monitoring
<b>Questioned Costs</b>	None

**The department did not comply with the Department of Finance and Administration's Policy 22, Subrecipient Monitoring**

**Finding**

The department did not identify and report all of its subrecipients to the Department of Finance and Administration (F&A) as required by Policy 22. The Division of Rehabilitation Services has grant agreements with city and county school systems, and certain other quasi-governmental agencies across the state for the provision of vocational rehabilitation services to individuals with disabilities. During the fiscal year ended June 30, 2002, the department incurred expenditures of over \$4,440,000. However, the department did not include these subrecipients in its annual monitoring plan as required by F&A Policy 22.

Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. The policy requires the department to submit an annual monitoring plan to the Division of Resource Development and Support (RDS) in the Department of Finance and Administration for review, comment, and approval by September 30 of each year. This plan should identify all subrecipients to be monitored, describe the risk criteria utilized to select subrecipients for monitoring purposes, identify full-time equivalents dedicated to monitoring activities, and include a sample monitoring guide. The department's plan did not identify the Division of Rehabilitation Services' subrecipients and document other plan requirements for the audit period.

In addition, the department is required to submit an annual report summarizing its monitoring activities to the RDS by October 31 of each year. This report was submitted but did not include the subrecipients of the Division of Rehabilitation Services'.

By failing to include all subrecipients in the department's annual monitoring plan and annual report, the department is not complying with the F&A Policy 22 and is inadequately monitoring its subrecipients.

## **Recommendation**

The Commissioner should ensure that the required annual monitoring plan is submitted to the Division of Resource Development and Support in the Department of Finance and Administration by September 30 of each year and that the plan includes all the required information. Also, the Commissioner should ensure that the annual report summarizing the department's monitoring activities is complete and submitted by October 31 of each year.

## **Management's Comment**

We do not concur. The department made a determination that the Transition School to Work (TSW) contracts/grants were not subrecipients based on a review of the criteria in Section 10 of the Department of Finance and Administration Policy 22 guidelines. Based on the criteria in Section 10, the TSW contracts/grants were identified as having a vendor relationship rather than a subrecipient relationship with the contracted entities. Rationale for this determination included the fact that the Rehabilitation Services-Vocational Rehabilitation Basic (110) Support Program funding is used to match the money provided by the local school systems. The Rehabilitation Services-Vocational Rehabilitation Basic (110) Support Program is the grant award designated for use by State Vocational Rehabilitation agencies in providing vocational rehabilitation services to individuals with disabilities, to prepare for and engage in gainful employment. These funds are not designated specifically for Transition School to Work programs and can in fact be dispersed, within federal guidelines, at the discretion of the state agency. Should the state agency no longer fund these contracts/grants, there would be no corresponding decrease in funding from the federal government.

The Department of Finance and Administration referenced OMB Circular A-133, Section .210 relative to the definition of Subrecipients and used the characteristics in this document to distinguish a subrecipient from a vendor. The definition of subrecipients and characteristics to distinguish a subrecipient from a vendor in F&A Policy 22, Section 10 are as follows:

### Subrecipient Characteristics:

- Determines who is eligible to receive state and/or federal financial assistance available through the program administered

Vocational Rehabilitation (VR) Analysis: The TSW contracts/grants are for the provision of services for applicants or clients of the Division. Individuals utilized in these contracts/grants are not permitted to determine eligibility for services. Eligibility decisions are the sole function of the state agency.

- Has its performance measured against whether the objectives of the state and/or federal program are met

VR Analysis: Individuals utilized in the TSW contracts/grants have no authority for programmatic decision-making. They provide services relative to a client's

plan for employment (IEP), but these plans must also be approved by state agency staff. The services they provide are ancillary to the general rehabilitation program and their services could be subsumed by rehabilitation staff should the need arise.

- Has responsibility for programmatic decision making

VR Analysis: The TSW contracts/grants provide services based upon the goals in the respective contracts rather than established state/federal goals. TSW staff goals are evaluated by a review conducted by their hiring authority.

- Has responsibility for adherence to applicable state and/or federal program compliance requirements

VR Analysis: The TSW program casework, which requires state agency review, is the responsibility of the state agency staff should compliance issues arise. There is no penalty or consequence to the TSW program. Any consequences are the responsibility of the state agency. Their services are ancillary to the operation of the state program.

- Uses state and/or federal funds to carry out a program of the state as compared to providing goods or services for a program of the state

VR Analysis: The TSW contracts/grants provide services for the agency. They are not carrying out the program of the state (as designated by the use of 110 funds). They are providing a service to assist the state agency in providing the overall program of services. They are in no way subject to the compliance requirements of 110 funding by the Rehabilitation Services Administration.

### **Rebuttal**

The Department of Finance and Administration's Policy 22 states, "In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all subrecipient characteristics will be present." Based on a review of the grant agreement and discussions with management, the following was noted:

- The participating grantees must provide a match in funding.
- There was no attempt to bid out the services provided under these contracts.
- The service being provided by the grantees participating in this program is not something that the grantees provide on their own.
- The records of the grantees shall be maintained in accordance with the Accounting Manual for the Recipients of Grant Funds in the State of Tennessee.

- The grantee's activities are subject to monitoring by the state.

As a result, it would appear that a subrecipient relationship exists in the grant agreements for the provision of vocational rehabilitation services to individuals with disabilities. However, the department should confer with the Department of Finance and Administration with regard to the applicability of Policy 22 to these grantees.

<b>Finding Number</b>	02-DOE-01
<b>CFDA Number</b>	84.298
<b>Program Name</b>	Innovative Education Program Strategies
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	Department of Education
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Subrecipient Monitoring
<b>Questioned Costs</b>	None

**The department needs to improve areas of deficiency and noncompliance over subrecipient monitoring**

**Finding**

A review of the Department of Education’s monitoring of subrecipients revealed areas of deficiency and instances of noncompliance with federal regulations.

The department has not assigned accountability to ensure that corrective action is taken on findings from audits of subrecipients performed in accordance with OMB Circular A-133. According to OMB Circular A-110, paragraph .51(a), “Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements.” Also, according to the A-133 *Compliance Supplement*, a pass-through entity is responsible for “ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.” The department could not provide audit reports for 8 of 25 Local Education Agencies (LEAs) (32%) tested.

In addition, a lack of internal control was noted during the monitoring testwork for the Innovative Education Program Strategies program. The department requires all LEAs to send an annual self-monitoring report to regional consultants throughout the state. The LEAs use the monitoring report to document areas of noncompliance, and the regional consultants follow up on each area noted. The department groups the LEAs by region into East Tennessee, Middle Tennessee, or West Tennessee and requires the regional consultants to forward one-third of the LEA monitoring reports to the department to document that monitoring has occurred and to ensure that any deficiencies noted in the report have been corrected. Testwork revealed several problems. (1) Monitoring reports submitted by the regional consultant for West Tennessee did not agree with the department’s listing of the LEAs to be monitored. (2) The department’s listing of LEAs did not agree with the regional consultant’s listing for the Middle Tennessee region. (3) Two LEAs designated by the department as being in the East Tennessee region and whose reports were required to be submitted to the department in fiscal year 2002 were designated as being in the Middle Tennessee region on the consultant’s listing. In addition, the consultant’s listing showed the year of submission as fiscal year 2001 for one of the LEAs and fiscal year 2000 for the other LEA. (4) A Middle Tennessee LEA report designated by the

department as being due for submission in fiscal year 2002 was designated on the consultant listing as being due for submission in fiscal year 2001.

Finally, the department did not communicate the Catalog of Federal Domestic Assistance (CFDA) number to subrecipients for the Innovative Education Program Strategies, Class Size Reduction, and Vocational Education-Basic Grants to States programs, as required by OMB Circular A-133.

### **Recommendation**

The department should assign the responsibility of obtaining audit reports, reviewing subrecipient audit findings, and ensuring that subrecipient audit findings are corrected. In addition, the department should improve communications with regional consultants to ensure that the correct monitoring reports are submitted. The department should communicate to all subrecipients the CFDA numbers for federal programs passed through to the subrecipients.

### **Management's Comment**

We concur. Responsibility for obtaining audit reports and review of audit findings for corrective action will be assigned to finance staff. Communications between regional consultants and school districts will be improved to assure compliance with federal regulations.

<b>Finding Number</b>	02-DOE-01
<b>CFDA Number</b>	84.340
<b>Program Name</b>	Class Size Reduction
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	Department of Education
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Subrecipient Monitoring
<b>Questioned Costs</b>	None

**The department needs to improve areas of deficiency and noncompliance over subrecipient monitoring**

**Finding**

A review of the Department of Education’s monitoring of subrecipients revealed areas of deficiency and instances of noncompliance with federal regulations.

The department has not assigned accountability to ensure that corrective action is taken on findings from audits of subrecipients performed in accordance with OMB Circular A-133. According to OMB Circular A-110, paragraph .51(a), “Recipients are responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements.” Also, according to the A-133 *Compliance Supplement*, a pass-through entity is responsible for “ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.” The department could not provide audit reports for 8 of 25 Local Education Agencies (LEAs) (32%) tested.

In addition, a lack of internal control was noted during the monitoring testwork for the Innovative Education Program Strategies program. The department requires all LEAs to send an annual self-monitoring report to regional consultants throughout the state. The LEAs use the monitoring report to document areas of noncompliance, and the regional consultants follow up on each area noted. The department groups the LEAs by region into East Tennessee, Middle Tennessee, or West Tennessee and requires the regional consultants to forward one-third of the LEA monitoring reports to the department to document that monitoring has occurred and to ensure that any deficiencies noted in the report have been corrected. Testwork revealed several problems. (1) Monitoring reports submitted by the regional consultant for West Tennessee did not agree with the department’s listing of the LEAs to be monitored. (2) The department’s listing of LEAs did not agree with the regional consultant’s listing for the Middle Tennessee region. (3) Two LEAs designated by the department as being in the East Tennessee region and whose reports were required to be submitted to the department in fiscal year 2002 were designated as being in the Middle Tennessee region on the consultant’s listing. In addition, the consultant’s listing showed the year of submission as fiscal year 2001 for one of the LEAs and fiscal year 2000 for the other LEA. (4) A Middle Tennessee LEA report designated by the

department as being due for submission in fiscal year 2002 was designated on the consultant listing as being due for submission in fiscal year 2001.

Finally, the department did not communicate the Catalog of Federal Domestic Assistance (CFDA) number to subrecipients for the Innovative Education Program Strategies, Class Size Reduction, and Vocational Education-Basic Grants to States programs, as required by OMB Circular A-133.

### **Recommendation**

The department should assign the responsibility of obtaining audit reports, reviewing subrecipient audit findings, and ensuring that subrecipient audit findings are corrected. In addition, the department should improve communications with regional consultants to ensure that the correct monitoring reports are submitted. The department should communicate to all subrecipients the CFDA numbers for federal programs passed through to the subrecipients.

### **Management's Comment**

We concur. Responsibility for obtaining audit reports and review of audit findings for corrective action will be assigned to finance staff. Communications between regional consultants and school districts will be improved to assure compliance with federal regulations.

<b>Finding Number</b>	02-DHS-02
<b>CFDA Number</b>	93.558
<b>Program Name</b>	Temporary Assistance for Needy Families
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	G9901TNTANF; G0001TNTANF; G0101TNTANF; G0201TNTANF
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**The Department of Human Services did not maintain adequate documentation of the information needed to determine eligibility for Temporary Assistance for Needy Families and Food Stamps**

**Finding**

As noted in the prior audit, the Department of Human Services (DHS) does not maintain adequate documentation of the enrollee's information used to determine eligibility for Temporary Assistance for Needy Families (TANF) and Food Stamps.

DHS uses the Automated Client Certification and Eligibility Network (ACCENT) system to determine eligibility for TANF and Food Stamps. During the enrollment process, county DHS eligibility counselors meet with the potential enrollees in face-to-face interviews. Each applicant is required to provide hard-copy documentation to support various eligibility criteria. This information includes income, resources, medical expenses, family information, social security numbers, date of birth, etc. During the enrollment process, eligibility counselors examine documentation supporting the information that is entered into ACCENT. For example, before entering income into the system, an eligibility counselor examines such documentation as employment pay stubs or federal tax returns. At the end of the enrollment process, the documentation supporting the information entered into the system is then returned to the applicant/enrollee. ACCENT makes the eligibility determination based upon the information entered into the system by the eligibility counselor.

Auditor inquiry revealed that the enrollee's application is the only paper documentation consistently kept by DHS. Although ACCENT maintains electronic case notes, there is no documentation kept to support the eligibility information entered into ACCENT. Without adequate documentation of the information entered into ACCENT, the risk is increased that ineligible enrollees may be enrolled.

Discussions with management at DHS revealed that the department relies heavily upon information from the Tennessee Department of Labor and Workforce Development, the Social Security Administration (SSA), the Tennessee Department of Health, and the Internal Revenue Service (IRS) for verification of eligibility information. From the Department of Labor and

Workforce Development, DHS receives monthly data on Unemployment Insurance Benefits that can be used to verify unemployment income.

DHS also receives monthly beneficiary and earnings data, daily social security number verification, and daily information on Supplemental Security Income (SSI) recipients from SSA. The data from SSA provide DHS a method of verifying an individual's Social Security payments, social security number, Medicare eligibility status, and SSI eligibility status. Through the Office of Vital Records within the Department of Health, DHS has daily access to birth records. This information can be used to verify ages and relationships needed when making an eligibility determination. DHS also receives wage data from the Department of Labor and Workforce Development. However, not all employers are required to report employee wages to the state. Employers that are not required to report include churches, regardless of the size of payroll or number of employees, and non-government organizations with a small payroll and/or few employees. Furthermore, this information is sometimes several months old and is reported on a quarterly basis. Eligibility is determined based on current monthly income. In addition, the information DHS receives from the IRS concerning income that is reported on an individual's IRS 1099 form is delayed several months and is reported on a yearly basis.

Although DHS receives information from outside sources, not all eligibility requirements can be verified through this information. These outside information sources do not provide a systematic way to verify all types of income an enrollee might have. In addition, none of the updates received from other departments include documentation of other resources for non-SSI recipients or medical expenses that could affect an eligibility decision.

For the Food Stamp program, the department relies on quality control sampling to monitor the accuracy of information in ACCENT and eligibility determination. Quality control personnel select samples monthly of persons eligible for Food Stamp benefits. This unit verifies the accuracy of information in ACCENT with outside sources. It also selects a sample of denied cases and determines if the applicant was appropriately denied. Sample sizes are approved by the federal government, and the samples are selected randomly. Federal monitors are also sent a sample of cases that have been reviewed by the quality control unit. However, certain types of cases are not tested. These consist mainly of noncooperation cases where the enrollee either fails or refuses to cooperate or the department is unable to locate the individual. If one of these cases is selected for inclusion in the sample, it is replaced by another case. The case is investigated, but it is not considered in the calculation of the error rate of the sample. For the period of October 2001 through March 2002, the quality control unit selected a total of 592 cases for review, and 72 of these cases (12%) were replaced with another case because the quality control unit could not obtain enough information to determine whether the program participant was eligible. Excluding those cases from the error rate of the review could affect the results. For example, the error rate could be higher or lower based upon the results of the noncooperation cases.

A sample of cases tested by the quality control unit was reviewed to determine if the information documented in the quality control case files supported the reviewer's conclusions about the eligibility of these cases. No problems were noted.

The department contracts with the University of Tennessee to review active TANF cases on a continuing basis. On a monthly basis, DHS Information Systems personnel randomly select cases for review by the University of Tennessee. This testwork consists only of determining if the caseworker properly determined eligibility and benefit amounts based on the information in ACCENT. There is no attempt made to determine the accuracy of the information in ACCENT, and this testwork is not reviewed by federal monitors as with the Food Stamp program.

Maintaining documentation provided by the applicant during enrollment would allow the department to test all cases selected. The department would then no longer have the problem of being unable to locate the enrollee or obtain the cooperation of the enrollee.

Management did not concur with the prior finding. It is management's position that keeping copies of supporting documents is unnecessary because

- a. much of the information supporting the eligibility of recipients is verified through data matches described above,
- b. the Department of Human Services has a quality control process that samples a portion of the recipient population monthly,
- c. the federal Departments of Health and Human Services and Agriculture approved the design of and funded the creation and operation of the ACCENT system with full knowledge of the "paperless" aspects of the system,
- d. the system has been in place since 1992 without any indication from the Departments of Health and Human Services and Agriculture that the process in place was not adequate to meet federal requirements, and
- e. the State Attorney General issued an opinion in 1992 that the application form and the electronic file satisfied the legal requirements for determining eligibility and would be admissible evidence in legal proceedings and that there were no federal requirements specifying that written documentation other than the signed application form be maintained.

We believe that management's arguments are not unreasonable. However, we believe that management should either implement a process to maintain supporting documentation or obtain explicit approval from the appropriate federal authorities for maintaining the "paperless" system for the following reasons:

- a. while the data matches do verify much of the necessary information for many of the recipients, they do not verify such things as other resources and medical expenses for most recipients, they do not verify income information for all recipients, and they do not always provide timely information;
- b. at best, a quality control system provides after-the-fact inferences about the accuracy of eligibility determinations, and the system does not include all enrollees in the population sampled;

- c. DHS has not been able to produce evidence that the federal Department of Health and Human Services and the Department of Agriculture specifically approved the “paperless” aspects of the system;
- d. the federal Department of Health and Human Services and the Department of Agriculture have not specifically stated that the process in place is adequate to meet federal requirements; and
- e. while federal regulations do not state what specific documentation is needed to support eligibility determinations for the Food Stamp and TANF program’s, OMB Circular A-87 does state that costs must be adequately documented to be allowable under federal awards.

Furthermore, without maintaining the documentation, the department cannot ensure that the information entered into ACCENT is accurate and TANF and Food Stamp enrollees are eligible at the time benefits are awarded. Not maintaining this documentation also reduces accountability for information entered and makes researching cases more difficult.

### **Recommendation**

The Commissioner should institute procedures which ensure that the department keeps documentation of the information entered into ACCENT that is used to determine eligibility for TANF and Food Stamps or obtain explicit approval from the appropriate federal authorities for maintaining the “paperless” system.

### **Management’s Comment**

We do not concur. As stated in the prior year audit response, we feel that the ACCENT system provides adequate documentation for the eligibility process in the TANF and Food Stamp programs.

DHS received the major portion of funding for ACCENT from the federal funding agencies to construct this system. ACCENT was certified to meet the federal requirements of FAMIS (Federally Approved Management Information Systems). In addition, the “paperless” aspect was approved by the U.S. Department of Agriculture (USDA), after a review by the USDA Office of General Counsel found that the process met the provisions under the federal law. Also, the Attorney General for the State of Tennessee opined that the paperless system met the program and state requirements.

We understand that our objection to last year’s finding is still in the hands of the U.S. Department of Health and Human Services, Office of Inspector General, for resolution.

## **Rebuttal**

As stated in the rebuttal to the prior audit finding, based on discussions with the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services we believe that documentation is necessary and required by Office of Management and Budget, Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

<b>Finding Number</b>	02-DHS-05
<b>CFDA Number</b>	93.558
<b>Program Name</b>	Temporary Assistance for Needy Families
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	G9901TNTANF; G0001TNTANF; G0101TNTANF; G0201TNTANF
<b>Finding Type</b>	Reportable Condition; Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	\$4,469.50

**The Department of Human Services did not reduce Temporary Assistance for Needy Families assistance for participants who failed to cooperate with child support requirements**

**Finding**

As noted in the prior audit report, the department did not comply with federal regulations by reducing the assistance to recipients of Temporary Assistance for Needy Families (TANF) who failed to cooperate with child support requirements. Temporary Assistance for Needy Families is a federal program established for the purpose of providing time-limited assistance to needy families with children. The Department of Human Services (DHS) administers the TANF program in Tennessee under the name Families First. One of the important features of this program is the requirement that the head of the household must cooperate with child support authorities. Management concurred with the prior audit finding. To remedy this problem, management stated that it would issue a formal memorandum to field workers reminding them of the cooperation requirement, and would issue a mandate to the field management staff to ensure that the staff understood the requirement. Notwithstanding these efforts, this problem still remains.

During fiscal year 2002, DHS issued child support “non-cooperation” letters on 2,116 cases. A sample of 66 of these cases was selected for testwork to determine if the TANF assistance related to the cases was reduced as a result of failure to comply with child support authorities. Of these 66 cases, 37 were determined to be applicable. Testwork on the 37 sample cases revealed that there was no reduction of benefits on any case for which child support “non-cooperation” letters were issued. *Code of Federal Regulations*, Title 45, Section 264.30(c)(1), requires that recipients of TANF benefits who do not cooperate with child support authorities shall be sanctioned by “deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance. . . .” As a result, questioned cost was determined to be \$4,469.50. The likely federal questioned cost associated with this condition could exceed \$10,000. *Code of Federal Regulations*, Title 45, Section 264.31(a)(3), further explains that the state may be penalized up to 5% of the State Family Assistance Grant for failure to substantially comply with this child support related requirement.

Failure to follow applicable federal regulations could result in undetected federal noncompliance as was shown in the cases described above.

### **Recommendation**

The Commissioner should direct the Assistant Commissioner of Adult and Family Services to begin a review of the procedures used by field management staff to monitor the performance of their case workers and revise those procedures to ensure that Families First assistance is promptly reduced in cases of child support non-cooperation.

### **Management's Comment**

We concur. The department was unaware that the TCSES system was failing to correctly generate notification when there was an instance of child support non-cooperation until this same finding was brought to management's attention last year. Since this notification was not always generated, the TCSES-ACCENT interface failed to pick up information related to participants who had been determined to be non-cooperative with the child support requirements. As a result, staff did not receive alerts, which would have notified them of the non-cooperation.

A memorandum was sent to the field on March 8, 2002, regarding the child support cooperation requirements and the problems with the interface. This memo advised staff to check TCSES prior to authorization of benefits to ensure the individual was in compliance with child support requirements. This was an immediate response to the FY01 audit finding.

The TCSES-ACCENT interface changes were made in July 2002, and alerts related to instances of non-cooperation with child support are now generated correctly. A memorandum dated July 31, 2002, was sent to the field advising them of this correction, and reminding them of their responsibilities when they are notified of a participant's failure to comply with child support requirements. To make sure that staff are following prescribed policies and procedures when there is an instance of child support non-cooperation, the Active Case Review process includes this as a mandatory part of each review. However, because the changes to the interface were not completed, and implemented, until July 2002, the problem still existed when the sample cases selected for the FY02 audit were reviewed.

<b>Finding Number</b>	02-DHS-06
<b>CFDA Number</b>	93.563
<b>Program Name</b>	Child Support Enforcement
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	G0104TN4004; G0204TN4004
<b>Finding Type</b>	Material Weakness, Noncompliance
<b>Compliance Requirement</b>	Program Income, Reporting, Special Tests and Provisions
<b>Questioned Costs</b>	\$6,000,000.00

**The department did not comply with child support enforcement procedures**

**Finding**

As noted in the prior eight 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. Management concurred with the prior audit finding and stated that it would emphasize compliance requirements at the quarterly administrators' meetings. Some of the weaknesses have been resolved; however, the following weaknesses still exist.

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

- a. Nine of the 25 medical support cases tested (36%) and 5 of the 25 child support obligation cases (20%) did not comply with review procedures. The *Code of Federal Regulations*, Title 45, Section 303.8 (2), states, "Not less than every three years, notify each parent subject to a child support order in the State of the right to request a review of the order, and the appropriate place and manner in which the request should be made." The length of time since the last review ranged from approximately 3 years to 13 years.
- b. One of the 25 medical support cases tested (4%) had medical insurance information in the case file that was not documented in TCSES. The *Code of Federal Regulations*, Title 45, Section 307.10(b)(14)(ii), states that the state's computerized support enforcement system must "use automated processes to assist the State in providing automated maintenance of case records for purposes of the management and tracking requirements." As a result of this omission in TCSES, court-ordered support information had not been obtained by the caseworker.
- c. Two of the 25 child support cases tested for paternity establishment (8%) had not been properly maintained. In one case, there was a mail message sent on July 11, 2002, indicating that the case had been closed in another state and asking for

verification of this information. As of October 29, 2002, no follow-up had been done. In the other case, no follow-up had been done on a child support noncooperation letter dated December 15, 2001.

If a parent is not notified of the right to request a review of the court order, or information is not properly loaded into the TCSES system, caretakers and dependent children may be deprived of needed financial support, and the state's Child Support Enforcement Program may not be reimbursed for program expenditures. Failure to notify caseworkers when a custodial parent is not cooperating with the child support enforcement program could cause a custodial parent to receive TANF (Temporary Assistance for Needy Families) benefits to which the parent is not entitled. Also, untimely closing of cases creates unnecessary processing delays.

As noted in the two prior audit reports, the amount of undistributed child support collections reported in TCSES does not reconcile to the State of Tennessee Accounting and Reporting System (STARS) and the related federal Office of Child Support Enforcement quarterly collection report. TCSES is maintained by the maintenance contractor Accenture, formerly Andersen Consulting. However, due to problems with TCSES and Accenture personnel, data obtained from TCSES have been found to be inaccurate. Another reason for the lack of a reconciliation is that the contingent revenue account in STARS used to account for undistributed collections, is also used to account for interest earnings and administrative fees paid by non-custodial parents. In the prior audit report, management stated that the reconciliation would be completed by the end of September 2002. This has not been completed.

During this audit period, \$6,000,000 in administrative fees paid to the state by non-custodial parents were not reported on the department's federal quarterly report as program income and \$487,333.53 in interest earnings were not reported on the same federal report. Also, \$477,000 in system development costs that were paid to the Office for Information Resources, a division of the Department of Finance and Administration, were recorded as a reduction of the child support contingent revenue account instead of as an expenditure.

### **Recommendation**

The Commissioner should require the Director of Child Support to ensure that custodial parents are notified timely of their rights to have a support order reviewed, information is properly entered into TCSES, cases are closed in a timely manner, and noncooperation letters are followed up on as required. The Commissioner should also assign someone to monitor the compliance of the Director of Child Support.

The Commissioner should ensure that the amount of undistributed child support collections reported in TCSES is reconciled to STARS and the applicable federal reports. A new deadline should be set for this completion. Also, interest revenue, program income, and expenditures should be properly reported and the contingent revenue account should only be used for undistributed child support collections.

## Management's Comment

We concur. The audit report states that the department did not comply with child support enforcement in the prior eight audit reports. The department strives for 100% compliance in all program activities, including child support enforcement. However, the likelihood exists that the goal of 100% compliance in all child support enforcement activities will not be routinely met.

The child support enforcement activities found out of compliance in the audit for FY 2002 are not, in all findings, the same activities found out of compliance for the audit for FY 2001. The audit report statement regarding non-compliance for eight prior audits could be misinterpreted. The finding regarding the parents right to a notice of review and the finding regarding the failure to follow-up on an interstate action sent to another state regarding case closure (even though similar, this differs from the FY 2001 audit finding that a request from another state was not responded to timely) were not found in the FY 2001 audit report. The audit report should distinguish between new and repeat findings.

- a. We concur. Information Memorandum IM-2001-01 was issued June 12, 2001 regarding issuing review and adjustment notices. The process described in this memorandum created an automated cycle within the Tennessee Child Support Enforcement System (TCSES) whereby the custodial and non-custodial parent would receive a notice every 36 months. It was determined during Technical Assistance Reviews conducted by program staff that TCSES could err in setting the due dates correctly to alert the case worker that a review for possible adjustment was due. A system task was initiated to correct this problem and will be implemented by June 2003. The Child Support Services Manual was updated December 2, 2002, with current review and adjustment procedures. Review and Adjustment policy and procedures are covered in new employee training.
- b. We concur. The automated National Medical Support Notice (NMSN) process was implemented in TCSES on September 23, 2002. Prior to implementation, the process was discussed with Child Support Administrators and Attorneys during the June 2002 meeting. The description of this process was provided to local staff by Information Memorandum IM-2002-69, dated October 24, 2002. The memorandum contained policy and procedures for the new process and instructions for using the new related forms including the National Medical Support Notice. The memorandum further includes descriptions of the TCSES screens that were modified, an explanation of the enhanced TCSES functionality, and information about administrative appeals on administrative medical support enforcement activities. The NMSN process automatically generates a notice to employers to enroll dependents in the employee's health insurance plan. TCSES documents and tracks the process with appropriate alerts to caseworkers. Technical Assistance Reviews (TAR) by state staff review local enforcement office operations, which includes medical support enforcement. Corrective action plans are required with follow-up. New employee training covers medical support enforcement.
- c. We concur. The training package for new employees was released in March 2002. It is a nine day training course that is required for all new child support employees. The

session includes an interstate module that addresses the required time frames. In a number of areas, experienced employees have also participated. In addition to staff members that have participated in new employee training sessions during the past year, special interstate training sessions have been delivered in four jurisdictions. The child support manual also includes chapters on interstate and case closure. This training will continue to be a part of our new employee training. Interstate process training is also offered as a special session to experienced staff. Interstate processes will also continue to be on occasion, a topic of administrator's meetings.

The child support manual has a policy that covers non-cooperation. The TAR conducted by state staff on local enforcement activities reviews this area for compliance and requires appropriate corrective action. The training package for new employees released in March 2002, addresses policy regarding this area. TCSES sends alerts to Families First caseworkers each time that a participant is non-cooperative with child support. The Families First and Child Support Programs coordinate this activity closely to ensure good cause and non-cooperation policies are appropriately applied.

The amount of undistributed child support collections reported in TCSES is now reconciled to the quarterly collection report that is sent to the federal office of Child Support Enforcement. Work is currently well underway to reconcile this amount to the State of Tennessee Accounting and Reporting System (STARS). We expect the reconciliation to be completed this calendar year.

In regard to program income not reported on the federal quarterly report of expenditures, we are aware of this problem and have discussed it with federal OCSE officials. Adjustments to the federal reports will be made in the near future and safeguards will be implemented to attempt to prevent this error from reoccurring.

Regarding the \$477,000 in system development costs paid from the contingent revenue account, this was an error due to an internal miscommunication.

In the future, program income will be properly reported and the contingent revenue account will only be used for undistributed collections once the above mentioned reconciliation is completed.

<b>Finding Number</b>	02-DCS-02
<b>CFDA Number</b>	93.658
<b>Program Name</b>	Foster Care – Title IV-E
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Children’s Services
<b>Grant/Contract No.</b>	9901TN1401 through 0202TN1401
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**Case files do not contain adequate documentation of case manager compliance with departmental policies regarding contacts, timeliness of case recordings, permanency plans, and criminal background checks for foster parents**

**Finding**

As noted in the prior three audits covering the period July 1, 1998, to June 30, 2001, the Department of Children’s Services (DCS) did not have adequate documentation in children’s case files showing case manager contact with the child, family, or other individuals. DCS 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 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. Case recordings and all other documentation shall be added to the case file within 30 days of case work activity. Each case shall have a case recording for each month that the case is open.

Management concurred with the prior findings and stated in its last two responses that it would “. . . continue to stress its policy regarding timeliness of case documentation and the necessity of case documentation for each month that a child is in care. In addition to quarterly monitoring of case files by field supervisors, central office staff from the Division of Program Operations will continue to monitor case recording during their case file reviews.”

Although the department has made progress in reducing problems with case documentation, problems were again noted involving time lapses between documented case manager contact with the child, family, or other individuals as evidenced by case note recordings. Seven of 115 case files tested (6%) did not contain adequate documentation of case manager contact in accordance with DCS policy at the time the file was reviewed. In all 7 instances, there were gaps in dates between case manager contacts as documented in the case recordings. Time lapses between documented contacts ranged from 37 to 195 days (averaging

62 days) in the files tested. The prior audit finding disclosed inadequate documentation of case manager visits in 26 of 116 case files examined (22%), with gaps ranging from 35 to 560 days (averaging 117 days).

As previously mentioned, DCS Policy 9.1 requires that case recordings and all other documentation shall be added to the case file within 30 days of case work activity. The TNKIDS system electronically records the date of each case recording entry to the file. Testwork comparing the date of entry with the date of activity disclosed several instances of untimely entries. Forty-nine of 115 case files tested (43%) contained instances of case notes being recorded in TNKIDS more than 30 days after case activity, contrary to DCS Policy 9.1. Time lapses between the case activity and the date that the information was entered into TNKIDS ranged from 2 to 265 days past the 30-day deadline (averaging 51 days).

Our review of case files indicated that permanency plan hearings for children in foster care were not always performed in accordance with DCS policy. Permanency plans are used to document the services to be provided and the permanency goals for a child while in state custody. According to DCS Policy 16.33, Foster Care and Permanency Planning Hearings, “The court shall hold a permanency planning hearing within twelve (12) months of the date of a child’s placement in foster care and every 12 months thereafter until permanency is achieved or until the child reaches the age of majority.” Permanency planning hearings are used to review the appropriateness of the established goals for a child and to determine what progress has been achieved in obtaining the stated goals. In 5 of 115 foster care case files tested (4%), the child’s file did not contain evidence that the permanency planning hearing was held within the 12-month criteria as described in DCS policy. One hearing was held six months late, and there was no evidence that the hearing was held for the other four children. DCS Policy 16.33 further states, “A copy of the court order reflecting the hearing’s outcome shall be obtained and filed in the child’s case record.”

In addition, our review of foster home files indicated that documentation of background checks for foster parents was not always maintained in accordance with DCS policy. According to DCS Policy 16.4, Foster Home Study, Evaluation and Training Process, “A criminal background check to include fingerprinting and sex offender registry check must be completed on each foster parent applicant, as well as any other adult member of the household, and documented in the foster home record.” In 4 of 81 foster home files tested (5%), the file did not contain documentation that the background check was performed as described in DCS policy.

### **Recommendation**

The Assistant Commissioner of Program Operations should continue to ensure that case managers are making required contact with children in state custody and documenting the contacts made. Proper documentation, as described in DCS policies, should be prepared within a reasonable time after the visit and entered into TNKIDS within 30 days of the visit. All services provided to a child should be documented in the child’s case file. In addition, quarterly monitoring of case files by field supervisors and case file reviews by central office staff from the Division of Program Operations should specifically address compliance with DCS Policy 9.1.

Permanency planning hearings should be conducted according to DCS policy, and documentation of the hearing should be included in the child's case record. Background checks for foster parents should be performed and documented in the foster home files as outlined in DCS Policy 16.4.

### **Management's Comment**

We concur. The department is encouraged that the number of children not having monthly case recordings has dropped by 73% from the previous year's finding. Management will continue its emphasis on making required contact with children in state custody and to document this contact timely in TNKIDS. We believe that some of the errors found concerning the timeliness of documenting case activity is due to an ongoing clean-up effort that the department instituted in June 2001. The department began producing regional monthly reports of all children in state custody containing the last date of case recording activity. The regional staff then examined the paper case files to determine whether any case activity had been omitted from TNKIDS. If there were any omissions, they were then added to TNKIDS. Since this was a clean-up effort, one would anticipate that the case recordings would be entered after the 30-day requirement.

Management will heighten its emphasis on the importance of performing and documenting criminal background checks for foster parents. Management feels very strongly that these background checks should have been performed. Additional and ongoing training shall be provided to field staff in this area.

The department does not have control over when the Permanency Planning Hearings are placed on the juvenile courts' dockets. Departmental staff will continue to prepare cases for Permanency Planning Hearings and file the necessary paperwork with the courts to have the case placed on the court docket. All efforts to secure a date for the hearings should be documented in the case file.

<b>Finding Number</b>	02-DCS-04
<b>CFDA Number</b>	93.658
<b>Program Name</b>	Foster Care – Title IV-E
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Children’s Services
<b>Grant/Contract No.</b>	9901TN1401 through 0202TN1401
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$7,915

**The department charged the Title IV-E program for children who were not eligible for Title IV-E reimbursement**

**Finding**

The Department of Children’s Services (DCS) charged the Title IV-E Foster Care program for children who were not eligible for Title IV-E reimbursement. The Adoption and Safe Families Act of 1997 requires documentation that efforts were made to preserve the family and that removal of a child from his/her home was appropriate and necessary to ensure the child’s safety, health, and welfare. To meet these requirements, DCS Policy 16.36, “Title IV-E Foster Care Funds, Court Orders and the Initial Eligibility Determination Process,” states,

DCS legal staff and/or case managers shall ensure that the first court order sanctioning the removal of the child shall include a judicial determination to the effect that continuation in the home is “contrary to the welfare of the child” or that “placement is in the best interest of the child” or words to that effect.

Furthermore, DCS Policy 16.35, “Title IV-E Foster Care Funds and On-Going Reasonable Efforts to Finalize Permanency Plans,” requires DCS to secure a new court order at each permanency hearing that includes a judicial determination that reasonable efforts have been made to finalize the goal of the permanency plan. Permanency plan hearings are held no later than 12 months after a child enters custody and every 12 months thereafter. Absent the required language in judicial determinations, the department may not receive Title IV-E Foster Care reimbursement for the care and maintenance of an otherwise eligible child. Policies 16.35 and 16.36 provide specific instructions for case managers to follow in recording the child’s benefit status in the appropriate computer systems and documenting the child’s status in the case files.

During a review of 115 children’s case files, it appeared the department received Title IV-E funds for four children (3%) during periods when they were not IV-E reimbursable. The case files for the four children did not contain the required language in the court orders that would allow for Title IV-E reimbursement. According to a DCS Fiscal Director, the foster care amounts are allocated to the Title IV-E program based on the information in the eligibility database at the date of the expenditure. Incorrect eligibility information in the database results in incorrect reimbursements of Title IV-E funds. Even if these errors are subsequently found and

corrected in the database, the program is not designed to retroactively adjust the Title IV-E expenditures. Instead, the program picks up the new status as of the next billing period. Therefore, it is imperative that the data entered into the eligibility database be accurate and current and that manual adjustments be made to the IV-E allocations when errors are found. Foster care payments of \$7,914.91 were made during periods when the children were not IV-E reimbursable and are questioned costs. Total Title IV-E payments to foster care parents for the year were \$15,637,592. We believe likely questioned costs for such occurrences exceed \$10,000.

### **Recommendation**

In accordance with departmental Policies 16.35 and 16.36, case managers should ensure the eligibility of children for Title IV-E Foster Care is adequately documented in the case files and prompt and accurate status changes are recorded in the department's computer systems. As part of the department's prepayment authorization process, case managers should review information in the eligibility database and ensure that the Title IV-E reimbursement status is correct prior to payment.

### **Management's Comment**

We concur. The Assistant Commissioner for Fiscal and Administrative Services, in conjunction with divisional management staff, will prepare a formal request to the department's Information Resources Section to provide programming to enable automated data matches between the computer application used by fiscal to determine funding and ChipFins. As eligibility status is not fixed, manual review and adjustment cannot be performed timely and is not practical due to the volume of children in custody. Although performing data matches between the funding database and ChipFins will provide immediate correction of the problem, it is management's goal to continue to aggressively pursue the Placement Re-Design and Title IV-E Eligibility module development and implementation in the TNKIDS system. These modifications along with the implementation of the Oracle Financial System will correct this problem going forward from a fiscal perspective.

<b>Finding Number</b>	02-DCS-02
<b>CFDA Number</b>	93.659
<b>Program Name</b>	Adoption Assistance
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Children's Services
<b>Grant/Contract No.</b>	0101TN1407 through 0201TN1407
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**Case files do not contain adequate documentation of case manager compliance with departmental policies regarding contacts, timeliness of case recordings, permanency plans, and criminal background checks for foster parents**

**Finding**

As noted in the prior three audits covering the period July 1, 1998, to June 30, 2001, the Department of Children's Services (DCS) did not have adequate documentation in children's case files showing case manager contact with the child, family, or other individuals. DCS 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 states,

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Management concurred with the prior findings and stated in its last two responses that it would ". . . continue to stress its policy regarding timeliness of case documentation and the necessity of case documentation for each month that a child is in care. In addition to quarterly monitoring of case files by field supervisors, central office staff from the Division of Program Operations will continue to monitor case recording during their case file reviews."

Although the department has made progress in reducing problems with case documentation, problems were again noted involving time lapses between documented case manager contact with the child, family, or other individuals as evidenced by case note recordings. Seven of 115 case files tested (6%) did not contain adequate documentation of case manager contact in accordance with DCS policy at the time the file was reviewed. In all 7 instances, there were gaps in dates between case manager contacts as documented in the case recordings. Time lapses between documented contacts ranged from 37 to 195 days (averaging 62 days) in the files tested. The prior audit finding disclosed inadequate documentation of case

manager visits in 26 of 116 case files examined (22%), with gaps ranging from 35 to 560 days (averaging 117 days).

As previously mentioned, DCS Policy 9.1 requires that case recordings and all other documentation shall be added to the case file within 30 days of case work activity. The TNKIDS system electronically records the date of each case recording entry to the file. Testwork comparing the date of entry with the date of activity disclosed several instances of untimely entries. Forty-nine of 115 case files tested (43%) contained instances of case notes being recorded in TNKIDS more than 30 days after case activity, contrary to DCS Policy 9.1. Time lapses between the case activity and the date that the information was entered into TNKIDS ranged from 2 to 265 days past the 30-day deadline (averaging 51 days).

Our review of case files indicated that permanency plan hearings for children in foster care were not always performed in accordance with DCS policy. Permanency plans are used to document the services to be provided and the permanency goals for a child while in state custody. According to DCS Policy 16.33, Foster Care and Permanency Planning Hearings, “The court shall hold a permanency planning hearing within twelve (12) months of the date of a child’s placement in foster care and every 12 months thereafter until permanency is achieved or until the child reaches the age of majority.” Permanency planning hearings are used to review the appropriateness of the established goals for a child and to determine what progress has been achieved in obtaining the stated goals. In 5 of 115 foster care case files tested (4%), the child’s file did not contain evidence that the permanency planning hearing was held within the 12-month criteria as described in DCS policy. One hearing was held six months late, and there was no evidence that the hearing was held for the other four children. DCS Policy 16.33 further states, “A copy of the court order reflecting the hearing’s outcome shall be obtained and filed in the child’s case record.”

In addition, our review of foster home files indicated that documentation of background checks for foster parents was not always maintained in accordance with DCS policy. According to DCS Policy 16.4, Foster Home Study, Evaluation and Training Process, “A criminal background check to include fingerprinting and sex offender registry check must be completed on each foster parent applicant, as well as any other adult member of the household, and documented in the foster home record.” In 4 of 81 foster home files tested (5%), the file did not contain documentation that the background check was performed as described in DCS policy.

### **Recommendation**

The Assistant Commissioner of Program Operations should continue to ensure that case managers are making required contact with children in state custody and documenting the contacts made. Proper documentation, as described in DCS policies, should be prepared within a reasonable time after the visit and entered into TNKIDS within 30 days of the visit. All services provided to a child should be documented in the child’s case file. In addition, quarterly monitoring of case files by field supervisors and case file reviews by central office staff from the Division of Program Operations should specifically address compliance with DCS Policy 9.1. Permanency planning hearings should be conducted according to DCS policy, and

documentation of the hearing should be included in the child's case record. Background checks for foster parents should be performed and documented in the foster home files as outlined in DCS Policy 16.4.

### **Management's Comment**

We concur. The department is encouraged that the number of children not having monthly case recordings has dropped by 73% from the previous year's finding. Management will continue its emphasis on making required contact with children in state custody and to document this contact timely in TNKIDS. We believe that some of the errors found concerning the timeliness of documenting case activity is due to an ongoing clean-up effort that the department instituted in June 2001. The department began producing regional monthly reports of all children in state custody containing the last date of case recording activity. The regional staff then examined the paper case files to determine whether any case activity had been omitted from TNKIDS. If there were any omissions, they were then added to TNKIDS. Since this was a clean-up effort, one would anticipate that the case recordings would be entered after the 30-day requirement.

Management will heighten its emphasis on the importance of performing and documenting criminal background checks for foster parents. Management feels very strongly that these background checks should have been performed. Additional and ongoing training shall be provided to field staff in this area.

The department does not have control over when the Permanency Planning Hearings are placed on the juvenile courts' dockets. Departmental staff will continue to prepare cases for Permanency Planning Hearings and file the necessary paperwork with the courts to have the case placed on the court docket. All efforts to secure a date for the hearings should be documented in the case file.

<b>Finding Number</b>	02-DCS-03
<b>CFDA Number</b>	93.659
<b>Program Name</b>	Adoption Assistance
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Children's Services
<b>Grant/Contract No.</b>	0101TN1407 through 0201TN1407
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$49,992.00

**Adoption Assistance files did not contain adequate documentation, and the department should review its policy related to Adoption Assistance payments when children return to state custody**

**Finding**

The Adoption Assistance Program contributes financially to assist families, otherwise lacking the financial resources, in adopting eligible children with special needs. Adoption assistance payments are to be based on the child's needs and the family's circumstances. Families must renew assistance annually by completing an application, agreement, and a notarized affidavit. Federal regulations require the state to make reasonable efforts to place a child for adoption without a subsidy. According to departmental policy, the case manager must ask prospective adoptive parents if they are willing to adopt without Adoption Assistance payments. If the family says they cannot adopt without Adoption Assistance payments, the department considers the reasonable efforts requirement to have been met, and the process for obtaining Adoption Assistance begins.

Adoption Assistance files did not contain adequate documentation related to the yearly renewal affidavits, applications, and agreements that must be completed by the adoptive parents, as required by the department's *Adoption Services Policies and Procedures Manual*. Based on a review of 120 Adoption Assistance case files, 17 files (14%) were missing all three of the aforementioned documents. Management subsequently located the documents that were missing in 12 of the files. However, the subsequent evidence provided to the auditors should have been included in the case files during their initial review. Adoption Assistance payments totaled \$22,092 for the five children whose documentation was not located. The federal questioned costs for these payments totaled \$14,059, and the remaining \$8,033 is state matching funds. The total federal share of payments made to adoption assistance parents was \$9,278,504.

In addition, adequate documentation was not maintained showing the reasons parents were continuing to receive adoption assistance payments beyond the 18th birthday of the child. Of the 22 files of children over 18 in our sample, 14 (64%) did not contain documentation supporting the continuation of the subsidy. Management subsequently located the documents that were missing in four of the files. However, the subsequent evidence provided to the auditors should have been included in the case files during their initial review. Title IV-E funded

Adoption Assistance is available until the child reaches age 18 or up to age 21 if the child has a mental or physical handicapping condition as established in the initial Adoption Assistance Agreement. If the child does not meet handicapping conditions at age 18, the Title IV-E case must be closed. A state-funded case can be opened if the child remains in high school for adoption assistance agreements created after October 1997 and any full-time school for agreements created prior to October 1997. Department of Children's Services Policy 15.10, "Adoption Assistance Agreements Created Prior to October, 1997," states, "School attendance or handicapping condition must be verified and documented in the adoption assistance case file." Adoption Assistance payments totaled \$54,717 for the ten children whose documentation was not located. The federal questioned cost for these payments totaled \$34,822, and the remaining \$19,895 is state matching funds. These amounts include federal questioned costs of \$3,498 and state matching funds of \$1,999 for one child who was also questioned in the preceding paragraph.

Furthermore, the review of adoption assistance case files disclosed one instance where adoptive parents continued to receive payments that were made on behalf of their adopted child when the child was in state custody and residing with foster parents who were receiving foster care payments. As a result, the department was making both adoption assistance and foster care payments to two individual households for the welfare of one child. According to federal regulations and departmental policies, adoptive parents are eligible to continue to receive Adoption Assistance payments even when the child is in state custody. However, the adoptive parents must continue to contribute to the child's support. According to departmental policy, child support is defined as

- compliance with the permanency plan;
- financial contributions to the child's support;
- travel to and from the residential placement resource as required by the treatment and/or permanency plan;
- participation in the treatment plan for the child as prescribed by the treating professionals;
- providing clothing, personal items, allowance, etc., for the child; and
- providing emotional support to the child which can be documented by the treatment professionals.

In this particular case, the child reentered state custody in May of 1999, and evidence in the case file suggested that reunification with the adoptive parents was not possible. Correspondence from the adoptive parents contained in the file included a 1998 letter indicating that the child could not return home and a 2001 card stating that contact will be limited to occasional phone calls and e-mail. Case notes beginning in 2000 also indicate that there has been very little contact between the child and the adoptive parents. However, there is no evidence that a case manager formally questioned the propriety of the adoption assistance payments with supervisory personnel until December 2001. And it was not until June 2002 that the supervisor brought up the issue with the DCS Director of Adoptions, suggesting the need for reviews of cases where adoptive parents continue to receive Adoption Assistance payments for

children in state custody and in out-of-home placements. Adoption Assistance payments continued to be made to the adoptive parents for the entire audit period and subsequently through November of 2002.

Such payments do not appear to meet the reasonable criteria for allowable costs according to Office of Management and Budget Circular A-87, Attachment A, Section C.2. Adoption Assistance payments for this child totaled \$7,242 for the year ended June 30, 2002. This amount includes federal questioned costs of \$4,609, and the remaining \$2,633 is state matching funds.

### **Recommendation**

The Commissioner should develop a formal policy to delineate the required contents of adoption assistance case files, similar to the current policy, "Administrative Policies and Procedures 9.1," which governs foster care case files. The Assistant Commissioner of Program Regional Services and the Director of Adoptions should develop procedures to ensure that Adoption Assistance case files are complete and that renewals and extensions of agreements are current and adequately supported, especially supporting the conditions justifying agreements which extend past the child's 18th birthday. Furthermore, procedures should be developed to identify instances where the department is making simultaneous adoption assistance and foster care payments on behalf of a child. The propriety of continuing Adoption Assistance payments for children in state custody should be periodically evaluated and documented on a case-by-case basis.

### **Management's Comment**

We concur. The Department of Children's Services will draft a policy to govern adoption assistance case files that parallels the current DCS Policy 9.1 for foster care case files. This policy will include a listing of items located in the file, procedures for periodic case file review and scheduled redeterminations of eligibility for adoption assistance. Procedures will be put in place to periodically review files to insure the propriety of continuing adoption assistance payments for children in state custody.

<b>Finding Number</b>	02-DFA-10
<b>CFDA Number</b>	93.767
<b>Program Name</b>	State Children's Insurance Program
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TNR21, 05-0205TNR21
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**Internal control over TennCare eligibility is still not adequate**

**Finding**

As noted in the seven prior audits of the Bureau of TennCare, internal control over TennCare eligibility is not adequate. Management concurred in part with the prior audit findings, as discussed throughout this finding. In response to the prior-year finding, management corrected weaknesses regarding policies and procedures, recipients enrolled on TennCare twice, and enrollees with out-of-state and post office box addresses. However, serious internal control issues still exist.

During the year ended June 30, 2002, the responsibility of initial eligibility determination for the uninsured and uninsurable population, which represents approximately 43% of all TennCare enrollees, was divided between the county health offices in the Department of Health and the Member Services Unit in the Bureau of TennCare. For the Medicaid population, the Department of Human Services (DHS) has the responsibility for eligibility determinations. The Department of Children's Services (Children's Services) is responsible for eligibility determinations of children in state custody.

As of July 1, 2002, DHS began enrolling the uninsured and uninsurable population, which is now called TennCare Standard, in addition to the Medicaid population, which is now called TennCare Medicaid. Children's Services enrolls children in state custody in both TennCare Standard and TennCare Medicaid.

**Inadequate Staff to Verify Information on Applications**

This issue was first reported in the audit for year ended June 30, 2000. The audit reported that the unit that reviews the uninsurable applications was understaffed. Management responded to that finding and stated that a new Member Services Unit would be formed to handle all member communications. However, in the audit for year ended June 30, 2001, we reported that although a new Member Service Unit had been organized, the unit within Member Services was still understaffed.

Management concurred with this portion of the prior audit finding and stated,

Members Services reorganized resources to assure that all services related to members were under one TennCare Division. However, staffing of the uninsurable unit has not increased. The unit is still not staffed to verify all information on all TennCare applications. Under the modifications to the TennCare waiver, submitted to U. S. Department of Health and Human Services in February 2002, the Department of Human Services would be the single point of entry for all TennCare applications. This process will include a face-to-face interview with verification of critical eligibility components. If approved, the modified waiver would become effective January 1, 2003, with eligibility determinations to begin July 1, 2002, at the county Department of Human Services offices.

As stated in management's comments, the unit that reviews the uninsurable, uninsurable with limited benefits, and uninsured with COBRA termination applications was still understaffed during the audit period. These applications also include enrollees in the State Children's Insurance Program (SCHIP). The unit receives approximately 1,000 applications weekly. During the first nine and a half months of the audit period, there were only two individuals who initially reviewed the applications to verify the information for completeness and accuracy. During the transition period (the last two and a half months of the audit period) of moving enrollment to DHS, there were four individuals, with additional job duties, who initially reviewed the applications to verify the information for completeness and accuracy. However, because these four individuals were assigned other job duties, they could not devote 100 percent of their time to the application review process. As a result, for the entire year, not all the information on the applications (e.g., income, access to insurance, address, and citizenship status) was verified for accuracy. Not verifying information on these applications increases the risk that ineligible recipients will be enrolled.

#### No Verification of Applications for Individuals Losing Medicaid

This issue was first reported in the audit for year ended June 30, 2000. That audit reported that the applications were entered on the TennCare Management Information System without verification of information contained on the application. Management then responded that they believed accuracy of eligibility determinations would be improved with the new Member Services Unit. However, in the report for year ending June 30, 2001, we reported that the Bureau still did not verify information contained on applications for individuals losing Medicaid eligibility

Management concurred with this portion of the 2001 audit finding and stated,

The new waiver design, which upon approval is intended to go into effect in July, requires that persons applying for the demonstration population, including those who are exiting the Medicaid program, go into Department of Human Services offices to have all information checked in a face-to-face interview process. This process will be more rigorous than the process that is currently in place and will resolve this finding, we believe.

However, during the audit period, the Bureau did not verify information contained on applications for individuals losing Medicaid eligibility. According to 1200-13-12-.02(5)(a) of the *Rules of the Tennessee Department of Finance and Administration, Bureau of TennCare*,

. . . Persons losing Medicaid eligibility for TennCare who have no access to insurance may remain in TennCare if they are determined to meet the non-Medicaid TennCare eligibility criteria. . . .

These applications were entered on the TennCare Management Information System (TCMIS) and processed without verification of information contained on the application. Without verifying the information on the applications, the Bureau of TennCare cannot ensure that the applicant meets non-Medicaid TennCare eligibility or SCHIP criteria. In addition, not verifying the information on the applications can result in inaccurate premium amounts based upon the unverified and possibly inaccurate income amounts reported by the recipient.

Inadequate Documentation of Eligibility Information (This portion of the finding has not been reported in prior years)

During fieldwork, we examined the applications and all supporting documentation maintained by the Bureau of TennCare for a sample of 60 uninsured and uninsurable enrollees (including SCHIP enrollees). For 57 out of 60 enrollees (95%), we determined that TennCare did not have adequate documentation (such as pay stubs or tax returns) to support the income amounts reported by the enrollee on the TennCare application.

As a result of inadequate income documentation, we could not verify that the income amounts reported by the enrollee were accurate, nor could we determine that correct amounts were used to determine premiums for enrollees or that SCHIP enrollees were eligible. Not maintaining adequate documentation of income increases the risk that incorrect premiums are charged to enrollees.

In addition, we noted that TennCare did not require the Department of Human Services to keep adequate documentation of the information used to determine Medicaid eligibility. See finding 02-DFA-08 for further details regarding this matter.

Invalid and Pseudo Social Security Numbers Again Discovered

This issue was first reported in the audit for the year ended June 30, 1997. In that audit we discovered that several thousand TennCare participants had fictitious or “psuedo” social security numbers. In response to that finding, management stated that the reverification project would help to ensure that valid numbers are obtained from enrollees. The audit report for year ended June 30, 1998, reported that there were still 84 enrollees on TennCare’s system with uncorrected “psuedo” social security numbers. In response to that finding, management stated that “Health Departments included information in their training that addressed validation of Social Security Numbers and obtaining a valid number for enrollees with pseudo numbers.” In the audit report for year ended June 30, 1999, we reported that there were still 68 enrollees on TennCare’s system with uncorrected “pseudo” social security numbers. The response to that finding did not discuss “pseudo” social security numbers. In the audit report for year ended June 30, 2000, we reported that TennCare had 79 enrollees with uncorrected “pseudo” social security

numbers. In response to that finding, management stated that it “is our intent to address this issue as a part of our planning for the new TCMIS.” In the audit report for year ended June 30, 2001, we reported that 76 individuals had uncorrected “pseudo” social security numbers in TennCare’s system.

Management concurred with the 2001 audit finding and stated,

There are pseudo social security numbers in the TCMIS and the Bureau is working on a means of validating and correcting them through the Social Security Administration (SSA). The TCMIS assignment of pseudo social security numbers occurs for newborns to the system through the uninsured/uninsurable process. . . .

Similar to results noted in the five previous audits, when computer-assisted audit techniques were used to search TCMIS, the search revealed that 721 TennCare participants had invalid or pseudo social security numbers. Thirty-three of the 721 social security numbers were pseudo social security numbers that began with “888,” which are assigned by TCMIS. 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. The remaining 688 individuals had invalid social security numbers.

Testwork revealed that, during and after the end of the audit period, TennCare staff replaced 52 of the 721 invalid/pseudo social security numbers with valid numbers. However, the remaining 669 invalid or pseudo social numbers were still in the TCMIS system as of November 2002. Further testwork revealed that one TennCare enrollee had been enrolled in Medicaid with an invalid social security number since 1981. Another enrollee was enrolled since 1991 with a pseudo social security number.

Also, while it is not always possible to obtain social security information for newborns (zero to three months), auditors noted that several individuals with pseudo social security numbers were over one year old or had psuedo social security numbers for several months or years. The total amount paid for individuals with invalid social security numbers was \$583,253. Federal questioned costs totaled \$369,699. The remaining \$213,554 was state matching funds.

According to the *Code of Federal Regulations*, Title 42, Part 435, Section 910(a), “The agency must require, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish each of his or her social security numbers (SSNs).” In addition, according to the *Code of Federal Regulations*, Title 42, Part 435, Section 910(g), “The agency must verify each SSN of each applicant and recipient with SSA [Social Security Administration], as prescribed by the Commissioner, to insure that each SSN furnished was issued to that individual, and to determine whether any others were issued.” TennCare is also required to follow the *Rules of the Department of Finance and Administration, Bureau of TennCare*, Chapter 1200-13-12-.02 (2)(b), which state, “All non-Medicaid eligible individuals . . . 3. Must present a Social Security number or proof of having applied for one. . . .” Also, according to the *Rules of the Tennessee Department of Human Services, Division of Medical Services*, Chapter 1240-3-3-.02 (10), “As a condition of receiving medical assistance through the

Medicaid program, each applicant or recipient must furnish his or her Social Security Number (or numbers, if he/she has more than one) during the application process. If the applicant/recipient has not been issued a number, he/she must assist the eligibility worker in making application for a number or provide verification that he/she has applied for a number and is awaiting its issuance.”

#### Ineligible Enrollees Discovered

This portion of the audit finding was first reported in the prior audit. Management did not concur with this portion of the prior audit finding and stated that,

We do not concur that individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT [the Automated Client Certification and Eligibility Network] represent ineligible TennCare enrollees. As stated in the audit finding, existing business rules allow certain categories of eligibles to be extended for up to 12 months of eligibility within the TCMIS. We concur that Medicaid enrollees could remain eligible beyond the twelve month extended end date as a result of pended/incomplete applications. TennCare generates notices to all Medicaid enrollees 30 days in advance of reaching their TCMIS end date. If an application is entered into ACCENT or the TCMIS within the window allowed, the end date is opened until the application is completed. TennCare Information Systems has worked closely with the Department of Human Services to ensure these pended applications are reported accurately to TennCare, and TennCare reviews any incomplete/pended uninsured/uninsurable applications. Beginning in November 2001 TennCare is identifying the population who have been extended for greater than 12 months of eligibility with aged/pended or incomplete applications, loading end dates to those records and re-sending the 30 day advanced termination notice.

In its comments, management stated that TennCare’s unwritten “business rules” allow certain categories of Medicaid-eligible enrollees a 12-month extension of eligibility even though the enrollee’s eligibility on ACCENT ends before the 12-month extension ends. We determined that the TennCare waiver allows TennCare to grant eligibility for one year only for “medically needy” enrollees if they are eligible for any month of a calendar year. This extension does not appear to apply to any other categories of eligibility. During audit fieldwork, auditors made numerous requests of management to provide written documentation and justification giving TennCare the authority to grant eligibility to “categorically needy” Medicaid enrollees in segments of 12 months, or to allow enrollees to remain Medicaid eligible until all applications are processed. However, as in the previous year no such documentation was provided.

In November 2001, to respond to the prior finding, TennCare identified and started the termination process for enrollees mentioned above rather than citing unsubstantiated existing “business rules.”

A sample of the Medicaid population, excluding Supplemental Security Income (SSI) enrollees, was tested to determine if the enrollees were eligible for Medicaid on the date of service, based solely upon the information in ACCENT. Testwork revealed that TennCare did

not ensure that DHS maintained adequate documentation of the information entered into ACCENT. See finding 02-DFA-08 for further details on this matter. Medicaid enrollees are enrolled through DHS and Children's Services using ACCENT. TennCare receives daily eligibility data files from ACCENT, which update information in TCMIS. The Bureau of TennCare pays the managed care organizations (MCOs) and behavioral health organizations (BHOs) a monthly capitation payment to provide services to these enrollees. For the year ended June 30, 2002, the Bureau paid capitation payments totaling over \$2.3 billion to MCOs and over \$357 million to BHOs for TennCare enrollees. Of the 60 capitation payments for Medicaid enrollees tested, testwork revealed 3 enrollees (5%) were not eligible for Medicaid on the date of service, based solely upon the information in ACCENT. Of the three ineligible enrollees, two enrollees were no longer eligible for Medicaid according to ACCENT, and one enrollee enrolled through Children's Services was no longer in state custody. According to TennCare's eligibility policies and procedures manual, the two enrollees' Medicaid eligibility should have ended in TCMIS one month after eligibility ended in ACCENT.

Specific details from the sample testwork were as follows:

- For one enrollee, Medicaid ended per ACCENT on November 30, 1997, and should have ended in TCMIS on December 31, 1997. However, TennCare did not close the enrollee's Medicaid eligibility on TCMIS until December 31, 2001, which allowed this enrollee to continue receiving Medicaid services for four extra years. This enrollee was not classified as "medically needy."
- For another enrollee, Medicaid ended per ACCENT on August 31, 2001, after 18 months of "Transitional Medicaid." In Tennessee, Families First eligibility automatically qualifies an individual for Medicaid. According to the *Families First Policy and Procedure Manual*, "Transitional Medicaid" is Medicaid eligibility that is extended for 18 months after an individual loses Families First eligibility. This enrollee's Medicaid eligibility should have ended on September 30, 2001, in TCMIS. However, TennCare did not close this enrollee's Medicaid eligibility on TCMIS until February 1, 2002, which allowed this enrollee to continue to receive Medicaid services for an extra four months. This enrollee was not classified as "medically needy."
- One enrollee's Medicaid was open on ACCENT on the date of service, but the child was no longer in state custody. The Child Welfare Benefits Counselors within Children's Services are responsible for eligibility determinations and redeterminations of children in state custody. According to Children's Services' personnel, when a child leaves state custody, Children's Services ends the Medicaid eligibility in ACCENT after a 30-day extension. This enrollee was released from state custody on August 18, 2000. This enrollee's Medicaid eligibility should have ended on September 18, 2000. However, Children's Services did not end the Medicaid eligibility until March 31, 2002, which allowed this enrollee to continue receiving Medicaid services for an extra year and six months.

The Medicaid population, excluding SSI enrollees, makes up approximately 53% of the TennCare population. The total amount of capitation improperly paid during the audit period for

all the errors noted above was \$541, out of a total of \$4,848 tested. Federal questioned costs totaled \$345. The remaining \$196 was state matching funds. We believe likely questioned costs exceed \$10,000.

Furthermore, because TennCare has not ensured that only Medicaid-eligible individuals are enrolled in TennCare as a Medicaid enrollee, ineligible enrollees could be inappropriately enrolled in other programs. For example, according to the *Code of Federal Regulations* Title 7, Part 247, Section 7(d)(2)(vi)(A), Medicaid enrollees are automatically income-eligible for the Department of Health's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

### **Recommendation**

**Note: For the issues that have been repeated in this finding over the years, this is the same basic recommendation that has been made in the many past audits.**

The Director of TennCare should ensure that adequate staff is assigned at DHS and Children's Services to verify information on all applications and that all information on the applications is verified. The Director of TennCare should ensure that documentation of all critical information used in an eligibility determination or premium determination is maintained in the enrollee's file.

The Director should ensure that valid social security numbers are obtained for all individuals in a timely manner. The Director should ensure that only eligible enrollees are receiving TennCare, and all ineligible enrollees should be removed from the program. When possible, TennCare should recover capitation payments made to the MCOs for ineligible enrollees.

### **Management's Comment**

#### **Inadequate Staff to Verify Information on Applications**

We concur that during the audit period we had inadequate staff for verification of information on applications. Under the modifications to the TennCare waiver, approved by the U. S. Department of Health and Human Services on May 30, 2002, the Department of Human Services (DHS) is the single point of entry for all TennCare applications. This process includes a face-to-face interview with verification of critical eligibility components. Once approved, the modified waiver became effective January 1, 2003, with eligibility determinations beginning July 1, 2002, at the county Department of Human Services offices.

TennCare has a contract with DHS that requires performance of eligibility determinations and redeterminations including verification of critical eligibility components.

### **No Verification of Applications for Individuals Losing Medicaid**

See comments above.

### **Inadequate Documentation of Eligibility Information (This portion of the finding has not been reported in prior years)**

We concur in part. Effective July 1 2002, all eligibility determinations are made by DHS through face-to-face encounters. Proof of information regarding income is required at the time of each face to face interview for eligibility determination.

DHS enters all critical information into the ACCENT system. Approval of the ACCENT system design, which includes the electronic recording of eligibility data, was obtained from the U.S. Department of Health and Human Services before implementation of the system in 1992. There has never been any indication from the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, that the process in place was not adequate to meet federal requirements. In addition, the State Attorney General also issued an opinion in 1992 that the use of an electronic eligibility file and the application form satisfied legal requirements for determining eligibility.

As required by federal law and to ensure program integrity, DHS has had a quality control system in place since implementation of TennCare (and previously under the Tennessee Medicaid program). In this quality control system, called Medicaid Eligibility Quality Control (MEQC), each month DHS uses a random sampling of Medicaid cases to validate eligibility determinations, whether active (eligible) or negative (denied). The MEQC system is designed to reduce erroneous expenditures by monitoring eligibility determinations, third party liability activities, and claims processing (State Medicaid Manual, Part 7, Quality Control). MEQC programs approved in Section 1115 waiver states are relieved of any liability for disallowances for Medicaid eligible enrollees and for individuals added under the waiver resulting from errors that exceed the 3 percent tolerance level established by federal regulations.

In addition, TennCare contracts with the University of Tennessee for the performance of MEQC procedures for the uninsured and uninsurable population.

TennCare believes that the eligibility procedures, including the level of documentation, and the MEQC reviews and follow-up activities provide adequate internal controls over the eligibility process and meet federal requirements.

### **Invalid and Pseudo Social Security Numbers Again Discovered**

We concur in part. The TCMIS assignment of pseudo social security numbers occurs for newborns to the system. Benefits for illegal/undocumented aliens are issued with pseudo numbers, since they cannot get a SSN legally. These are the only cases that will never have a 'real' SSN.

Effective July 1 2002, all eligibility determinations are made by DHS where eligibility information is entered into the ACCENT system. If a number is blank or invalid, ACCENT does an automatic front end match of SSN's entered into the system and provides an 'alert' to the case worker if an adjustment needs to be made. DHS also has a systems report of individuals for those that cannot be matched (usually newborns) that workers are to check. DHS also uses State on-line Query (SOLQ) to verify a number if an individual does not have a card. ACCENT does not allow two individuals to use the same SSN.

### **Ineligible Enrollees Discovered**

We do not concur that individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT represent ineligible TennCare enrollees. As stated in the audit finding, business rules (Member Services Policy – MS-002) allowed certain categories of eligibles to be extended for up to 12 months of eligibility within the TCMIS. We concur that Medicaid enrollees could remain eligible beyond the twelve month extended end date as a result of pended/incomplete applications.

Upon implementation of TennCare, it was apparent that the nature of sudden and retroactive loss of Medicaid eligibility was not in keeping with a good managed care environment. Therefore, methodology was adopted to assure continuity of care for Medicaid enrollees as outlined in the goals for the Waiver and the TennCare Program. Since Families First Legislation extends benefits for eighteen (18) months, it is no longer necessary to provide an additional extension in order to achieve continuity of care for enrollees and we have discontinued this practice.

TennCare generates notices to all Medicaid enrollees 30 days in advance of reaching their TCMIS end date. If an application is entered into ACCENT or the TCMIS within the window allowed, the end date is opened until the application is completed. TennCare Information Systems has worked closely with DHS to ensure these pended applications are reported accurately to TennCare, and TennCare reviews any incomplete/pended uninsured/uninsurable applications. Beginning in November 2001 TennCare identified the population who have been extended for greater than 12 months of eligibility with aged/pended or incomplete applications, loading end dates to those records and re-sending the 30 day advanced termination notice. Significant re-verification efforts were implemented at this time. Effective July 1 2002, DHS became the single point of entry for all TennCare determinations and redeterminations including verification of critical eligibility components.

### **Rebuttal**

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration (F&A) regarding the *Single Audit for the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material weakness, a material instance of noncompliance, and a repeat finding. We recommend 1) procedures be strengthened to ensure participant eligibility is accurately determined and periodically reviewed for any changes that would affect eligibility . . .

Regarding the lack of documentation, the *Code of Federal Regulations* (CFR), 42 CFR 431.17(d), “Conditions for optional use of microfilm copies,”

The agency may substitute certified microfilm copies for the originals of substantiating documents required for Federal audit and review [emphasis added]

While federal regulations do not explicitly define the form of the documentation to be maintained, this regulation establishes that there is an expectation that the department maintain original documentation of the information received.

Regarding the invalid or pseudo social security numbers again discovered, it is not clear from management’s comments which part of the issue management does not concur.

Regarding the ineligible enrollees discovered we did not state that all individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT represent ineligible TennCare enrollees. However, we did identify individuals in TCMIS who appear to be ineligible. Although management does not concur, it again has not provided any documentation to support the eligibility of those enrollees in question. Furthermore, there is no provision in the rules, written policies, or written “business rules” that allows individuals who submit incomplete applications to remain eligible for program services indefinitely. As stated in the audit finding, one enrollee’s Medicaid should have ended on December 31, 1997, but was not ended until four years later on December 31, 2001.

Management did not address the part of the recommendation concerning the recovery of capitation payments made to the MCOs for ineligible enrollees.

<b>Finding Number</b>	02-DFA-36
<b>CFDA Number</b>	93.767
<b>Program Name</b>	State Children's Insurance Program
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TNR21, 05-0205TNR21
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**The TennCare Management Information System lacks the necessary flexibility and internal control**

**Finding**

As noted in four previous audits, 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 \$6.2 billion federal/state health care reform program effectively and efficiently. Management partially concurred with the prior finding and indicated it has begun preparations for implementing a new TennCare Management Information System. Management also stated that the "current work schedule calls for the RFP to be released on February 28, 2002." According to the Director of Information Systems, the RFP was released on April 22, 2002. According to Information Systems (IS) staff, the implementation of a new TCMIS is to occur in 2003 and is a top project for the Bureau of TennCare.

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 organization, behavioral health organizations, and the state's nursing homes rather than developing and enhancing internal control of the system. This has contributed to a number of other findings in this report.

**Recommendation**

The Director of TennCare should continue to 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 system's internal control to prevent or recover erroneous payments. TennCare should ensure that an updated system is implemented timely that more effectively supports TennCare's operations.

## **Management's Comment**

We concur. TennCare Information Systems contracted with EDS to design, test, implement, and maintain a modern, efficient replacement TennCare Management Information System (TCMIS). The new TCMIS, which is scheduled to become fully operational by October 2003, will be a highly sophisticated, feature-rich system centered on a strong, Medicaid-specific relational data model which divides the application into components so that they process on different networked computers, leveraging the true power of client/server architecture.

The new TennCare system will employ modern graphic capabilities and native Windows-based features that only a true graphical user interface (GUI) can provide. Features such as pull-down menus, tabs, and buttons will be programmed for users in each individual application. These features will simplify the windows' uses and reduce the learning curve for new users, which is a significant concern in the new system.

The new TCMIS will be based on a true client/server design utilizing industry-leading Sun servers. The applications will take advantage of the client/server platform capabilities that yield such benefits as concurrent processing and load balancing in a readily scalable environment.

Preliminary testing on the new system indicates that it will effectively solve the shortcomings evident in the current system. The new system will provide for all current functionality plus additional enhanced reporting, tracking, and fraud detection capabilities. This new system will have a vastly superior database as a foundation, which will allow for more expeditious access to any necessary information.

Access to information will be one of the strengths of the new TCMIS. The new system will employ a standard Structured Query Language (SQL) data access methodology. The online application will allow users to query key information using multiple parameters, which will bring extensive flexibility from online information access to users.

The new TCMIS will feature Sun Microsystems servers running Sun Solaris UNIX with server applications coded in ANSI Standard C. Other functions and servers that support the various TCMIS functions will connect off this solid foundation.

In the interim, TennCare has implemented various financial ad-hoc monitoring reports for both the fiscal and program integrity units.

<b>Finding Number</b>	02-DFA-37
<b>CFDA Number</b>	93.767
<b>Program Name</b>	State Children's Insurance Program
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TNR21, 05-0205TNR21
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**Management has misrepresented the corrective action taken regarding controls over access to the TennCare Management Information System**

**Finding**

As noted in the four previous audits, 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 ensuring, but did not ensure that, adequate TennCare Management Information System (TCMIS) access controls were in place during 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 are critical to the integrity and performance of the TennCare program. Good security controls provide access to data and transaction screens on 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.

**Justification Forms Not Obtained for Existing Users**

The lack of authorization forms was first reported in an audit finding for the year ended June 30, 1998. Management then responded that a new security authorization form was being developed. However, in the audit report for the year ended June 30, 1999, we reported that system users still did not have authorization forms. In response to that finding management responded that action had been taken in July 1999 to resolve the issue. However, in the 2000 audit report our finding stated that while authorization forms were being completed by new users beginning in July 1999, no forms had been obtained from existing users. At that time TennCare's security administrator stated that forms were not obtained for all existing users because she was not instructed to obtain these forms. In response to that finding, management stated that they would continue their efforts to ensure that proper access forms are obtained for all TennCare and other users who require interaction with the TennCare system. However, in the

2001 audit report we indicated that authorization forms still had not been obtained for all existing users outside the Bureau of TennCare.

Management concurred with this portion of the audit finding for year ended June 30, 2001, and stated that staff was “currently obtaining justification from users in the Department of Human Services (DHS).” However, once again TennCare has misrepresented the corrective action which has been taken. In fact, our testwork revealed that justification forms have not been obtained for any of the more than 1600 DHS employees who have access to TCMIS.

Access to TCMIS is controlled by Resource Access Control Facility (RACF) software, which prohibits unauthorized access to confidential information and system transactions. The TennCare security administrator in the Division of Information Systems is responsible for implementing RACF, as well as other, system security procedures; for assigning a “username” (“RACF User ID”); and establishing at least one “user group” for all TennCare Bureau and TCMIS contractor users. RACF controls access by allowing each member of a user group to access a set of transaction screens. Not requiring users outside the Bureau of TennCare to sign justification forms makes it more difficult to monitor and control 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.

#### Unnecessary Access to TCMIS

In the audit report for the year ended June 30, 1998, we reported that users in the default group had access to at least 44 TCMIS transaction screens, some of which were not necessary for the performance of each user’s job duties. Management responded that a review was being done of the user groups to verify that the types of transactions for all groups were as needed and that changes would be made as needed.

In the audit report for the year ended June 30, 1999, it appeared that the previous problem had been corrected, but that users in the default group had the ability to update at least two screens. Management sent a work request to the contractor in August 1999 to make corrections. An audit finding in the 2000 report indicated that the problems had still not been corrected. Management’s response indicated they were still awaiting corrective action by the contractor.

In the 2001 audit report we indicated that unauthorized access to one screen was still permitted.

Management concurred with this portion of that audit finding and requested Electronic Data Systems (EDS) (the contractor hired to operate and maintain the TCMIS) to restrict unnecessary access to TCMIS. However, during the audit period, there was still a problem with access to one screen. User access testwork revealed that auditors and users in TennCare’s default group could obtain unauthorized access and inappropriately add or change information regarding an enrollee’s application for the TennCare/Medicaid program. Thus, it appears that management has not ensured that transactions are protected against unauthorized users making changes. Management did correct this problem after we brought it to their attention.

### Security Administration Not Centralized

In the audit report for the year ended June 30, 1998, it was first reported that security administration was not centralized. Both security administrators at the Department of Health and at the Bureau of TennCare could give users access to TCMIS. In response to the finding management agreed that it was necessary for the Security Administrator to be centralized. The audit report for the year ended June 30, 1999, indicated that the Security Administrator for the Department of Health was still giving access independent of TennCare's Security Administrator. Management responded that "effective immediately, only the TennCare Security Administrator can now authorize access to TCMIS." However, the 2000 audit indicated that management's response to the prior audit finding was incorrect and that the situation remained the same. Management then responded that "Centralization of TCMIS security under TennCare Information Systems' security administrator was implemented as of November 3, 2000." The 2001 audit indicated that an attempt had been made to correct the situation by removing the TCMIS transactions from the Department of Health's default group. However, the removal interrupted the ability of users in the Department of Health to perform their TennCare responsibilities. As a result, the transaction screens were added to the default group once again and no other attempt to correct the problem had been made.

Management partially concurred with this portion of the audit finding for the year ended June 30, 2001, and stated that TennCare, the Department of Health, and the Department of Human Services (DHS) were currently in negotiations "to develop a no-cost inter-departmental contract that will include enhanced procedures to control access to the TCMIS." TennCare corrected the problem with the Department of Health Security Administrator granting access. However, as of December 17, 2002, the contract has not been developed, and the security administrator for DHS continues to have the ability to add users to TennCare user groups without notifying TennCare's security administrator. Furthermore, as noted earlier in the finding, neither TennCare nor the DHS security administrator obtained justification forms for users added to these groups. In addition, TennCare did not monitor the activities of the DHS security administrator as they relate to TennCare. When access to TCMIS is decentralized, it is more difficult to monitor and control.

### Dataset Modifications Not Monitored and Access not Documented (This portion of the finding has not been reported in previous years.)

Auditor inquiry determined that TennCare does not monitor EDS programmers with TCMIS access to production datasets. Production datasets are computer files used by TCMIS that contain critical information about enrollees. When making system changes, sometimes it is necessary for an EDS programmer to change information in a production dataset. TennCare, however, does not monitor the changes made by the programmers to ensure changes are made correctly and are authorized.

Testwork also revealed that TennCare has not maintained documentation of state employees who have access to TCMIS datasets. Management stated that the Director or a manager in the Division of Information Systems must first approve a request for access to a dataset before access is granted; however, testwork revealed that this approval is not documented. The 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.

### **Recommendation**

**Note: This is the same basic recommendation we have made for the four previous audits.**

The Director of TennCare and the TennCare security administrator should ensure that the authorization forms are obtained for all current and future users who have access to TCMIS, including users who have dataset access. Access levels for all TCMIS 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. Formal monitoring procedures should be developed to monitor all TCMIS dataset activity and the DHS security administrator's activity as it relates to any TCMIS security issues.

### **Management's Comment**

We do not concur. TennCare Information Systems has worked with the Department of Human Services to ensure that signed agreements are obtained for all users. However, the agreement between the agencies has not been signed. We will continue to work with DHS to get the contract in place and/or obtain copies of all signed agreements that DHS currently possesses.

### **Rebuttal**

Despite management's refusal to acknowledge the problem, significant deficiencies existed in controls over access to TCMIS during the audit period. Indeed, because management has continuously failed to fully acknowledge these deficiencies and to take appropriate corrective actions, this finding is being repeated for the fifth consecutive year. As stated in the finding, our testwork revealed that justification forms have not been obtained for any of the more than 1600 DHS employees who have access to TCMIS.

Management's comments did not address the following recommendations:

- Access levels for all TCMIS 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.

Formal monitoring procedures should be developed to monitor all TCMIS dataset activity and the DHS security administrator's activity as it relates to any TCMIS security issues.

<b>Finding Number</b>	02-DHS-02
<b>CFDA Number</b>	10.551
<b>Program Name</b>	Food Stamp Cluster
<b>Federal Agency</b>	Department of Agriculture
<b>State Agency</b>	Department of Human Services
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**The Department of Human Services did not maintain adequate documentation of the information needed to determine eligibility for Temporary Assistance for Needy Families and Food Stamps**

**Finding**

As noted in the prior audit, the Department of Human Services (DHS) does not maintain adequate documentation of the enrollee’s information used to determine eligibility for Temporary Assistance for Needy Families (TANF) and Food Stamps.

DHS uses the Automated Client Certification and Eligibility Network (ACCENT) system to determine eligibility for TANF and Food Stamps. During the enrollment process, county DHS eligibility counselors meet with the potential enrollees in face-to-face interviews. Each applicant is required to provide hard-copy documentation to support various eligibility criteria. This information includes income, resources, medical expenses, family information, social security numbers, date of birth, etc. During the enrollment process, eligibility counselors examine documentation supporting the information that is entered into ACCENT. For example, before entering income into the system, an eligibility counselor examines such documentation as employment pay stubs or federal tax returns. At the end of the enrollment process, the documentation supporting the information entered into the system is then returned to the applicant/enrollee. ACCENT makes the eligibility determination based upon the information entered into the system by the eligibility counselor.

Auditor inquiry revealed that the enrollee’s application is the only paper documentation consistently kept by DHS. Although ACCENT maintains electronic case notes, there is no documentation kept to support the eligibility information entered into ACCENT. Without adequate documentation of the information entered into ACCENT, the risk is increased that ineligible enrollees may be enrolled.

Discussions with management at DHS revealed that the department relies heavily upon information from the Tennessee Department of Labor and Workforce Development, the Social Security Administration (SSA), the Tennessee Department of Health, and the Internal Revenue Service (IRS) for verification of eligibility information. From the Department of Labor and

Workforce Development, DHS receives monthly data on Unemployment Insurance Benefits that can be used to verify unemployment income.

DHS also receives monthly beneficiary and earnings data, daily social security number verification, and daily information on Supplemental Security Income (SSI) recipients from SSA. The data from SSA provide DHS a method of verifying an individual's Social Security payments, social security number, Medicare eligibility status, and SSI eligibility status. Through the Office of Vital Records within the Department of Health, DHS has daily access to birth records. This information can be used to verify ages and relationships needed when making an eligibility determination. DHS also receives wage data from the Department of Labor and Workforce Development. However, not all employers are required to report employee wages to the state. Employers that are not required to report include churches, regardless of the size of payroll or number of employees, and non-government organizations with a small payroll and/or few employees. Furthermore, this information is sometimes several months old and is reported on a quarterly basis. Eligibility is determined based on current monthly income. In addition, the information DHS receives from the IRS concerning income that is reported on an individual's IRS 1099 form is delayed several months and is reported on a yearly basis.

Although DHS receives information from outside sources, not all eligibility requirements can be verified through this information. These outside information sources do not provide a systematic way to verify all types of income an enrollee might have. In addition, none of the updates received from other departments include documentation of other resources for non-SSI recipients or medical expenses that could affect an eligibility decision.

For the Food Stamp program, the department relies on quality control sampling to monitor the accuracy of information in ACCENT and eligibility determination. Quality control personnel select samples monthly of persons eligible for Food Stamp benefits. This unit verifies the accuracy of information in ACCENT with outside sources. It also selects a sample of denied cases and determines if the applicant was appropriately denied. Sample sizes are approved by the federal government, and the samples are selected randomly. Federal monitors are also sent a sample of cases that have been reviewed by the quality control unit. However, certain types of cases are not tested. These consist mainly of noncooperation cases where the enrollee either fails or refuses to cooperate or the department is unable to locate the individual. If one of these cases is selected for inclusion in the sample, it is replaced by another case. The case is investigated, but it is not considered in the calculation of the error rate of the sample. For the period of October 2001 through March 2002, the quality control unit selected a total of 592 cases for review, and 72 of these cases (12%) were replaced with another case because the quality control unit could not obtain enough information to determine whether the program participant was eligible. Excluding those cases from the error rate of the review could affect the results. For example, the error rate could be higher or lower based upon the results of the noncooperation cases.

A sample of cases tested by the quality control unit was reviewed to determine if the information documented in the quality control case files supported the reviewer's conclusions about the eligibility of these cases. No problems were noted.

The department contracts with the University of Tennessee to review active TANF cases on a continuing basis. On a monthly basis, DHS Information Systems personnel randomly select cases for review by the University of Tennessee. This testwork consists only of determining if the caseworker properly determined eligibility and benefit amounts based on the information in ACCENT. There is no attempt made to determine the accuracy of the information in ACCENT, and this testwork is not reviewed by federal monitors as with the Food Stamp program.

Maintaining documentation provided by the applicant during enrollment would allow the department to test all cases selected. The department would then no longer have the problem of being unable to locate the enrollee or obtain the cooperation of the enrollee.

Management did not concur with the prior finding. It is management's position that keeping copies of supporting documents is unnecessary because

- a. much of the information supporting the eligibility of recipients is verified through data matches described above,
- b. the Department of Human Services has a quality control process that samples a portion of the recipient population monthly,
- c. the federal Departments of Health and Human Services and Agriculture approved the design of and funded the creation and operation of the ACCENT system with full knowledge of the "paperless" aspects of the system,
- d. the system has been in place since 1992 without any indication from the Departments of Health and Human Services and Agriculture that the process in place was not adequate to meet federal requirements, and
- e. the State Attorney General issued an opinion in 1992 that the application form and the electronic file satisfied the legal requirements for determining eligibility and would be admissible evidence in legal proceedings and that there were no federal requirements specifying that written documentation other than the signed application form be maintained.

We believe that management's arguments are not unreasonable. However, we believe that management should either implement a process to maintain supporting documentation or obtain explicit approval from the appropriate federal authorities for maintaining the "paperless" system for the following reasons:

- a. while the data matches do verify much of the necessary information for many of the recipients, they do not verify such things as other resources and medical expenses for most recipients, they do not verify income information for all recipients, and they do not always provide timely information;
- b. at best, a quality control system provides after-the-fact inferences about the accuracy of eligibility determinations, and the system does not include all enrollees in the population sampled;

- c. DHS has not been able to produce evidence that the federal Department of Health and Human Services and the Department of Agriculture specifically approved the “paperless” aspects of the system;
- d. the federal Department of Health and Human Services and the Department of Agriculture have not specifically stated that the process in place is adequate to meet federal requirements; and
- e. while federal regulations do not state what specific documentation is needed to support eligibility determinations for the Food Stamp and TANF program’s, OMB Circular A-87 does state that costs must be adequately documented to be allowable under federal awards.

Furthermore, without maintaining the documentation, the department cannot ensure that the information entered into ACCENT is accurate and TANF and Food Stamp enrollees are eligible at the time benefits are awarded. Not maintaining this documentation also reduces accountability for information entered and makes researching cases more difficult.

### **Recommendation**

The Commissioner should institute procedures which ensure that the department keeps documentation of the information entered into ACCENT that is used to determine eligibility for TANF and Food Stamps or obtain explicit approval from the appropriate federal authorities for maintaining the “paperless” system.

### **Management’s Comment**

We do not concur. As stated in the prior year audit response, we feel that the ACCENT system provides adequate documentation for the eligibility process in the TANF and Food Stamp programs.

DHS received the major portion of funding for ACCENT from the federal funding agencies to construct this system. ACCENT was certified to meet the federal requirements of FAMIS (Federally Approved Management Information Systems). In addition, the “paperless” aspect was approved by the U.S. Department of Agriculture (USDA), after a review by the USDA Office of General Counsel found that the process met the provisions under the federal law. Also, the Attorney General for the State of Tennessee opined that the paperless system met the program and state requirements.

We understand that our objection to last year’s finding is still in the hands of the U.S. Department of Health and Human Services, Office of Inspector General, for resolution.

## **Rebuttal**

As stated in the rebuttal to the prior audit finding, based on discussions with the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services we believe that documentation is necessary and required by Office of Management and Budget, Circular A-87, Cost Principles for State, Local and Indian Tribal Governments.

<b>Finding Number</b>	02-DOA-01
<b>CFDA Number</b>	10.568, 10.569
<b>Program Name</b>	Emergency Food Assistance Cluster
<b>Federal Agency</b>	Department of Agriculture
<b>State Agency</b>	Department of Agriculture
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Subrecipient Monitoring
<b>Questioned Costs</b>	None

**The Department of Agriculture did not comply with federal monitoring requirements**

**Finding**

The Department of Agriculture administers the Emergency Food Assistance Program (Food Commodities), a federal assistance program. The delivery of services for this program was accomplished through contracts with 27 eligible recipient agencies during the year ended June 30, 2002. According to management, these 27 eligible recipient agencies contracted with numerous other agencies that distributed commodities to needy persons or provided commodities for use in preparing meals at congregate meal sites. The federal government's monitoring requirements related to this program are codified under Title 7, Chapter II, of the *Code of Federal Regulations* (CFR). The federal monitoring requirements contain provisions that apply to eligible recipient agencies as well as other agencies that receive commodities as a result of a contract with an eligible recipient agency.

The Department of Agriculture contracted with the Department of Finance and Administration, Office of Program Accountability Review (PAR) to conduct monitoring reviews of eligible recipient agencies and agencies that receive commodities pursuant to agreements with eligible recipient agencies. The contractual arrangement required the Department of Agriculture to provide PAR certain information regarding the program's subrecipients. The contract indicated that this information should be updated quarterly. Based on discussion with management at the Department of Agriculture, no quarterly updates were necessary regarding program subrecipients. In addition, the contract required the Department of Agriculture to develop and submit a monitoring guide for each program area. Our review of the monitoring guide submitted by the Department of Agriculture indicated the guide appeared to be sufficient to meet federal monitoring requirements. Along with the information mentioned above, the Department of Agriculture submitted a spreadsheet to PAR that indicated 7 eligible recipient agencies and 50 related sites to be monitored by PAR for fiscal year 2002. Based on review of documentation related to the contract with PAR, the required documentation was submitted to PAR on or before October 29, 2001. PAR's first monitoring visit was conducted during the period January 29 through January 31, 2002. The related monitoring report was dated February 11, 2002.

However, based on our testwork, the PAR monitors did not address specific federal monitoring requirements during their monitoring visits. Also, PAR did not monitor any sites that received commodities pursuant to an agreement with an eligible recipient agency. As a result, the Department of Agriculture is in material noncompliance with federal monitoring requirements related to the Emergency Food Assistance Program (Food Commodities) program.

PAR conducted monitoring reviews of 7 eligible recipient agencies, as instructed by the Department of Agriculture. We reviewed PAR's working papers for 4 of 7 (57%) monitoring visits to eligible recipient agencies during the year ended June 30, 2002. Our reviews were conducted to determine if the monitoring visits met the requirements of the *Code of Federal Regulations*, Title 7, Part 251, Section 10(e)(3), which states,

Each review must encompass, as applicable, eligibility determinations, food ordering procedures, storage and warehousing practices, inventory controls, approval of distribution sites, reporting and recordkeeping requirements, and civil rights.

Based on our review, the only areas covered by PAR's monitoring visits were eligibility and civil rights. As noted above, the monitoring guide submitted to PAR by the Department of Agriculture appeared to be sufficient to address all review areas contained in the federal requirements.

In addition to the 7 eligible recipient agencies noted above, the Department of Agriculture provided PAR a listing of 50 sites to be monitored in compliance with *Code of Federal Regulations*, Title 7, Part 252, Section 10(e)(2)(ii), which states, the monitoring system must include...

An annual review of one-tenth or 20, whichever is fewer, of all eligible recipient agencies which receive TEFAP commodities and/or administrative funds pursuant to an agreement with another eligible recipient agency.

In accordance with this guidance, it appears 20 of these sites should have been monitored. However, as noted above, the Department of Agriculture indicated that 50 sites should be reviewed. Based on our review, PAR did not monitor any sites subject to the Code of Federal Regulations, Title 7, Part 252, Section 10(e)(2)(ii).

The services of the Emergency Food and Assistance Program (Food Commodities) program are primarily delivered through contracts with eligible recipient agencies. If these agencies are not monitored in accordance with federal requirements, the Department of Agriculture has no reasonable assurance that the eligible recipient agencies are administering the program in compliance with provisions of federal requirements.

## **Recommendation**

Management should ensure that eligible recipient agencies and other agencies that receive commodities pursuant to agreements with eligible recipient agencies are monitored in accordance with federal guidelines. Considering that monitoring reviews of the Emergency Food Assistance Program are performed by PAR, the Department of Agriculture should coordinate with PAR to ensure reviews encompass all required areas and the required number of sites are monitored.

## **Management's Comment**

### **The Department of Agriculture**

We concur. Management will continue to provide PAR a monitoring plan each fall which details the number of site reviews required for each contract monitored. To ensure reviews are complete and the required number of sites are monitored, management will require backup documentation be submitted with PAR journal vouchers in the form of copies of completed monitoring guides (review forms).

### **The Department of Finance and Administration**

We concur in part. The Office of Program Accountability Review (PAR) was not advised by the Department of Agriculture (DOA) in the electronic submission of the list of contracts to be monitored for fiscal year 2002 of the additional site visits that required monitoring. This list of contracts, submitted on September 4, 2001, became the executed Attachment A of the interdepartmental contract and dictated the work PAR would perform for DOA during the fiscal year.

PAR staff inadvertently failed to utilize the hard copy of the program specific guides in monitoring the four subrecipient contracts as reviewed by State Audit. DOA staff provided these guides during the latter part of October 2001 as part of their monitoring plan submission.

PAR will continue ongoing efforts, as attempted in the past, to build and maintain a partnering relationship with DOA staff to help ensure adequate monitoring of DOA's subrecipient contracts occurs.

## **Auditor's Comment**

In order to comply with the specific subrecipient monitoring requirements codified under Title 7, Chapter 11 of the *Code of Federal Regulations*, it is imperative that the Department of Agriculture and PAR reach a mutual understanding of the duties and responsibilities of each party to ensure that the reviews encompass all required areas and the required number of sites to be monitored.

<b>Finding Number</b>	02-DOA-02
<b>CFDA Number</b>	10.569
<b>Program Name</b>	Emergency Food Assistance Cluster
<b>Federal Agency</b>	Department of Agriculture
<b>State Agency</b>	Department of Agriculture
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**The Department of Agriculture did not comply with federal requirements regarding commodity losses**

**Finding**

The Department of Agriculture administers the Emergency Food Assistance Program (Food Commodities), a federal assistance program. Under the terms of the program agreement, the Department of Agriculture acts as the state distributing agency for the United States Department of Agriculture’s donated commodities. The program is operated by eligible recipient agencies at the local level. The federal government’s requirements related to commodity losses for this program are codified under Title 7, Chapter II, of the *Code of Federal Regulations*.

The *Code of Federal Regulations*, Title 7, Part 251, Section (4)(1)(1)(ii), states in part:

Except as provided in paragraph (1)(4) of this section, the State agency shall begin claims action immediately upon receipt of information concerning the improper distribution, loss, of or damage to commodities, and shall make a claim determination within 30 days of the receipt of information, as described in further detail in FNS Instruction 410-1, *Non-Audit Claims – Food Distribution*.

It should be noted that claims determinations are not required for commodity losses of \$100 or less. However, the *Code of Federal Regulations*, Title 7, Part 251, Section 5 states, “The state agency shall maintain records and substantiating documents on all claims actions and adjustments including documentation of those cases in which no claim was asserted because of the minimal amount involved.” In addition, according to Policy Memorandum 250.15-08: “Donated Food Loss Guidelines for State Agencies (SAs) and Recipient Agencies (RAs)”, food loss reports should be submitted between three and ten business days after the occurrence of the loss.

We reviewed documentation regarding commodity losses maintained at the Department of Agriculture. Based on our review, it appears the Department of Agriculture received commodity loss reports from all the eligible recipient agencies, except for six food banks. It

appears the Department of Agriculture has not implemented procedures to ensure it receives commodity loss reports from food banks within three to ten business days after the occurrence of a loss. In order to determine if the food banks sustained commodity losses in excess of \$100, we reviewed several monthly inventory reports submitted by the food banks. Based on the information submitted by the food banks, it appears there were commodity losses in excess of \$100 that required claims action and determinations. In addition, our review of the monthly inventory reports indicated that the food banks also sustained commodity losses that were less than \$100.

In addition to our review of monthly inventory reports, we performed analytical procedures on losses reported in monthly inventory reports during fiscal years 2001 and 2002. Our analytical review for one of the food banks indicated that 440 cases of commodities totaling \$4,213.88 were disposed of in November 2000. Based on discussion with management and review of related records, the loss of these commodities was not reported in a loss report to the Department of Agriculture. Furthermore, the department initiated no claim actions or determinations related to these commodity losses.

According to the *Code of Federal Regulations*, Title 7, Part 251, Section (4)(l)(1)(ii), the state agency is responsible for commodity losses when "...the state agency fails to pursue claims arising in its favor, fails to provide for the rights to assert such claims, or fails to require its eligible recipient agencies to provide for such rights." Because the Department of Agriculture failed to comply with federal requirements related to commodity losses related to food banks, the department may be financially liable for the loss of commodities at the related food banks.

### **Recommendation**

Management should ensure that it receives loss reports from food banks between three and ten business days of the occurrence of the loss. In addition management should comply with federal requirements regarding claims actions and determinations. Finally, when applicable, management should remit funds collected as the result of claim determinations related to food banks to the Food and Nutrition Service of the United States Department of Agriculture.

### **Management's Comment**

We concur. Management will re-issue to recipient agencies the state policy memo addressing food loss guidelines with particular emphasis on reporting requirements. Commodity inventory forms will be revised to include an area for explanation of any inventory losses. Upon receipt of monthly inventories, staff will confirm that recipient agencies have submitted timely loss reports corresponding with the amounts reported on the inventory.

A claim will be initiated to resolve the 440 case loss that occurred after a transfer of foods from Memphis Food Bank to Knoxville Food Bank. Management will recommend that the food bank replace the lost commodities with like foods of equal value and will forward the recommendation to USDA for determination as required by federal regulation. If USDA concurs, management will require food bank documentation of the replacement and close the file on this loss.

<b>Finding Number</b>	02-THDA-01
<b>CFDA Number</b>	14.195, 14.856
<b>Program Name</b>	Section 8 Project-Based Cluster
<b>Federal Agency</b>	Department of Housing and Urban Development
<b>State Agency</b>	Tennessee Housing Development Agency
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Reporting, Subrecipient Monitoring, Special Tests and Provisions
<b>Questioned Costs</b>	None

**The Section 8 Contract Administration Division did not follow its policies and procedures**

**Finding**

As noted in the prior audit, internal control for contract administration should be improved. The Section 8 Contract Administration Division did not follow its policies and procedures in the areas of management and occupancy reviews, processing rental adjustments, and certifying the accuracy of monthly Section 8 vouchers. The division serves as the contract administrator for approximately 400 Section 8 Housing Assistance Payment (HAP) contracts associated with multi-family housing projects in which rent subsidies are paid to private for-profit and non-profit landlords. The agency has served as contract administrator for 38 of the 400 HAP contracts for over 20 years under the Department of Housing and Urban Development's (HUD's) Section 8 New Construction and Substantial Rehabilitation grant program. The agency was assigned the remaining HAP contracts under a performance-based contract with HUD. Under the terms of the contract, the agency assumed the duties of contract administrator from HUD in exchange for an administrative fee determined by the agency's performance of applicable performance standards.

A contract administrator oversees HAP contracts for Section 8 projects by monitoring and enforcing the compliance of Section 8 owners with the terms of the HAP contract in accordance with HUD regulations and requirements. Depending on the type of contract assignment, the agency accomplishes these objectives by conducting management and occupancy reviews; processing rental adjustments, expiring contracts, and terminated HAP contracts; verifying and certifying accuracy of monthly Section 8 vouchers; verifying and authorizing payment on valid Section 8 special claims; disbursing Section 8 payments to owners; responding to community/resident concerns; reporting contract administration activities to HUD; and following up on HUD's physical inspections.

**Management and Occupancy Reviews**

The agency performs management and occupancy reviews (MORs) to monitor the owners' compliance with Section 8 program regulations including, but not limited to, eligibility, selection of tenants from waiting lists, and determination of housing assistance payments. A report detailing the agency's findings is prepared and mailed to the owner and HUD. The owner

then has 30 days to respond to any findings noted in the report. Testwork was performed on a sample of MORs.

- a. The prior audit noted that the agency's policies and procedures did not address follow-up inspections. In response to the prior audit finding, the agency developed policies and procedures. Those procedures state "if the results of a tenant file review identify significant findings (missing documents, incorrect calculations, inaccurate recertification dates, or other systemic inaccuracies), Project Manager will require owner/agent to perform a 100% file review with a targeted correction date of 30 days. A THDA representative will perform a file follow-up inspection within 120 days from the date owner/agent has certified that 100% file review was performed." However, the agency did not adequately monitor compliance with this policy.

Seven of the 60 MORs tested required a 100% file review to be performed by the owner. However, there was no documentation indicating that a file follow-up inspection had been performed by the agency on five of the seven properties (71%). The remaining two MORs had follow-up inspections performed before the owner/agent certified that the 100% file review was completed.

If the division does not follow its policies and procedures related to the 100% file review, tenant file inaccuracies may not be corrected.

- b. Agency policies and procedures require the field operations coordinator to maintain a tracking log of project manager activities and to notify the project managers of any notifications, reports, or responses due.

Thirteen of the 60 MORs tested (22%) contained information on the tracking log that did not agree with the information in the master file. The information that did not agree in one or more of the files was the date of the letter notifying the owner of the MOR; the date the MOR was scheduled, performed, or closed; the date the owner's responses were received; or the need for the owner to perform a 100% file review. In some cases, there were no dates in the tracking log.

The tracking log is used by the agency to monitor the completion of the MOR process. If the division does not maintain accurate information on the tracking log, missed deadlines could result. In addition, inaccurate information on the tracking log could result in inaccurate reporting to HUD.

- c. Agency policies and procedures indicate the points during the MOR process that entries will be made into HUD's Real Estate Management System (REMS). The agency reports the completion of the stages of the MOR process to HUD through REMS.

Thirteen of the 60 MORs tested (22%) contained information in REMS that did not agree with the information in the master file. The information that did not agree in one or more of the files was the date of the letter notifying the owner of the MOR; the

date the MOR was scheduled, performed, or closed; the date the owner's responses were received; or the rating received.

Not following the division's policy relating to entries in REMS results in inaccurate reporting to HUD.

## **Rent Adjustments**

The agency processes rental adjustments during the term of the owner's HAP contract in accordance with HUD requirements. The agency's policies and procedures require that the target completion date of the rent adjustment approval process be either 30 or 60 days from the date the request for a rent adjustment is received by the agency. However, for 29 of the 60 rent adjustments tested (48%), the target completion dates were incorrectly entered into REMS. Because the division did not follow its policy for target completion dates, inaccurate information was reported to HUD. This could also result in not processing the rental adjustments timely.

## **Section 8 Monthly Vouchers**

The agency receives monthly vouchers from the owners by the tenth of the month, verifies the accuracy of the vouchers, and disburses payments to the owners by the first day of the next month. The agency ensures the accuracy of an owner's payment request by verifying that tenant recertifications are performed timely, that the payment request does not include vacant units, and that the housing assistance payment paid per unit is correct. Testwork was performed on a sample of monthly vouchers.

- a. The prior audit noted that the agency's policies and procedures did not address the review for delinquent recertifications while processing vouchers. In response to the prior audit finding, the agency developed policies and procedures requiring the Tenant Rental Assistance Certification System (TRACS) specialist to suspend subsidy on all program participants whose recertifications were delinquent (no certification completed within 12 months). However, the agency did not adequately monitor compliance with this policy.

Thirteen of the 59 vouchers tested (22%) included payments for a total of 28 tenants with late recertifications. Not suspending subsidies for participants with delinquent recertifications could result in payments to ineligible participants.

- b. Agency policies and procedures require entries to be made into the voucher tracking log at various points during the voucher reconciliation process.

Fourteen of the 54 vouchers tested (26%) contained information on the tracking log that did not agree with the information on the monthly voucher. Five of the 14 vouchers had reconciled dates on the tracking log that could not be verified because the vouchers were not initialed and dated by the TRACS specialist. For the remaining nine vouchers, the information that did not agree with the tracking log was

either the date the voucher was received, the date the voucher was reconciled, or the subsidy amount.

Because the division did not maintain accurate information on the tracking log, it reported incorrect information to HUD. Two of the 26 vouchers tested (8%) had inaccurate information submitted to HUD in the monthly report.

### **Recommendation**

In order to effectively administer the Contract Administration program, the Director of the Contract Administration Division should ensure that all policies and procedures for the division are followed. The director should establish clear responsibilities for compliance, monitor compliance, and take appropriate and timely remedial action for any noncompliance.

### **Management's Comment**

We concur. THDA has successfully administered the Section 8 Contract Administration (S8CA) program for HUD since December 2000. In accordance with HUD's last two annual performance review reports dated April 17, 2002, and February 24, 2003, the division's general operations and overall performance under the Annual Contributions Contract were found to be acceptable and satisfactory, respectively. Significant steps have been implemented during FY 01-02 to develop internal controls for work processes required for all 16 Incentive Based Performance Standards (IBPS) included in the Annual Contributions Contract. THDA administration shares the auditor's concern over the deficiencies identified with MORs, tracking logs, 100% file reviews, voucher processing, and REMS data accuracy.

The S8CA division is revising and documenting their Quality Control plan to include both internal and external processes that will aid in ensuring that policies and procedures are followed. Once completed, the plan will be submitted to HUD. Supervisors will be required to perform quality control checks on section activities and will document their reviews on internal control review summary sheets. Management will address any areas of noncompliance noted through these reviews to correct the deficiencies. The Quality Control (QC) Officer position in the Internal Audit division will then review the summary sheets and supporting documentation to ensure that checklists are being completed. In addition, the QC Officer will perform additional tests on a sample basis to determine that the documentation maintained is adequate.

Verbal instructions received from HUD concerning Post-MAHRA rental adjustments and REMS entries changed during the audit period. One change for keying target dates for budget based Post-MAHRA adjustments into REMS 120 days from the start date was reflected in our internal procedure in the revision dated May 1, 2002. In addition, on November 15, 2002, the procedure was modified again to change from 120 days to "as instructed by HUD." However, no documentation was received from HUD to support these changes.

THDA has a proposed budget improvement item to incorporate the use of a policy coordinator for division operations. This addition should aid the division by ensuring that policies and procedures are maintained to comply with evolving HUD requirements, and that documentation is obtained for each change.

<b>Finding Number</b>	02-LWD-01
<b>CFDA Number</b>	17.207
<b>Program Name</b>	Employment Services Cluster
<b>Federal Agency</b>	Department of Labor
<b>State Agency</b>	Department of Labor and Workforce Development
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition; Noncompliance
<b>Compliance Requirement</b>	Equipment and Real Property Management
<b>Questioned Costs</b>	None

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

**Finding**

The Department of Labor and Workforce Development does not always record the correct grant-funding information in the state's property records. A review of the department's listing of equipment purchased during the audit period revealed that none of the equipment had been coded as purchased, in whole or in part, with federal grant funds. This was discussed with management, and the property officer was asked to make corrections to the ownership codes recorded in the Property of the State of Tennessee (POST), the state's property and equipment tracking system. Upon reviewing information obtained from the fiscal office, it was noted that 35 of 38 equipment items (92%) purchased during the audit period were purchased, in whole or part, with federal funds, as follows:

- Eighteen equipment items were purchased for the Occupational Safety and Health\_State Program (50% federally funded) with federal funding of \$64,015.46.
- Twelve equipment items were purchased for Unemployment Insurance (100% federally funded) with federal funding of \$144,266.10.
- Two equipment items were purchased for Employment Service (100% federally funded) with federal funding of \$26,003.59.
- Two equipment items were purchased for Workforce Investment Act (100% federally funded) with federal funding of \$25,569.96.
- One equipment item was purchased for Adult Education\_State Grant Program (75% federally funded) with federal funding of \$5,354.40.

However, based on the subsequent review of the equipment listing from POST, it was revealed that the property officer had still not made all of the appropriate changes. The ownership code for 20 of the 35 equipment items purchased in whole or part with federal grant funds (57%) still did not agree with fiscal records. Seventeen equipment items were coded with

an F (federal participation only) but should have been coded with an A (for joint federal and state participation). Two were incorrectly coded with a G (state participation only) but should have been coded with an A and one was coded with a G but should have been coded with an F. Also, one of three equipment items purchased with state funds (33%) was coded with an F but should have been coded with a G.

The department must be able to distinguish between state and federal property. According to Office of Management and Budget Circular A-102, "Common Rule," and the *Code of Federal Regulations*, Title 29, Part 97, Section 32, the property records are required to include the percentage of federal participation in the cost of the property. If equipment purchased with federal 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.

### **Recommendation**

The Commissioner should ensure that the property officer completely and correctly enters all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

### **Management's Comment**

We concur that the Department of Labor and Workforce Development did not always record the correct grant-funding information in the state's property records. The Department's property officer has been instructed to completely and correctly enter all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

<b>Finding Number</b>	02-LWD-01
<b>CFDA Number</b>	17.258, 17.259, 17.260
<b>Program Name</b>	Workforce Investment Act Cluster
<b>Federal Agency</b>	Department of Labor
<b>State Agency</b>	Department of Labor and Workforce Development
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition; Noncompliance
<b>Compliance Requirement</b>	Equipment and Real Property Management
<b>Questioned Costs</b>	None

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

**Finding**

The Department of Labor and Workforce Development does not always record the correct grant-funding information in the state's property records. A review of the department's listing of equipment purchased during the audit period revealed that none of the equipment had been coded as purchased, in whole or in part, with federal grant funds. This was discussed with management, and the property officer was asked to make corrections to the ownership codes recorded in the Property of the State of Tennessee (POST), the state's property and equipment tracking system. Upon reviewing information obtained from the fiscal office, it was noted that 35 of 38 equipment items (92%) purchased during the audit period were purchased, in whole or part, with federal funds, as follows:

- Eighteen equipment items were purchased for the Occupational Safety and Health\_State Program (50% federally funded) with federal funding of \$64,015.46.
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However, based on the subsequent review of the equipment listing from POST, it was revealed that the property officer had still not made all of the appropriate changes. The ownership code for 20 of the 35 equipment items purchased in whole or part with federal grant funds (57%) still did not agree with fiscal records. Seventeen equipment items were coded with an F (federal participation only) but should have been coded with an A (for joint federal and state participation). Two were incorrectly coded with a G (state participation only) but should have

been coded with an A and one was coded with a G but should have been coded with an F. Also, one of three equipment items purchased with state funds (33%) was coded with an F but should have been coded with a G.

The department must be able to distinguish between state and federal property. According to Office of Management and Budget Circular A-102, "Common Rule," and the *Code of Federal Regulations*, Title 29, Part 97, Section 32, the property records are required to include the percentage of federal participation in the cost of the property. If equipment purchased with federal 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.

### **Recommendation**

The Commissioner should ensure that the property officer completely and correctly enters all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

### **Management's Comment**

We concur that the Department of Labor and Workforce Development did not always record the correct grant-funding information in the state's property records. The Department's property officer has been instructed to completely and correctly enter all grant-funding information into POST to ensure that the department's equipment listing is complete and accurate.

<b>Finding Number</b>	02-LWD-02
<b>CFDA Number</b>	17.258, 17.260
<b>Program Name</b>	Workforce Investment Act Cluster
<b>Federal Agency</b>	Department of Labor
<b>State Agency</b>	Department of Labor and Workforce Development
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**The Middle Tennessee Career Center at MetroCenter did not maintain adequate documentation of the information used to certify participants eligibility for the Workforce Investment Act Program**

**Finding**

The Middle Tennessee Career Center at MetroCenter in Nashville does not maintain adequate documentation of information used to determine enrollees' eligibility for the Workforce Investment Act (WIA).

The Department of Labor and Workforce Development contracts with the Metropolitan Government of Nashville and Davidson County to establish programs to prepare adults, youth, and dislocated workers for reentry into the labor force and to offer training to individuals facing barriers to employment. These programs and services are provided under the provisions of the Workforce Investment Act of 1998. The Metropolitan Government of Nashville and Davidson County, by and through the Nashville Career Advancement Center, administers the Workforce Investment Act for Davidson, Rutherford, Trousdale, and Wilson Counties, these counties are collectively titled Local Workforce Investment Area #9. The Nashville Career Advancement Center coordinates services for the Middle Tennessee Career Center at MetroCenter, which serves Davidson County.

The Middle Tennessee Career Center at MetroCenter determines eligibility of enrollees in accordance with federal guidelines contained in the *Code of Federal Regulations*, Title 20, Sections 663-664. Information about eligible participants is maintained in the Case Management and Activity Tracking System (CMATS). During the enrollment process, case managers meet with potential applicants and verify documentation provided by the applicants. Each applicant is required to provide hard-copy documentation as described in the *CMATS WIA Program Manual* to support various eligibility criteria. This documentation may include verification of income, registration with Selective Service, driver's license, social security card, birth certificate, and/or verification of layoff. The case manager is responsible for verifying information used to certify applicants as eligible. Case managers determine participant eligibility based on the information provided by the participant. Services provided to the participants include job training, help with basic skills such as math and reading, training to obtain a GED, and assistance in pursuing an

advanced degree or other types of technical training. Needs-based payments such as transportation and child care reimbursement are also provided.

Testwork at the Middle Tennessee Career Center at MetroCenter revealed 7 of 10 files tested for participants' eligibility (70%), did not contain adequate documentation to support verification of eligibility. However, documentation was maintained at the other ten local workforce investment areas visited. Per discussion with the Information Systems Director at the Nashville Career Advancement Center, the Middle Tennessee Career Center at MetroCenter stopped maintaining a photocopy of information provided by participants in January 2001.

Without adequate documentation of the information verified by case managers in order to certify a participant as eligible for program services, the risk is increased that ineligible enrollees may be enrolled in the Workforce Investment Act program and may receive services. Also, the department cannot ensure that the information entered into CMATS is accurate and that enrollees are eligible. Maintaining documentation is essential to the preparation of performance reports that are required under *Code of Federal Regulations*, Title 20, Section 666. Not maintaining this documentation also reduces accountability of case managers for information entered into CMATS and makes researching cases more difficult if errors are discovered while serving participants or preparing performance reports, which require specific information such as participant social security number.

### **Recommendation**

The Commissioner should ensure that the Middle Tennessee Career Center at MetroCenter maintains documentation of information used to determine eligibility for the Workforce Investment Act.

### **Management's Comment**

We concur with the finding; however the following information is provided in the CMATS Program Manual regarding the application process. If the applicant is referred to the WIA Title I program by Job Service/Career Center, the ESCOT APIQ form will be used to verify the items listed for each program. If Job Service/Career Center does not refer the applicant, the LWIA should verify items where verification is required. Verification/Documentation includes proof of a valid SSN (on card) issued to the participant by the Social Security Administration (SSA) or a driver's license with the SSN inscribed. Although implied, the manual does not specifically state that a copy of the verification/documentation should be maintained in an applicant's file. The CMATS manual will be updated to reflect that copies of verification/documentation should be either maintained in the applicants file or scanned into the CMATS file.

<b>Finding Number</b>	02-DOT-01
<b>CFDA Number</b>	20.205
<b>Program Name</b>	Highway Planning and Construction Cluster
<b>Federal Agency</b>	Department of Transportation
<b>State Agency</b>	Department of Transportation
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Davis Bacon Act
<b>Questioned Costs</b>	None

**Employees do not always follow departmental policies and procedures to ensure compliance with the Davis-Bacon Act**

**Finding**

The Department of Transportation has established program policies and procedures to comply with the Davis-Bacon Act. However, as noted in 14 of the past 18 years (beginning with the year ending June 30, 1984), department personnel do not always adhere to these policies and procedures to monitor classifications and wage rates as required by the Davis-Bacon Act.

The Davis-Bacon Act requires laborers and mechanics employed by contractors or subcontractors on federal contracts to be paid no less than the prevailing wage rates established for that locale by the U.S. Department of Labor. To monitor compliance with this requirement, the department has established a system whereby designated personnel are supposed to check contractor and subcontractor payrolls during each month of a project. Also, the project engineer or his representative is required to conduct a specific number of interviews with laborers and mechanics to verify the accuracy of payroll records examined. A separate interview form is completed and signed by the laborer or mechanic and the project engineer to document each interview. In response to the prior findings, the department issued Circular Letter 1273-03, which, as amended, requires that the project engineer conduct interviews at two-month intervals with a minimum of three interviews every two months, or a minimum of two interviews on contracts not anticipated to last two months. These interviews provide evidence of on-site visits to monitor classifications and wage rates. In the previous audit, management anticipated revising Circular Letter 1273-03 after gathering information from other state departments of transportation and the Federal Highway Administration. The Circular Letter had not been revised as of June 30, 2002.

For 7 of 40 closed construction contracts tested (17.5%), the project engineers had not always conducted a sufficient number of interviews. Of the seven, five contracts had no labor interviews conducted. The duration of these projects ranged from 3 months to 17 months. The number of interviews required by the Circular Letter ranged from at least 3 interviews to 24 interviews. Two contracts did not have a sufficient number of interviews conducted. Of the two, one contract was one interview short of the number required by the Circular Letter, and the other contract was nine interviews short.

Without a sufficient number of labor interviews, management cannot have adequate assurance of compliance with the Davis-Bacon Act.

### **Recommendation**

Management should always perform labor interviews as evidence of on-site visits to monitor classifications and wage rates for all projects. Procedures should be followed to ensure that the department complies with the Davis-Bacon Act.

### **Management's Comment**

We concur. The requirement to perform employee interviews continues to be a problem. As contractor employees often work on more than one TDOT project, they continue to get interviewed numerous times during the course of the year and become reluctant to respond to our request. Also, most subcontractors are only on the project for a short time, thus making it difficult to interview them. Based on past instances, nearly 100 percent of the discrepancies found in wage rates have been noted in the payroll review and not during the interview process. We feel that the time involved in the interview process is not justified by the results. However, we do understand that the interview process is required and we are exploring ways to make this more manageable. Discussions with the Federal Highway Administration (FHWA) concerning the interviews revealed the following:

The overall requirements are prompted from the Davis-Bacon Act (requirement for payment of prevailing wages) and the Copeland Act (protecting workers from paying kickbacks to employers for the "privilege" of being employed). These regulations require that the contractor, and subcontractors, furnish weekly certified payroll statements to TDOT that include information on employee classification and wages in order that compliance with Davis-Bacon can be verified. TDOT is required to review the payroll statements and then "spot-check" items such as: classification, hourly rate, overtime hours and rate, authorized deductions and benefits. The employee interviews are meant to provide cross-reference checks to verify these payroll items.

Davis-Bacon regulations (29CFR Part 5) require the State DOT to assure compliance with the labor standards. The regulations specifically state that, "Such investigations shall include interviews with employees."

The FHWA Labor Compliance Manual, although dated, is still applicable with regard to procedures. Section 508-5 of the manual states: "Systematic spot interviews are to be conducted by the project engineer with the employees of the contractor or subcontractors on the job to establish that the minimum wage and other labor standards of the contract are being fully complied with and that there

is no misclassification of labor or disproportionate employment of apprentices, etc.”

The manual does not prescribe a minimum frequency for performing employee interviews. Section 508-2 of the manual deals with frequency and scope of labor compliance inspections: “Early and complete labor compliance inspections are essential to the development of a sound compliance pattern on all projects. Projects where the contract is of short duration (6 months or less) should be inspected at least once while the work is in progress. In the case of contracts which extend over a longer period of time, the inspections should be made with such frequency as may be necessary to assure compliance.”

As the requirement to conduct interviews is still in effect, we are requesting information from other DOTs concerning this issue. Once gathered we will consult with the FHWA and revise Circular Letter 1273-03.

<b>Finding Number</b>	02-DOE-02
<b>CFDA Number</b>	84.027
<b>Program Name</b>	Special Education-Grants to States
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	Department of Education
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

**The composition of the Advisory Council for the Education of Students with Disabilities was not in compliance with state law**

**Finding**

The majority of the members of the Advisory Council for the Education of Students with Disabilities were not individuals with disabilities or parents of children with disabilities as required by Section 49-10-105, *Tennessee Code Annotated*. The law states that “. . . the majority of the advisory council shall be individuals with disabilities or parents of children with disabilities.” A review of council members as of November 11, 2002, revealed that 10 of 16 council members (62.5%) were neither an individual with disabilities nor a parent of a child with disabilities. The Governor appoints the advisory council members.

**Recommendation**

The department should continue to monitor the composition of the Advisory Council for the Education of Students with Disabilities, and if the composition is not in compliance with state law, the Governor’s office should be notified.

**Management’s Comment**

We concur. The department will continue to monitor the composition of the Advisory Council for compliance with state law. The department will continue to communicate with the Governor’s Office on the need for appropriate appointments to the council.

<b>Finding Number</b>	02-APSU-01
<b>CFDA Number</b>	84.007, 84.032, 84.038, 84.063
<b>Program Name</b>	Student Financial Assistance Cluster
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	Austin Peay State University
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

**Procedures related to financial aid refunds need improvement**

**Finding**

Procedures related to financial aid refunds need to be improved. Reports listing students who failed due to lack of attendance (FA) or who failed because they never attended class (FN) are prepared from attendance information provided by the professors. The financial aid office uses these reports when calculating refunds of financial aid. However, the FA/FN reports did not always include all of the students who received a grade of FA or FN because professors did not always submit attendance information. Of 46 students tested who received a grade of FA or FN, 7 were not included on the FA/FN reports. Refunds of Title IV funds for the fall 2001 semester were due to appropriate programs or lending institutions for two of the seven students. The refunds were calculated and made at least eight months after the end of the fall 2001 semester when the determination was made that a refund was due. Thus, the federal financial aid portion of these refunds was not refunded to the appropriate programs or lending institutions within 30 days of the student's withdrawal date. In addition, the institution did not determine the withdrawal date within 30 days after the end of the semester as required by federal regulations.

The *Code of Federal Regulations*, Section 34, Part 668.22(j), states:

- (1) An institution must return the amount of title IV funds for which it is responsible . . . as soon as possible but no later than 30 days after the date of the institution's determination that the student withdrew. . . .
- (2) An institution must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of the – (i) Payment period or period of enrollment, as appropriate. . . ; (ii) Academic year in which the student withdrew; or (iii) Educational program from which the student withdrew.

The FA/FN reports are prepared only twice: one month after classes start and two months after classes start. However, preparing an FA/FN report after final grades are posted would ensure that refunds are calculated for those students who receive financial aid and a grade of FA or FN.

### **Recommendation**

The financial aid office should prepare an FA/FN report at the end of each semester to determine whether a refund should be calculated for students receiving financial aid. Also, the financial aid office needs to ensure that refunds are calculated within 30 days of determining that a student has withdrawn. Professors should be reminded of the importance of submitting attendance information.

### **Management's Comment**

We concur with the finding and recommendation. Additional procedures and reports have been implemented to improve compliance with the federal regulations relative to the time limit for refund calculations. In addition, language is being placed in the Faculty Handbook to emphasize the importance of submitting attendance information.

<b>Finding Number</b>	02-TSU-01
<b>CFDA Number</b>	84.063
<b>Program Name</b>	Student Financial Assistance Cluster
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	Tennessee State University
<b>Grant/Contract No.</b>	P063P011600
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Reporting
<b>Questioned Costs</b>	None

**The university did not report Pell Payment Data to the Department of Education within the required time frame**

**Finding**

The university did not report Pell Payment Data to the federal government as required. Pell Payment Data is the term used to refer to the electronic or magnetic payment record used to report to the U.S. Department of Education (ED) the Pell payments to students. The record contains various information about each student, including enrollment status and disbursement information. Chapter 3 of the Pell portion of the *Student Financial Aid Handbook* specifies the reporting deadline as follows:

A disbursement record should be submitted no later than 30 days after the disbursement is made. A school must submit a disbursement record within 30 days of the date the school becomes aware of a Pell change (for example, a new recipient, or an increased award). Schools may do this by reporting once every 30 calendar days (or more frequently), or may set up their own system to ensure that changes are reported in a timely manner.

If a school doesn't report any data for a period of 30 or more calendar days, the Department will consider that the school had no data to report for that period, and any actions (such as changes in authorization levels) will be based only on the data reported up to that time. The 30-day reporting requirement ensures that Federal funds won't remain at a school when its students don't need the funds. Schools that don't submit required records or submit them on time, and schools that submit incomplete records will have their Pell allocations reduced and may be fined.

For 18 of 20 students whose Pell Payment Data was tested (90%), the university did not report Pell Payment Data to ED within 30 days of disbursement to students. Discussions with the Financial Aid Director revealed that the university reported Pell Payment Data past the 30-day deadline due to incorrect information loading from the Student Information System. A program was created, by the Financial Aid Technical Manager and Computer Information Technology staff, that was to be run once. The program automatically updated existing student

information into the Student Information System fields needed to report the Pell Payment Data to ED, and from that point, new student information was updated manually. After the information had been updated manually, the program was unintentionally run again replacing the manually updated information. The financial aid counselors had to reenter information that had been changed by the program and manually update any new information. Because of the high volume of students visiting the office during the time period, it was difficult to update the information on a consistent and regular basis. The latest Pell Payment tested was reported 66 days late.

### **Recommendation**

The Financial Aid staff should monitor Pell reporting more closely and report Pell Payment Data within the time frame required. Computer programs should be tested, and updated information should be reviewed for accuracy. Controls should be implemented to ensure computer programs are run only when necessary. Policies and procedures should be reviewed to ensure that proper reporting requirements have been established.

### **Management's Comment**

We concur with the finding and recommendation. A computer program had been developed to improve a manual process. However, the program had a flaw which was not discovered until after the reporting deadline. The program has been corrected, and all data was subsequently reported. In the future, the timely and accurate running of the program and submission of the Pell Payment Data will be closely monitored by the Student Financial Aid Director.

<b>Finding Number</b>	02-UTC-01
<b>CFDA Number</b>	84.007, 84.032, 84.033, 84.063
<b>Program Name</b>	Student Financial Assistance Cluster
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	University of Tennessee
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$3,500

**Student fails to maintain satisfactory progress**

**Finding**

At the University of Tennessee at Chattanooga, a Title IV financial aid recipient received financial aid during the 2001 award year under circumstances not permitted by the university's satisfactory progress policies. The student lost her eligibility for financial aid because she did not meet university standards for minimum grade point average.

According to the university's *Financial Aid Satisfactory Academic Progress Standards*, "To have financial aid eligibility reinstated, a student must make up the credit hours and/or GPA deficiencies without receipt of financial aid. . . . A student who believes his or her failure to meet Satisfactory Academic Progress Standards was due to extenuating circumstances beyond his or her control may appeal in writing to the Satisfactory Academic Progress Appeal Committee."

This student did not take courses to correct the grade point average deficiency or go through the required appeals process, but she was still awarded Title IV financial aid totaling \$3,500 during the 2001 award year.

According to university personnel, the student was awarded aid during the 2001 award year based on the professional judgment of a financial aid counselor. The student's file did not contain documentation describing the use of professional judgment or written justification supporting the student's reinstatement.

**Recommendation**

Financial aid personnel at the University of Tennessee at Chattanooga should follow the university's satisfactory progress policies for financial aid recipients. Students should not receive aid until they are properly reinstated according to the policies.

### **Management's Comment**

We concur. The institution is committed to following the UTC satisfactory progress policies for financial aid recipients. We concur with the fact that there should have been documentation regarding the use of professional judgment. The Higher Education Act provides authority for the financial aid administrator to exercise discretion in a number of areas. This authority, commonly known as professional judgment, allows the aid administrator to treat a student individually when the student has special circumstances that are not addressed by a standard approach.

<b>Finding Number</b>	02-UTC-02
<b>CFDA Number</b>	84.038
<b>Program Name</b>	Student Financial Assistance Cluster
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	University of Tennessee
<b>Grant/Contract No.</b>	P0038A003936, P0038A013936
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

### **Due diligence procedures for Perkins loans need improvement**

#### **Finding**

Due diligence procedures for Perkins loans entering repayment or default status at the University of Tennessee at Chattanooga are not adequate.

The *Code of Federal Regulations*, Section 34, Part 674.42 (c)(1)(i) through (c)(2)(iii), states that institutions must contact borrowers entering repayment three times during the grace period: 90 days, 150 days, and 240 days after the commencement of the grace period. Section 34, Part 674.43 (a)(1) states, “if the institution uses a coupon payment system, it shall send the coupons to the borrower at least 30 days before the first payment is due.”

For the year ended June 30, 2002, testwork was performed on the files of 25 students whose loans entered repayment status during the fiscal year. The following discrepancies were noted:

- a. The 90-day contact letter was mailed 12 to 61 days late for all of the loans tested.
- b. Twenty-three of the 150-day contact letters tested (92%) were mailed 9 to 41 days late.
- c. For 12 of 22 loans tested (55%), the 240-day contact letter was mailed 10 to 73 days late.
- d. The coupon book was not mailed at least 30 days prior to the due date of the first payment for 21 of the 22 loans tested (96%). Twenty of the coupon books were mailed only 23 to 27 days prior to the due date; one coupon book was mailed 40 days after the due date of the first payment.

For the year ended June 30, 2001, testwork was performed on the files of 25 students whose loans entered repayment status during the fiscal year. The following discrepancies were noted:

- a. The 90-day contact letter was mailed 8 to 24 days late for 12 of 25 of the loans tested (48%).
- b. The 90-day contact letter could not be located for one of the loans tested (4%).
- c. Fourteen of the 150-day contact letters tested (56%) were mailed 9 to 14 days late.
- d. For nine of 23 loans tested (39%), the 240-day contact letter was mailed 11 to 12 days late.
- e. The coupon book was not mailed at least 30 days prior to the due date of the first payment for 10 of the 23 loans tested (44%). These coupon books were mailed from 22 to 27 days prior to the due date.

In addition, due diligence procedures for Perkins loans entering default status were not in compliance with federal regulations.

The *Code of Federal Regulations*, Section 34, Part 674.43 (b)(1), (c)(1), (c)(2), and (f), states that institutions must contact defaulted borrowers at set intervals until a payment is made. The required contact times are 15 days, 45 days, 60 days, and 90 days after the first missed payment is due. The 15- and 45-day notices are past-due statements mailed to the borrower. The 60-day contact is a final demand letter. The 90-day contact is a telephone attempt to contact the borrower before the loan is sent to collections.

For the year ended June 30, 2002, testwork was performed on the files of 25 students whose loans entered default status during the fiscal year. The following discrepancies were noted:

- a. The 60-day contact letter (final demand letter) could not be located for two of the students entering default status (8%).
- b. For 23 of the loans tested (92%), the 60-day contact letter (final demand letter) was mailed 16 to 19 days late.
- c. The 90-day phone contact was not made for 21 of the students tested (84%).
- d. Two of the phone contacts tested (8%) were made 18 to 42 days late.

For the year ended June 30, 2001, testwork was performed on the files of 25 students whose loans entered default status during the fiscal year. The following discrepancies were noted:

- a. The 60-day contact letter (final demand letter) could not be located for two of the students entering repayment (8%).

- b. For 23 of the loans tested (92%), the 60-day contact letter (final demand letter) was mailed 16 to 79 days late.
- c. The 90-day phone contact was not made for 20 of the students tested (80%).
- d. One of the phone contacts (4%) was made 34 days late.

At the beginning of each month, management runs a report of the contacts to be made during the month. The report is processed and the letters are printed and mailed. Management stated that this process takes two to three weeks. Since the contacts are due at the first of each month, the delay inherent in the preparation process often results in the letters being two to three weeks late.

As to the 60-day contact letters sent to borrowers in default status, the university actually sent past-due statements at the 60-day point rather than the final demand letters required by federal regulations. The final demand letters were sent at a later date, resulting in the noncompliance described above.

### **Recommendation**

Management should ensure that students entering repayment or default status for Perkins loans are contacted at the required intervals as stipulated in the *Code of Federal Regulations*. Reports should be run in the middle of each month to identify the contacts to be made in the subsequent month. For borrowers in default, a final demand letter should be mailed at 60 days after the payment due date, not just a past-due notice.

### **Management's Comment**

We concur. Regulations state that contact letters for borrowers entering repayment must be sent out at 90-, 150-, and 240-day intervals. Due to a misinterpretation of the regulations, our loan department sent out letters in the subsequent time period resulting in our not meeting the contact requirement for Perkins loans.

Regulations state Perkins loan borrowers entering default status must be contacted at 15, 45, 60, and 90 days after the first payment is missed. The 15- and 45-day notices are past-due statements. The 60-day contact is the final demand letter, and the 90-day contact is a telephone attempt to contact the borrower before the loan is sent to collections. Our loan department was sending 15-, 30-, 45-, and 60-day past-due statements, demand letters at 75 days, and commencing in-house collection at the 90-day period. We have corrected our procedures with the assistance of the Information Technology department and will be running 15- and 45-day statements, and a final demand letter at 60 days. We will initiate telephone contact on the 90<sup>th</sup> day.

<b>Finding Number</b>	02-UTC-03
<b>CFDA Number</b>	84.032, 84.033, 84.038, 84.063, 93.925
<b>Program Name</b>	Student Financial Assistance Cluster
<b>Federal Agency</b>	Department of Education Department of Health and Human Services
<b>State Agency</b>	University of Tennessee
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**Financial aid verifications were not properly conducted**

**Finding**

At the University of Tennessee at Chattanooga, for the year ended June 30, 2001, the university failed to properly conduct the verification process for 2 of 21 Title IV financial aid recipients tested. These recipients had been selected by the federal government to undergo verification of their application for federal financial aid.

In conducting eligibility verifications, using tax returns and other available data, financial aid personnel at the school verify certain data elements as reported on the student's ISIR (Institutional Student Information Report). Depending on the circumstances, the school may or may not reprocess the student's application information. For the two students above, the application information was verified, and certain information was found to be incorrect. Corrections were submitted, and a revised ISIR was received by the university. However, all necessary corrections were not submitted. For one of the students, a parent's untaxed income of \$8,556 was not included on her application. For the other student, an earned income credit of \$1,755 was reported on the student's application when the student had not received an earned income credit.

Apparently, these errors on the students' applications were not discovered by financial aid personnel in conducting their comparison of each student's Institutional Student Information Report (ISIR) to the tax return submitted by each student.

According to the *2000-2001 Student Financial Aid Handbook*, volume 1, page 179, "Because the effectiveness of the federal student financial aid programs depends on the accuracy of the data students report, schools must verify information provided by [the] student. . . ."

The failure to submit all necessary corrections resulting from the verification process could result in the incorrect awarding of Title IV financial aid. For the two students described above, the amounts awarded were correct.

### **Recommendation**

Financial aid personnel at the University of Tennessee at Chattanooga should institute procedures to ensure that verifications are properly conducted and that all necessary corrections are submitted when reprocessing is deemed necessary.

### **Management's Comment**

We concur. Management strives to ensure that procedures are in place and are being followed to ensure verifications are properly conducted and that all necessary corrections are submitted when reprocessing is deemed necessary. The institution believes it has addressed this issue in several ways since these errors were made. The financial aid office has upgraded the job classification for the person who performs verification from Data Integrity Clerk to Financial Aid Counselor. We believe this will help cut down on yearly turnover we were experiencing which contributed to more human error as new employees had to be trained. In addition, the Financial Aid Counselor assigned to verification and the Assistant Director attended the National Association of Student Financial Aid Administrators training session on verification on March 19, 2002.

<b>Finding Number</b>	02-UTK-01
<b>CFDA Number</b>	84.032
<b>Program Name</b>	Student Financial Assistance Cluster
<b>Federal Agency</b>	Department of Education
<b>State Agency</b>	University of Tennessee
<b>Grant/Contract No.</b>	N/A
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

### **Student status changes not properly reported**

#### **Finding**

At the University of Tennessee at Knoxville, the university did not always report student status changes for Federal Family Education Loan (FFEL) borrowers who dropped classes, withdrew, or graduated. According to the *Student Financial Aid Handbook*, Volume 8, page 69:

This information [regarding student status changes] is extremely important, because it is used to determine the student's eligibility for in-school deferments, and the date when the grace period begins.

Schools must report to the National Student Loan Data System (NSLDS) if the student:

- has ceased to be enrolled at least half time;
- was accepted for enrollment at the school but did not enroll on at least a half-time basis for the period for which the loan was intended; or
- has changed his or her permanent address.

If a school does not expect to submit a Student Status Confirmation Report (SSCR) within 60 days of becoming aware that any of the above information has changed for any student, the school must notify the NSLDS within 30 days of becoming aware of the change.

Testwork at the University of Tennessee at Knoxville revealed that for 2 of 25 FFEL borrowers tested (8%), enrollment status changes were not reported within the required time frame. One of the students graduated in the spring 2002 term (May 11, 2002), and the other student received academic dismissal on May 22, 2002. These status changes were reported on NSLDS on September 5, 2002.

The failure to report student status changes could result in inappropriate deferments or the failure to properly begin a student's grace period.

### **Recommendation**

University personnel should ensure that student status changes for FFEL loan recipients are reported in compliance with federal regulations.

### **Management's Comment**

We concur. Corrective action has been taken to ensure that students who were dismissed or graduated during the spring semester will now be included in the final enrollment submission for the spring semester. Enrollment status will be reported three times during the fall semester, three times during the spring semester, and one time during the summer semester. Additionally, degree status will be reported on a monthly basis throughout the entire year. The above reporting schedule will ensure that status changes will be reported as required.

<b>Finding Number</b>	02-DCS-01
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>Pass Through Agency</b>	Bureau of TennCare
<b>State Agency</b>	Department of Children's Services
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$184.00

**Children's Services inappropriately requested and received reimbursement of \$393,075 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, the TennCare waiver, and the State Plan during the year ended June 30, 2002.

This is a repeat finding that was addressed by the U.S. Department of Health and Human Services (HHS) in a letter to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001. In the letter, HHS stated:

This is a repeat finding. We recommend 1) procedures be implemented to ensure Federal funds are not used for health care costs of a) children who are in youth development or detention centers, b) children not in State custody, c) children on runaway status, . . . e) services provided by Children's Services to individuals in hospitals, . . . g) undocumented targeted case management . . .

Although the department has made progress in reducing reimbursements for services provided outside the scope of its agreement with TennCare, there were still the following areas where inappropriate reimbursements occurred.

**Payments for Incarcerated Youth**

As noted in the prior five 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. Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional 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.

Management's responses to the last two audits stated that it would investigate the underlying causes and make necessary adjustments to the department's control structure. However, using computer-assisted audit techniques, our search of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least \$77,667 from July 1, 2001, through June 30, 2002, for juveniles in youth development centers and detention centers. The prior audit finding disclosed inappropriate billings of \$254,880 from July 1, 2000, through June 30, 2001.

#### Children Not in State Custody

As noted in the prior three audits, Children's Services inappropriately billed and received payment from TennCare for children not in state custody. Management has partially concurred with this portion of the prior findings and has attributed the problem to circumstances when a social worker from DCS or a law enforcement officer removes a child from home before a court has issued an order. Management further stated that there are circumstances when a child is taken into custody, but the court finds that continued custody is not warranted. These actions could result in no court action ordering custody even though the child was in fact in legal custody. It is possible that some of the costs questioned below include payments for children removed from homes in emergency situations and short delays in court proceedings. However, management has not provided any information to support specific charges that are questioned.

TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavioral services for children not in state custody should be provided through the TennCare Behavioral Health Organizations (BHOs). Using computer-assisted audit techniques, we performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that DCS had improperly billed TennCare \$193,266 from July 1, 2001, through June 30, 2002, for services to children who were not in the state's custody. The prior audit finding disclosed inappropriate billings of \$363,800 from July 1, 2000, through June 30, 2001.

#### Children on Runaway Status

As noted in the prior three audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but are 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. In response to the prior audit finding, management stated that there appear to be two main causes for children to appear on the data match. The runaway placement was not always entered correctly in TNKIDS, and the approvers may not have always caught coding errors on the invoices submitted by the vendors. Management stated that it would continue to analyze the data match and evaluate what additional controls are needed. However, using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's TNKIDS system. The results of the data match indicated that DCS had improperly billed

TennCare \$86,917 from July 1, 2001, through June 30, 2002, for services to children on runaway status. The prior audit finding disclosed inappropriate billings of \$266,670 from July 1, 2000, through June 30, 2001.

### Hospitalized Children

As noted in the prior two audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but had been placed in a medical hospital. The Managed Care Organizations (MCOs) are responsible for costs incurred while the child is placed in a hospital. Children's Services' provider policy manual allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Regional Administrator, the provider may bill DCS for up to 21 days while the child is in the hospital, but Children's Services cannot bill TennCare for those days.

In response to the prior audit finding, management stated that it believed the questioned transactions were processed before improvements to its controls were put into place. The department stated it would continue to monitor hospitalized children to ensure that the current control structure is sufficient. However, the control structure did not adequately reduce noncompliance with these requirements. Using computer-assisted audit techniques, auditors performed a data match comparing TennCare's payment data to medical records from the MCOs. The results of the data match indicated that DCS had improperly billed TennCare \$35,041 from July 1, 2001, through June 30, 2002, for children while they were in hospitals. The prior audit finding disclosed inappropriate billings of \$42,151 from July 1, 2000, through June 30, 2001.

### Targeted Case Management

As noted in the prior audit, Children's Services inappropriately billed and received payment for targeted case management services. Management concurred with the prior finding but believed that the occurrence was an isolated incident and not a systematic problem. The Department of Children's Services bills and receives reimbursement from TennCare for targeted case management, which reimburses DCS for TennCare's share of costs associated with providing case management services for children in the state's custody. Targeted case management includes, but is not limited to, case manager visits with children, developing permanency plans, maintaining case files, and arranging TennCare-related services such as health screenings and behavioral health services. DCS bills TennCare a daily rate for each child in its custody that has been assigned a case manager. Targeted case management billings to TennCare were over \$56 million for the fiscal year. We selected a sample of 42 children for whom TennCare was billed a total of \$10,719 for targeted case management. Based on the testwork performed, there was no evidence that case management was provided to 2 of 42 children tested (5%) during the dates of service specified on the billing. Questioned costs total \$184. We believe likely federal questioned costs exceed \$10,000 for this condition.

Questioned costs associated with the instances of noncompliance reported in this finding, except those associated with targeted case management, are reported in the Department of Finance and Administration's audit report and in the TennCare findings as reportable conditions in the *Tennessee Single Audit Report* for the year ended June 30, 2002.

## **Recommendation**

The Commissioner should continue to develop and implement procedures necessary to ensure that TennCare is not billed for inappropriate expenses related to children in youth development and detention centers, not in state custody, on runaway status, or placed in hospitals. In addition, targeted case management billings should be based on children receiving targeted case management services. Effective internal control requires management to have systems in place to adequately monitor operations, particularly relating to such compliance issues. Management could develop the information necessary to detect these discrepancies by using the types of computer analyses auditors have used to identify these problems. The Commissioner should monitor the implementation of corrective measures and evaluate their effectiveness. Management should make it a priority to bill TennCare only for allowable services provided to eligible children.

## **Management's Comment**

We concur.

### Incarcerated Youth

As noted in the audit finding, the department reduced the incorrect billings to TennCare for incarcerated youth by \$177,213, or 70%. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children that have been incarcerated to avoid incorrect billings to TennCare. Based on departmental staff evaluation of the discrepancies noted by the auditors, it appears that the substantial cause of these errors is attributable to incorrect procedure codes used by providers on the Standard Claims Invoice (SCI) form. It is management's position that the implementation of the new Standard Claim Invoice (SCI) procedure codes for services that are ineligible for TennCare reimbursement, and the associated provider training in the use of these codes, has effectively enhanced controls and resulted in increased compliance by the department.

The discrepancies noted in the finding are further exacerbated by untimely updates to child information in TNKIDS and the lack of system integration between the SCI system and TNKIDS. Due to the excessive volume of invoices received by the department from providers, it is not feasible to perform a manual verification of each invoice to confirm a child's placement on a given date. However, the Placement Re-Design for TNKIDS is anticipated to begin development in April 2003. With the development and implementation of the Placement Re-Design and the conversion of the SCI system to the Oracle Financial System, these discrepancies will be greatly reduced as a result of the verification controls in place both for departmental personnel to confirm the child's placement and the vendor to verify that information electronically through the invoicing process.

### Children Not in State Custody

As noted in the finding, the department has reduced the amount of incorrect billings to TennCare by \$170,534, or 47%. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children that have reached the age of majority in accordance with TCA 37-1-173. Departmental staff is currently evaluating the causative factors that contributed to the discrepancies noted in the finding, and although this evaluation is not complete as of this date, documentation suggests that the majority of these incorrect billings are attributable to the use of incorrect procedure codes by the provider on the SCI. In all the cases reviewed by departmental staff, the discrepancies noted are related to youth in placements that reach the age of majority as defined in TCA 37-1-173 (a) or (b) and elect to continue receiving care from the department.

### Children on Runaway Status

The department is pleased that the incorrect billing to TennCare for youth on runaway status has reduced by \$179,753, or 67%, from last fiscal year's audit. The department has implemented new procedure codes for use by providers to aid in identifying the appropriate funding mechanism for children on runaway status. Departmental records indicate total payments to vendors with youth in this category were \$707,357.23 for fiscal year 2002. Without the implementation of the identifying procedure code, TennCare would have been erroneously billed \$412,982.84 rather than the \$86,917 noted by the auditors. It is management's position that the implementation of the new Standard Claim Invoice procedure codes for this break in custody and the associated provider training in the use of these codes has effectively enhanced controls and resulted in increased compliance by the department as evidenced by the reduction in erroneous billings.

### Hospitalized Children

As noted in the finding, the department has reduced the amount of incorrect billings to TennCare by \$7,110, or 17%. It is management's position that the implementation of the new SCI procedure codes for other situations noted in this finding that are ineligible for TennCare reimbursement and the associated provider training in the use of these codes has effectively enhanced controls and resulted in increased compliance by the department.

### Targeted Case Management

Based on the department's review of the discrepancies noted in the finding, the billing errors occurred during the implementation of modifications to programs that bill TennCare and conversion of databases for program builds in TNKIDS. Management will take action to assure appropriate quality control is maintained over billings during future conversion and implementation of program modifications.

In conclusion, management anticipates the implementation of an Internet-based invoicing process as part of the Phase 1 implementation of the Oracle Financial System within fiscal year 2004. This application will contain edits to reduce the likelihood of errors by both departmental employees and its service providers as it will require confirmation of the child's placement on the part of the provider and verification of the custody dates by Case Management staff. This

will also integrate with the Placement Re-Design portion of TNKIDS to confirm custody episodes, placement types, and other critical provider data.

<b>Finding Number</b>	02-DFA-03
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility, Procurement and Suspension and Debarment, Program Income, Reporting, Subrecipient Monitoring, Special Tests and Provisions
<b>Questioned Costs</b>	None

**Top management still has failed to address the TennCare program’s numerous and serious administrative and programmatic deficiencies**

**Finding**

As noted in the previous three audits, most of the findings in this report are the result of TennCare’s numerous administrative and programmatic deficiencies. Well-publicized events concerning the ability of the program to continue in its present form have contributed to the perception that the program is in crisis. Management concurred with the prior audit finding, as discussed throughout this finding. Although significant improvements were made through the eligibility reverification process, many serious problems still exist.

The auditors are responsible for reporting on the department’s internal control and management’s compliance with laws and regulations material to the program. However, top management, not the auditors, 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 organizational structure.

Our evaluation of the control environment and the other components of internal control revealed several continuing overall, structural deficiencies that have caused or exacerbated many of the program’s problems. In addition, this finding reflects ongoing unresolved shortcomings on the part of the program’s leadership. Other areas of this report reveal that TennCare management

- alleged existence of agreements from the Centers for Medicare and Medicaid Services that apparently do not exist (see finding 02-DFA-17);
- in prior management’s comments has misrepresented information (finding 02-DFA-17), was not aware of the status of corrective actions described (finding 02-DFA-15),

did not take corrective action indicated, and failed to address grounds for nonconcurrency with the audit finding (finding 02-DFA-24);

- demonstrated an indifference to noncompliance (see finding 02-DFA-17);
- has a lack of coordination and overview at the top (see finding 02-DFA-16);
- promises to develop policies or take other long-term, preparatory steps rather than working on the problem directly (see finding 02-DFA-19); and
- made decisions without performing a cost/benefit analysis (see findings 02-DFA-16 and 02-DFA-35).

In addition, some of the most serious problems are discussed below:

### Inadequate Information System

Management concurred with the prior audit finding and stated,

TennCare concurs that it still does not have an adequate information system to meet the business demands it faces. Significant progress has, however, been made on changing this. The Bureau has invested a year in developing a procurement for a replacement TCMIS. This development process included many users and constituents, including other state agencies and affected outside parties. The procurement is expected to be public before the end of March 2002. The new system is to be implemented by October 1, 2003.

However, the TennCare program still does not have an adequate information system. The program is still dependent upon a large and complex computer system, the TennCare Management Information System (TCMIS), that is outdated and inflexible. According to the Director of Information Systems, the RFP (request for proposal) was released on April 22, 2002. According to Information Systems (IS) staff, the implementation of a new TCMIS is to occur in 2003 and is a top project for the Bureau of TennCare. See finding 02-DFA-36 for further details regarding this matter.

### TennCare Lacks Stable Leadership and Adequate Staff Resources

Management stated in response to the prior audit finding,

Significant changes have also been made in staffing. A number of new positions have been hired into the Bureau. Staffing shortages still occur when appeals volumes peak, but overall staffing is substantially improved. The organization has also been restructured to include a stronger senior management structure. A new assistant commissioner for member services has been established to coordinate all activities directed at members, including eligibility policy, the member hotline, administrative appeals, and medical appeals. A new assistant commissioner for delivery systems has been hired to coordinate all of the ways in which TennCare delivers services, including the MCO program, behavioral health, pharmacy, dental, and long term care. In addition, a separate MCO program director has been created to coordinate all interaction with MCOs.

However, according to management, the TennCare program is still understaffed despite efforts to hire additional staff, and only one of the three individuals referenced in the above comment is still employed by the Bureau of TennCare. Furthermore, the TennCare program has continued to lack stable leadership. Since the beginning of the program in January 1994, and through December 2002, the program has had nine directors. In addition, during the year ended June 30, 2002, the Director of TennCare and the TennCare Deputy Director/Chief Operating Officer resigned.

#### Inadequate Written Operating Policies and Procedures and Inadequate Monitoring

Management stated in response to the prior audit finding, "All of TennCare's eligibility and reverification procedures have been rewritten. A detailed manual has been created for the Department of Health staff." Management corrected weaknesses regarding policies and procedures for financial change requests and eligibility. However, despite its size and complexity, TennCare still does not have adequate written operating policies and procedures for certain critical areas. As previously noted, the lack of written, comprehensive operating policies and procedures increases the risk that errors or inconsistencies may occur in the TennCare program. For example:

- TennCare's policies and procedures manual for pricing cross-over claims is still not adequate. See finding 02-DFA-24 for further details regarding this matter.
- TennCare still has no written, comprehensive operating policies and procedures pertaining to utilization control and suspected fraud (finding 02-DFA-35).
- In addition, TennCare's monitoring effort still needs improvement. See findings 02-DFA-06, 02-DFA-15, 02-DFA-16, 02-DFA-19, 02-DFA-20, and 02-DFA-32 for further details.

#### **Recommendation**

**Note: The language in this recommendation is practically identical to that in the last three audits, reflecting little improvement.**

For the TennCare program to improve and succeed over the long term, the Director of TennCare and his staff must address the long-existing problems within and external to the administrative structure of the program.

The Director should also develop a plan to address the personnel requirements of the program. The plan might include cross-training, employee development, emphasizing employee career-paths, staff reassignment, and workload redistribution. In addition, the Director should continue to pursue acquisition/development of a new TennCare information system.

The Director should ensure that adequate written and comprehensive operating policies and procedures are developed for all areas of the TennCare program still lacking critical policies and procedures. 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. The Director should ensure that adequate monitoring is performed.

### **Management's Comment**

We concur with the overall recommendations made in this finding. However, for certain areas discussed in the finding, we do not concur and these matters are addressed in the responses to individual findings in this report.

While efforts have been made to correct these identified problems, obviously, not all of these efforts have been successful. However, TennCare management realizes the importance of the issues addressed in these findings and is committed to resolving each one. Bureau staff are developing corrective action plans for each finding and will meet monthly with the Director to review the progress made towards resolution of each finding.

We agree that the information system needs to be replaced and considerable resources have been put into developing a replacement model that will employ sophisticated, up-to-date strategies for assuring that data is reported, collected, and analyzed efficiently. This new system is due to be operational on October 1, 2003.

We also agree that staff turnover has been a problem in the past. In the past eight months, the following positions have been added: a new MCO Director, a new Policy Director, and a new Legislative Liaison. Administrative services have been consolidated into one area, and new support staff have been brought on board. Two recent recruits include a Chief Operations Officer whose last position was Director of the Regional CMS Office in Atlanta and who has a wealth of experience and expertise to offer to TennCare. A new Director of Member Services, who is an attorney with long-time experience in state government, has been also hired. In addition, there is less reliance on consultants than there has been in the past.

Managing the TennCare program so that it works efficiently and in the best interests of the state is a challenging responsibility. We have reported throughout this document on efforts we are making to address the problems that have been pointed out. We intend to be successful in solving these problems in the years ahead.

<b>Finding Number</b>	02-DFA-04
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Reporting
<b>Questioned Costs</b>	None

**The system reports used by TennCare’s Fiscal/Budget department to allocate costs are inaccurate**

**Finding**

TennCare’s Fiscal/Budget department relies on inaccurate system reports to allocate TennCare costs to the appropriate cost centers. TennCare’s staff processes capitation payments and fee-for-service claims for TennCare enrollees through the TennCare Management Information System (TCMIS). The system then generates checks weekly to the Managed Care Organizations, Behavioral Health Organizations, and the fee-for-service providers. After each week’s checks are generated, TCMIS also generates a variety of reports that are used by TennCare fiscal/budget staff to reconcile and allocate costs paid through TCMIS. During the reconciliation process the fiscal staff attempt to balance the weekly check registers with amounts on various system reports. Frequently differences occur and fiscal staff force amounts from the system reports to agree with the check register. The accuracy of these reports is essential to ensure the proper recording and classification of payments in the State of Tennessee Accounting and Reporting System (STARS) and required federal reports. For example, one report, “Claims Paid By The Month of Service,” is used to separate costs into the applicable year. However, when inaccuracies occur fiscal staff must force the reports to balance by adding or subtracting amounts from one of the years.

Testwork revealed that the check register balance did not agree with the “Claims Paid By The Month of Service” report for two of the four weeks tested.

- Although the amounts should have agreed, during the week of December 7, 2001, the Managed Care Organization capitation payment amount per the “Claims Paid By The Month of Service,” report was \$189,858,215, and the amount per the check register was \$186,148,790, a difference of \$3,709,425. In this situation fiscal staff reduced the current yearly amount from the “Claims Paid By The Month of Service” report to make the total agree with the check register.
- The amount paid per the check register during the week of June 7, 2002, was \$186,982,681 while the amount per “Claims Paid By The Month of Service” report

was \$186,982,335, a difference of \$346. This amount was deducted from current year expenditures so the total reported would agree with the check register.

- It was also noted for the quarter ending September 30, 2001, that three adjusting journal vouchers had to be completed by staff because of their concerns about the proper classification of expenditures reported in STARS.

Inconsistencies and inaccuracies between and within the reports used to allocate costs can lead to inaccurate state and federal reporting of TennCare costs. There are no questioned costs because TennCare did not allocate more costs than were indicated by the check register.

### **Recommendation**

The Director of TennCare should ensure all system reports used by TennCare to allocate costs are consistent and accurate. Anytime unexplained inconsistencies occur between these reports, TennCare fiscal staff should coordinate efforts with the Division of Information Systems and the fiscal agent to ensure corrective action is taken. Corrective action could include correcting system logic used by TCMIS to create the system reports, or determining and documenting why the differences occur.

### **Management's Comment**

We do not concur with the auditor's assertion that fiscal staff "force" amounts from the system reports to agree with the check register. The fiscal staff perform a reconciliation process that includes the use of several system generated reports and the check register. The Claims by Month of Service report always balances in total with the check register after adjustment for the total of any amounts not paid because the amounts owed providers were so small they did not currently warrant a check (Report CP-O-14 adjustment). The amount reported agrees with the check register. Accounting adjustments are recorded for any items identified during the reconciliation process that may have been recorded incorrectly originally. This is a normal process when reconciling accounting reports and does not indicate that amounts were forced.

We concur that some immaterial adjustments may be recorded in the current waiver year that represent activity of a prior year. Because of the timing and volume of transaction activity, certain transactions may be processed after the close of a year and some of those may be recorded as current period activity rather than prior period activity. During the reconciliation process, it is not possible to review the details of every transaction because of the volume. However, the fiscal staff is aware of any material transactions that relate to a prior period and ensure during the reconciliation process that these transactions are recorded and reported in the proper period. It is anticipated that implementation of the new system this year will enable the fiscal staff to identify all transactions by waiver year.

## **Rebuttal**

Management acknowledges that “it is not possible to review the details of every transaction because of the volume.” We believe that this is, in effect, an admission that management does not know why all the adjustments are necessary. As a result, since not all reconciling amounts were supported and management could not tell us why the reconciling items were necessary, we believe the adjustments were made only in an attempt to balance the reports.

<b>Finding Number</b>	02-DFA-05
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Procurement and Suspension and Debarment
<b>Questioned Costs</b>	None

**TennCare circumvented state rules and obtained advertising services exceeding \$340,000 without going through the required procurement process and inappropriately used a contract initiated by the Department of Economic and Community Development**

**Finding**

The Bureau of TennCare improperly obtained advertising services by using a contract between the Department of Economic and Community Development; the Tennessee Film, Entertainment and Music Commission; and Akins and Tombras, Inc. This action circumvented the required competitive procurement process. The services provided to the Bureau were not within the scope of services as described in the contract.

The *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.03 (1)(a), state, “. . . contracts representing the procurement of services shall be made on a competitive basis. (b) To be competitive, a procurement method must include a consideration and comparison of potential contractors, based upon both cost and quality. . . .” Furthermore, Chapter 0620-3-3-.12 allows the Commissioner of Finance and Administration to make exceptions to the rules. Approved exceptions are to be filed with the Comptroller of the Treasury. However, TennCare did not get an exception from the Commissioner of Finance and Administration to forego the competitive procurement process.

In addition, TennCare received services that were outside the scope of services detailed in the contract previously mentioned. Section A.1 of the contract states that the contractor will provide advertising and marketing “as needed to best promote the business advantages of Tennessee” and that “would best reach prospective industrial and corporate clients.” The contractor will also “make specific promotional and media recommendations on how to promote and advertise Tennessee to prospective clients” and “maintain an expert knowledge of all media opportunities and options available to best reach Tennessee’s potential customer.” Section C.9 of the contract states that the services of the Contractor may be extended: “. . . to perform work related to Workforce Development Initiative for other departments and agencies of the State of Tennessee.”

However, according to TennCare Bureau management, the types of advertising services utilized by the Bureau consisted of television advertisements informing TennCare participants

that the Bureau would be reverifying all participants' TennCare eligibility. The services rendered for the Bureau are therefore not related to promoting the business advantages of Tennessee, promoting the state of Tennessee to prospective clients and customers, or the Workforce Development Initiative.

The *Rules of the Department of Finance and Administration*, Chapter 0620-3-3-.05 also state, "The purpose of a written contract is to embody, in writing, the complete agreement between parties. No terms shall be left to an unwritten understanding. A contract shall be explicit and clearly state the rights and duties of each party." However, TennCare was not a party to this contract, and the scope of services mentioned in the contract did not include the advertising services that were provided.

As of December 10, 2002, TennCare had not yet paid for these advertising services; however, according to TennCare staff, TennCare plans to pay over \$342,000 for these services.

The purpose of the state's purchasing rules is to ensure that the state's agencies and departments enter into arrangements with firms that are in the best interest of the state. Not having all services documented in the contract could lead to confusion as to the scope of services, payment terms, and other conditions. Not obtaining bids could result in the state paying more for the desired services than is necessary. Finally, circumventing bid requirements contributes to the perception that management of the TennCare program is not committed to proper accountability.

### **Recommendation**

The Director of TennCare should not bypass bidding procedures by obtaining services through other state contracts. Initiation of new contracts for services should follow the states' competitive procurement requirements. All agreements with contractors should be sufficiently detailed to outline each party's responsibilities.

### **Management's Comment**

We do not concur. Although we agree that bidding procedures should be routinely followed, certain events necessitate alternative negotiation methods and state contracting rules clearly allow for non-competitive negotiation on contracts when the transaction is in the best interests of the state. The fact that this project was not bid out by TennCare does not indicate that management is not committed to proper accountability. Costs incurred for this project were reasonable and necessary costs of the program.

The advertising services referenced in this finding were necessary because TennCare had to quickly inform its 1.4 million members of the reverification process and the need to apply for enrollment at the local offices of the Department of Human Services. There was not sufficient time available to complete an RFP process for this project. TennCare management could have

negotiated a non-competitive contract for these services but utilized an existing state contract instead.

TennCare management had no intention to circumvent state procurement rules and acted in good faith in acquiring services under the existing contract. TennCare was not aware and was not notified in advance that the advertising contract language was not sufficiently broad to cover the TennCare project.

### **Rebuttal**

As stated in the finding, the *Rules of the Department of Finance and Administration* allow the Commissioner of the Department of Administration to grant exceptions to the required rules when necessary. However, TennCare did not obtain this exception from the Commissioner of the Department of Finance and Administration. Furthermore, as stated in the finding the contract is limited to work related to the Workforce Development Initiative.

It does not appear that a non-competitive contract would be appropriate in this situation, because the services provided (e.g. development of television advertisements) could be provided by numerous other contractors.

<b>Finding Number</b>	02-DFA-06
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Procurement and Suspension and Debarment
<b>Questioned Costs</b>	None

**TennCare did not ensure effective monitoring of contracts and did not approve contracts before the beginning of the contract period**

**Finding**

As noted in the three previous audits, the Bureau of TennCare has not effectively monitored its contracts and, as noted in the prior audit, TennCare did not approve contracts before the beginning of the contract period.

Management concurred in part with the prior audit finding and stated that they would continue to work with the Department of Finance and Administration's Program Accountability Review (PAR) section to refer appropriate contracts for monitoring. However, not all contracts that required monitoring were referred to PAR for monitoring.

Discussions with an Assistant Commissioner of Finance and Administration revealed that TennCare did not conduct fiscal audits of the external quality review organization (EQRO) contractor as required by TennCare's contract with the EQRO contractor. Management concurred with this portion of the prior finding and stated that a determination will be made as to whether a fiscal audit is warranted. An Assistant Commissioner for Finance and Administration stated that as of December 6, 2002, a determination was made that a fiscal audit is not warranted and the contract language will be amended when a new contract is negotiated.

Furthermore, according to the Chief Financial Officer of TennCare, the Bureau does not have any policies and procedures for subrecipient monitoring. Management concurred with this portion of the prior finding and stated that a process to identify contracts that should be monitored had been developed, and this process was performed at the time the contract is executed. However, this process was not in writing during the current audit period. Furthermore, TennCare's noncompliance with the Department of Finance and Administration's Policy 22, Subrecipient Monitoring, resulted in inadequate subrecipient monitoring. See finding 02-DFA-32 for further details regarding this matter.

Although management stated that TennCare had assigned responsibility for monitoring each contract to various Bureau of TennCare employees, testwork revealed that sufficient

monitoring procedures for each contract were not performed. Examples of contracts that had not been monitored include

- an interdepartmental contract with the Department of Commerce and Insurance to conduct examinations of the Managed Care Organizations and Behavioral Health Organizations to ensure financial viability and compliance with statutory and contractual obligations;
- a contract with the Department of Children’s Services to provide non-medical treatment and case management services (see finding 02-DFA-15);
- a contract with the Department of Health’s Office of Health Licensure and Regulation to certify healthcare facilities; and
- a contract with University of Tennessee – Memphis and Erlanger Medical Center/T.C. Thompson Children’s Hospital in Chattanooga to conduct a high-risk regional perinatal program.

Without effective monitoring procedures in place, the Bureau cannot ensure compliance requirements of each contract are being met or that the services contracted for have been performed.

In addition, as noted in the prior-year audit, the Bureau of TennCare did not ensure that the contracts with the four Tennessee graduate medical schools were approved before the contract period began. In addition, there were other contracts that were not approved before the contract period began. Chapter 0620-3-3-.06(3) of the *Rules of the Department of Finance and Administration* states that “Upon approval by the Commissioner of Finance and Administration a contract shall be fully approved. . . .” A contract should serve as the legal instrument governing the activities of TennCare as they relate to the contractor and should specify the scope of services, grant terms, payment terms, and other conditions.

Including the four graduate medical schools, we found 20 contracts or amendments to contracts that were not approved timely. These contracts were approved from four days to 363 days after the effective date of the contract with an average of 165 days. In addition, TennCare paid \$2,582,263 for services provided during fiscal year 2002 to Alexian Village Nursing Home during the year ended June 30, 2002, before the contract was approved on September 10, 2002. An additional \$932,811 was paid from July 1, 2002, through September 10, 2002, for services provided under this contract during fiscal years 2002 and 2003.

Not having an executed contract in place at the beginning of the contract term can lead to confusion between the parties regarding the scope of services, grant terms, payment terms, and other conditions. In addition, if contracts are not approved before the contract period begins and before services are rendered, the state could be obligated to pay for unauthorized services.

## **Recommendation**

Once again, the Director of TennCare should ensure that written policies and procedures are developed and implemented as necessary to ensure effective contract monitoring. In addition, the Director should ensure once again that all contracts are signed before the effective date and should ensure that funds are not paid before contracts are signed. In addition, the Director should ensure that requirements for a fiscal audit, if not needed, are removed from the EQRO contract.

## **Management's Comment**

We concur. In September 2002, we completed a monitoring plan for many of the contracts in place for Bureau operations for fiscal year 2003. However, revisions to the monitoring plan are needed to ensure all contracts requiring monitoring are included in the plan. These revisions will be made and appropriate policies and procedures will be put in place. The EQRO contract will be modified as soon as practical to remove the requirement for a fiscal audit.

Every attempt will be made to ensure contracts are signed before the effective date. However, because of the extenuating circumstances regarding certain agreements, it is not always possible to accomplish this. Approval for the Alexian Village agreement, for example, was delayed because the contractor had to be transitioned from a PACE waiver provider to a permanent provider in accordance with federal regulations. The State entered into a three-way agreement with the provider and the federal government. Many steps had to be performed to accomplish this transition resulting in a delay in the approval of the contract. Nevertheless, we realize the importance of having contracts in place at the effective date and will attempt to correct this issue.

<b>Finding Number</b>	02-DFA-07
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**TennCare did not follow its own rules that were in effect during the audit period**

**Finding**

As noted in the prior six audits, the Bureau of TennCare has not followed several of the departmental rules it has 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 has finally initiated steps to revise its rules to conform with current practices. TennCare corrected a portion of the prior year audit finding by implementing rules pertaining to Medicare crossover claims. However, other rules pertaining to graduate medical education and the HCBS waiver were not in place and effective.

Testwork revealed the following recurring discrepancies:

- The Bureau has drafted rules to include changes in the method it uses to determine payments to the state’s medical schools for graduate medical education. However, these rules were not effective during the audit period. Management stated in response to the prior audit finding that the rules “are under review and will be put in place as soon as possible.” Discussions with management during fieldwork regarding this matter revealed that there was a hearing on April 19, 2002 regarding these rules. As a result of the hearing, approval of the rules was postponed because the graduate medical schools wanted changes to the rules. According to TennCare staff as of December 3, 2002, the Chief Financial Officer is to provide written responses to the concerns of the graduate medical schools. After approval of the rules by the Director of TennCare and the Commissioner of Finance and Administration, the rules will be submitted to the Attorney General and the Secretary of State for approval. The rules would then be effective 75 days after approval.
- Not all the rules contained in the *Rules of the Tennessee Department of Finance and Administration Bureau of TennCare* pertaining to Home and Community Based Services waiver programs were effective during the audit period. Management stated in the prior audit that “rules have been implemented since the end of the audit period for . . . the HCBS waiver program.” On November 18, 2002, TennCare had a public hearing for rule 1200-13-1-.17. As of December 3, 2002, TennCare still must respond to comments received at the hearing. After the comments are addressed, the

rules must be approved by the Director of TennCare, the Commissioner of Finance and Administration, the Attorney General, and the Secretary of State. As of December 3, 2002, Rule 1200-13-1-.26 pertaining to the American Disabled for Attendant Programs Today (ADAPT) Elderly and Disabled Waiver and rule 1200-13-1-.27 pertaining to the Shelby County Elderly and Disabled Waiver have been written and are awaiting approval from the Director of TennCare. These rules when approved by the Director of TennCare and the Commissioner of Finance and Administration will be sent to the Attorney General and the Secretary of State for approval.

### **Recommendation**

The Director of TennCare should ensure that the comments from the hearings are addressed as soon as possible. When finished the Director should ensure that the rules are promptly approved by the Director of TennCare and the Commissioner of Finance and Administration, and sent to the Attorney General and the Secretary of State for approval.

### **Management's Comment**

We concur. We anticipate that written responses to comments concerning the GME rules will be completed shortly and the final rules promulgated within six months. We also anticipate that responses to HCBS rule 1200-13-1-.17 will be completed shortly and the three HCBS waiver rules (1200-13-1-.17, 1200-13-1-.26, and 1200-13-.27) will be promulgated within six months.

<b>Finding Number</b>	02-DFA-08
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**TennCare did not require the Department of Human Services to maintain adequate documentation of the information used to determine Medicaid eligibility**

**Finding**

As noted in the prior audit, the Bureau of TennCare did not require the Department of Human Services (DHS) to maintain adequate documentation of the enrollee's information used to determine Medicaid eligibility. The Department of Human Services performs Medicaid eligibility determinations under an interdepartmental contract with the Bureau of TennCare.

DHS uses the Automated Client Certification and Eligibility Network (ACCENT) system to determine eligibility for Medicaid. During the enrollment process, county DHS eligibility counselors meet with the potential enrollees in face-to-face interviews. Each applicant is required to provide hard-copy documentation to support various eligibility criteria. This information includes income, resources, medical expenses, family information, social security numbers, date of birth, etc. During the enrollment process, eligibility counselors examine documentation supporting the information that is entered into ACCENT. For example, before entering income into the system, an eligibility counselor would examine such documentation as employment pay stubs or federal tax returns. At the end of the enrollment process, the documentation supporting the information entered into the system is then returned to the applicant/enrollee. ACCENT makes the eligibility determination based upon the information entered into the system by the eligibility counselor.

DHS transmits eligibility updates from ACCENT daily to the Bureau of TennCare to update TennCare eligibility information in the TennCare Management Information System (TCMIS).

Auditor inquiry revealed that the enrollee's application is the only paper documentation consistently kept by DHS. Although ACCENT maintains electronic case notes, there is no documentation kept to support the eligibility information entered into ACCENT. Without adequate documentation of the information entered into ACCENT, the risk is increased that ineligible enrollees may be enrolled on Medicaid.

Discussions with management at DHS revealed that the department relies heavily upon information from the Tennessee Department of Labor and Workforce Development, the Social

Security Administration (SSA), the Tennessee Department of Health, and the Internal Revenue Service (IRS) for verification of eligibility information. From the Department of Labor and Workforce Development, DHS receives monthly data on Unemployment Insurance Benefits that can be used to verify unemployment income.

DHS also receives monthly beneficiary and earnings data, daily social security number verification, and daily information on Supplemental Security Income (SSI) recipients from SSA. The data from SSA provide DHS a method of verifying an individual's Social Security payments, social security number, Medicare eligibility status, and SSI eligibility status. Through the Office of Vital Records within the Department of Health, DHS has daily access to birth records. This information can be used to verify ages and relationships needed when making an eligibility determination. DHS also receives wage data from the Department of Labor and Workforce Development. However, not all employers are required to report employee wages to the state. Employers that are not required to report include churches, regardless of the size of payroll or number of employees, and non-government organizations with a small payroll and/or few employees. Furthermore, this information is sometimes several months old and is reported on a quarterly basis. Medicaid eligibility is determined based on current monthly income. In addition, the information DHS receives from the IRS concerning income that is reported on an individual's IRS 1099 form is delayed several months and is reported on a yearly basis.

Although DHS receives information from outside sources, not all eligibility requirements can be verified through this information. These outside information sources do not provide a systematic way to verify all types of income an enrollee might have. In addition, none of the updates received from other departments include documentation of other resources for non-SSI recipients or medical expenses that could affect an eligibility decision.

Management did not concur with the prior finding. It is management's position that keeping copies of supporting documents is unnecessary because:

- a. much of the information supporting the eligibility of recipients is verified through data matches described above,
- b. the Department of Human Services has a quality control process that samples a portion of the recipient population monthly,
- c. the federal Departments of Health and Human Services and Agriculture approved the design of and funded the creation and operation of the ACCENT system with full knowledge of the "paperless" aspects of the system,
- d. the system has been in place since 1992 without any indication from the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, that the process in place was not adequate to meet federal requirements, and
- e. the State Attorney General issued an informal opinion in 1992 that the application form and the electronic file satisfied the legal requirements for determining eligibility

and would be admissible evidence in legal proceedings and that there were no federal requirements specifying that written documentation other than the signed application form be maintained.

We believe that management's arguments are not unreasonable. However, we believe that there are sufficient counter points to these arguments such that management should either implement a process to maintain supporting documentation or obtain explicit approval from the appropriate federal authorities for maintaining the "paperless" system. The counter points to management's arguments are:

- a. while the data matches do verify much of the necessary information for many of the recipients, they do not verify such things as other resources and medical expenses for most recipients, they do not verify income information for all recipients, and they do not always provide timely information,
- b. at best, a quality control system provides after-the-fact inferences about the accuracy of eligibility determinations; and the system used by DHS does not include all Medicaid enrollees in the population sampled,
- c. neither TennCare nor DHS has been able to produce evidence that the federal Department of Health and Human Services specifically approved the "paperless" aspects of the system,
- d. CMS has not specifically stated that the process in place is adequate to meet federal requirements, and
- e. while federal regulations do not state what specific documentation is needed to support eligibility determinations for the Medicaid program, OMB Circular A-87 does state that costs must be adequately documented to be allowable under federal awards.

Furthermore, without maintaining the documentation, the Bureau of TennCare cannot ensure that the information entered into ACCENT is accurate and Medicaid enrollees are eligible at the time benefits are awarded. Not maintaining this documentation also reduces accountability for information entered and makes researching cases more difficult.

### **Recommendation**

The Director of TennCare should ensure that DHS keeps documentation of the information entered into ACCENT that is used to determine Medicaid eligibility or obtain explicit approval from the appropriate federal authorities for maintaining the "paperless" system.

## Management's Comment

We do not concur. Approval of the ACCENT system design, which includes the electronic recording of eligibility data, was obtained from the U.S. Department of Health and Human Services before implementation of the system in 1992. There has never been any indication from the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, that the process in place was not adequate to meet federal requirements. In addition, the State Attorney General also issued an opinion in 1992 that the use of an electronic eligibility file and the application form satisfied legal requirements for determining eligibility.

As required by federal law and to ensure program integrity, the Department of Human Services (DHS) has had a quality control system in place since implementation of TennCare (and previously under the Tennessee Medicaid program). In this quality control system, called Medicaid Eligibility Quality Control (MEQC), each month DHS uses a random sampling of Medicaid cases to validate eligibility determinations, whether active (eligible) or negative (denied). The MEQC system is designed to reduce erroneous expenditures by monitoring eligibility determinations, third party liability activities, and claims processing (State Medicaid Manual, Part 7, Quality Control). MEQC programs approved in Section 1115 waiver states are relieved of any liability for disallowances for Medicaid eligible enrollees and for individuals added under the waiver resulting from errors that exceed the 3 percent tolerance level established by federal regulations.

TennCare believes that the eligibility procedures, including the level of documentation, and the MEQC reviews and follow-up activities provide adequate internal controls over the eligibility process and meet federal requirements. However, consideration will be given as to whether any additional monitoring of the process in place at DHS should be performed.

## Rebuttal

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Tennessee Department of Finance and Administration regarding the *Single Audit of the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material weakness. We recommend procedures be developed and implemented to ensure client eligibility is adequately documented and the documentation is retained.

In addition, according to the *Code of Federal Regulations* (CFR), 42 CFR 431.17(d), "Conditions for optional use of microfilm copies,"

The agency may substitute certified microfilm copies for the originals of substantiating documents required for Federal audit and review [emphasis added]

While federal regulations do not explicitly define the form of the documentation to be maintained, this regulation establishes that there is an expectation that the department maintain original documentation of the information received.

<b>Finding Number</b>	02-DFA-09
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	None

**TennCare does not have a court-approved plan to redetermine or terminate the TennCare eligibility of SSI enrollees that become ineligible for SSI**

**Finding**

As noted in prior audit findings in the previous two audits, TennCare does not redetermine or terminate the TennCare eligibility of Supplemental Security Income (SSI) enrollees that become ineligible for SSI. This is because TennCare does not have a court-approved plan which allows TennCare to make a new determination of the eligibility of these enrollees. According to 1200-13-12-.02(1)(c) of the Rules of the Tennessee Department of Finance and Administration, Bureau of TennCare, “The Social Security Administration determines eligibility for the Supplemental Security Income (SSI) program. In Tennessee, SSI recipients are automatically eligible for Medicaid. All SSI recipients are therefore TennCare eligibles.” However, when an individual enrolled in TennCare as an SSI enrollee is terminated from SSI, TennCare does not redetermine or terminate the enrollee’s eligibility. Currently, TennCare does not terminate SSI recipients unless the recipient dies, moves out of state and is receiving Medicaid in another state, or requests in writing to be disenrolled. Management concurred with the prior finding and stated,

The Director will ask the Attorney General to take action to bring this issue back before the court for final disposition. . . . The AG will be asked to present this decision, coupled with assurances that eligibility review will be performed by the Department of Human Services to determine whether the individual qualifies for any other category of TennCare benefits (including the right to appeal if DHS determines that the individual is no longer eligible for any category of benefits) to the Court with a request to set aside or modify its November 13, 1987, Order. A positive finding by the Court could lift the injunction and permit the disenrollment, if appropriate, of those individuals who have been provided continuous Medicaid and TennCare benefits following termination of SSI.

In response to the finding, TennCare has drafted a plan dated July 12, 2002, that will allow the Bureau to make a new determination of the eligibility of enrollees that become ineligible for SSI, once the court approves the plan. Management stated that the plan will be submitted to the Attorney General, who will in turn present the plan to the court for court approval.

The *Cluster Daniels et al. vs. the Tennessee Department of Health and Environment et al.* court order states,

. . . defendants are hereby ENJOINED from terminating Medicaid benefits without making a de novo [a new] determination of Medicaid eligibility independent of a determination of SSI eligibility by the Social Security Administration. The Court further ENJOINS defendants to submit to the Court and to plaintiffs, within thirty (30) days of entry of this Order, the plan by which defendants have implemented de novo determination of Medicaid eligibility. . . .

Furthermore, the court has required that the Medicaid program must make a determination whether or not the recipient's termination from SSI was made in error.

Management has stated that TennCare follows the direction of the Attorney General's office concerning how to comply with the court order. We requested information from the Attorney General's office on this matter and received a response dated October 17, 2001, which stated,

There is no reason that the affected state agencies (Bureau of Medicaid/TennCare, Department of Human Services) cannot or should not proceed to attempt to comply with the district court's orders and injunction by devising a plan which would satisfy the requirements of those orders. (Under the terms of the Court's orders, the Court will have to approve any State plan to make de novo determinations of Medicaid eligibility independent of determinations of SSI eligibility by the Social Security Administration.) Furthermore, we understand that a number of efforts have been made over the years following entry of those orders to devise a plan which would satisfy the orders' requirements. The efforts have included extensive negotiations between counsel for plaintiffs, counsel for the federal defendants, the Attorney General's office and the Tennessee Department of Human Services (which makes, under law, the Medicaid eligibility determinations). Unfortunately, these efforts have been unsuccessful to date.

By not having a court-approved plan that would allow TennCare to determine if terminated SSI recipients are still eligible for TennCare and to terminate ineligible enrollees, TennCare is allowing potentially ineligible enrollees to remain on TennCare until they die, move out of state and receive Medicaid in another state, or request in writing to be disenrolled.

### **Recommendation**

The Director of TennCare should ensure that TennCare complies with all court orders and injunctions that relate to the eligibility of SSI enrollees. TennCare should develop and implement a court-approved plan that would allow TennCare to determine if terminated SSI recipients are still eligible for TennCare and terminate ineligible enrollees.

### **Management's Comment**

We concur. In an effort to obtain Court approval, the proposal referenced in the finding was submitted to the Attorney General with a request that it be submitted to the Court for approval. The Attorney General has requested additional information regarding systems and programmatic implementation of the proposal. This information is to include such things as a detailed methodology for systems matching to determine current addresses for persons terminated from SSI who have not utilized TennCare benefits. In addition, the Department of Human Services is developing a process to provide the reviews required by the Daniels Order to determine if persons who have been terminated from SSI qualify for other distinct categories of benefit eligibility. The Attorney General will submit the proposal to the Court when the implementation plans are complete. When the Court has reviewed the proposal and approved or modified it, it will be implemented.

<b>Finding Number</b>	02-DFA-10
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$370,044.00

**Internal control over TennCare eligibility is still not adequate**

**Finding**

As noted in the seven prior audits of the Bureau of TennCare, internal control over TennCare eligibility is not adequate. Management concurred in part with the prior audit findings, as discussed throughout this finding. In response to the prior-year finding, management corrected weaknesses regarding policies and procedures, recipients enrolled on TennCare twice, and enrollees with out-of-state and post office box addresses. However, serious internal control issues still exist.

During the year ended June 30, 2002, the responsibility of initial eligibility determination for the uninsured and uninsurable population, which represents approximately 43% of all TennCare enrollees, was divided between the county health offices in the Department of Health and the Member Services Unit in the Bureau of TennCare. For the Medicaid population, the Department of Human Services (DHS) has the responsibility for eligibility determinations. The Department of Children's Services (Children's Services) is responsible for eligibility determinations of children in state custody.

As of July 1, 2002, DHS began enrolling the uninsured and uninsurable population, which is now called TennCare Standard, in addition to the Medicaid population, which is now called TennCare Medicaid. Children's Services enrolls children in state custody in both TennCare Standard and TennCare Medicaid.

**Inadequate Staff to Verify Information on Applications**

This issue was first reported in the audit for year ended June 30, 2000. The audit reported that the unit that reviews the uninsurable applications was understaffed. Management responded to that finding and stated that a new Member Services Unit would be formed to handle all member communications. However, in the audit for year ended June 30, 2001, we reported that although a new Member Service Unit had been organized, the unit within Member Services was still understaffed.

Management concurred with this portion of the prior audit finding and stated,

Members Services reorganized resources to assure that all services related to members were under one TennCare Division. However, staffing of the uninsurable unit has not increased. The unit is still not staffed to verify all information on all TennCare applications. Under the modifications to the TennCare waiver, submitted to U. S. Department of Health and Human Services in February 2002, the Department of Human Services would be the single point of entry for all TennCare applications. This process will include a face-to-face interview with verification of critical eligibility components. If approved, the modified waiver would become effective January 1, 2003, with eligibility determinations to begin July 1, 2002, at the county Department of Human Services offices.

As stated in management's comments, the unit that reviews the uninsurable, uninsurable with limited benefits, and uninsured with COBRA termination applications was still understaffed during the audit period. These applications also include enrollees in the State Children's Insurance Program (SCHIP). The unit receives approximately 1,000 applications weekly. During the first nine and a half months of the audit period, there were only two individuals who initially reviewed the applications to verify the information for completeness and accuracy. During the transition period (the last two and a half months of the audit period) of moving enrollment to DHS, there were four individuals, with additional job duties, who initially reviewed the applications to verify the information for completeness and accuracy. However, because these four individuals were assigned other job duties, they could not devote 100 percent of their time to the application review process. As a result, for the entire year, not all the information on the applications (e.g., income, access to insurance, address, and citizenship status) was verified for accuracy. Not verifying information on these applications increases the risk that ineligible recipients will be enrolled.

#### No Verification of Applications for Individuals Losing Medicaid

This issue was first reported in the audit for year ended June 30, 2000. That audit reported that the applications were entered on the TennCare Management Information System without verification of information contained on the application. Management then responded that they believed accuracy of eligibility determinations would be improved with the new Member Services Unit. However, in the report for year ending June 30, 2001, we reported that the Bureau still did not verify information contained on applications for individuals losing Medicaid eligibility

Management concurred with this portion of the 2001 audit finding and stated,

The new waiver design, which upon approval is intended to go into effect in July, requires that persons applying for the demonstration population, including those who are exiting the Medicaid program, go into Department of Human Services offices to have all information checked in a face-to-face interview process. This process will be more rigorous than the process that is currently in place and will resolve this finding, we believe.

However, during the audit period, the Bureau did not verify information contained on applications for individuals losing Medicaid eligibility. According to 1200-13-12-.02(5)(a) of the *Rules of the Tennessee Department of Finance and Administration, Bureau of TennCare*,

. . . Persons losing Medicaid eligibility for TennCare who have no access to insurance may remain in TennCare if they are determined to meet the non-Medicaid TennCare eligibility criteria. . . .

These applications were entered on the TennCare Management Information System (TCMIS) and processed without verification of information contained on the application. Without verifying the information on the applications, the Bureau of TennCare cannot ensure that the applicant meets non-Medicaid TennCare eligibility or SCHIP criteria. In addition, not verifying the information on the applications can result in inaccurate premium amounts based upon the unverified and possibly inaccurate income amounts reported by the recipient.

Inadequate Documentation of Eligibility Information (This portion of the finding has not been reported in prior years)

During fieldwork, we examined the applications and all supporting documentation maintained by the Bureau of TennCare for a sample of 60 uninsured and uninsurable enrollees (including SCHIP enrollees). For 57 out of 60 enrollees (95%), we determined that TennCare did not have adequate documentation (such as pay stubs or tax returns) to support the income amounts reported by the enrollee on the TennCare application.

As a result of inadequate income documentation, we could not verify that the income amounts reported by the enrollee were accurate, nor could we determine that correct amounts were used to determine premiums for enrollees or that SCHIP enrollees were eligible. Not maintaining adequate documentation of income increases the risk that incorrect premiums are charged to enrollees.

In addition, we noted that TennCare did not require the Department of Human Services to keep adequate documentation of the information used to determine Medicaid eligibility. See finding 02-DFA-08 for further details regarding this matter.

Invalid and Pseudo Social Security Numbers Again Discovered

This issue was first reported in the audit for the year ended June 30, 1997. In that audit we discovered that several thousand TennCare participants had fictitious or “psuedo” social security numbers. In response to that finding, management stated that the reverification project would help to ensure that valid numbers are obtained from enrollees. The audit report for year ended June 30, 1998, reported that there were still 84 enrollees on TennCare’s system with uncorrected “psuedo” social security numbers. In response to that finding, management stated that “Health Departments included information in their training that addressed validation of Social Security Numbers and obtaining a valid number for enrollees with pseudo numbers.” In the audit report for year ended June 30, 1999, we reported that there were still 68 enrollees on TennCare’s system with uncorrected “pseudo” social security numbers. The response to that finding did not discuss “pseudo” social security numbers. In the audit report for year ended June 30, 2000, we reported that TennCare had 79 enrollees with uncorrected “pseudo” social security

numbers. In response to that finding, management stated that it “is our intent to address this issue as a part of our planning for the new TCMIS.” In the audit report for year ended June 30, 2001, we reported that 76 individuals had uncorrected “pseudo” social security numbers in TennCare’s system.

Management concurred with the 2001 audit finding and stated,

There are pseudo social security numbers in the TCMIS and the Bureau is working on a means of validating and correcting them through the Social Security Administration (SSA). The TCMIS assignment of pseudo social security numbers occurs for newborns to the system through the uninsured/uninsurable process. . . .

Similar to results noted in the five previous audits, when computer-assisted audit techniques were used to search TCMIS, the search revealed that 721 TennCare participants had invalid or pseudo social security numbers. Thirty-three of the 721 social security numbers were pseudo social security numbers that began with “888,” which are assigned by TCMIS. 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. The remaining 688 individuals had invalid social security numbers.

Testwork revealed that, during and after the end of the audit period, TennCare staff replaced 52 of the 721 invalid/pseudo social security numbers with valid numbers. However, the remaining 669 invalid or pseudo social numbers were still in the TCMIS system as of November 2002. Further testwork revealed that one TennCare enrollee had been enrolled in Medicaid with an invalid social security number since 1981. Another enrollee was enrolled since 1991 with a pseudo social security number.

Also, while it is not always possible to obtain social security information for newborns (zero to three months), auditors noted that several individuals with pseudo social security numbers were over one year old or had pseudo social security numbers for several months or years. The total amount paid for individuals with invalid social security numbers was \$583,253. Federal questioned costs totaled \$369,699. The remaining \$213,554 was state matching funds.

According to the *Code of Federal Regulations*, Title 42, Part 435, Section 910(a), “The agency must require, as a condition of eligibility, that each individual (including children) requesting Medicaid services furnish each of his or her social security numbers (SSNs).” In addition, according to the *Code of Federal Regulations*, Title 42, Part 435, Section 910(g), “The agency must verify each SSN of each applicant and recipient with SSA [Social Security Administration], as prescribed by the Commissioner, to insure that each SSN furnished was issued to that individual, and to determine whether any others were issued.” TennCare is also required to follow the *Rules of the Department of Finance and Administration, Bureau of TennCare*, Chapter 1200-13-12-.02 (2)(b), which state, “All non-Medicaid eligible individuals . . . 3. Must present a Social Security number or proof of having applied for one. . . .” Also, according to the *Rules of the Tennessee Department of Human Services, Division of Medical Services*, Chapter 1240-3-3-.02 (10), “As a condition of receiving medical assistance through the

Medicaid program, each applicant or recipient must furnish his or her Social Security Number (or numbers, if he/she has more than one) during the application process. If the applicant/recipient has not been issued a number, he/she must assist the eligibility worker in making application for a number or provide verification that he/she has applied for a number and is awaiting its issuance.”

#### Ineligible Enrollees Discovered

This portion of the audit finding was first reported in the prior audit. Management did not concur with this portion of the prior audit finding and stated that,

We do not concur that individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT [the Automated Client Certification and Eligibility Network] represent ineligible TennCare enrollees. As stated in the audit finding, existing business rules allow certain categories of eligibles to be extended for up to 12 months of eligibility within the TCMIS. We concur that Medicaid enrollees could remain eligible beyond the twelve month extended end date as a result of pended/incomplete applications. TennCare generates notices to all Medicaid enrollees 30 days in advance of reaching their TCMIS end date. If an application is entered into ACCENT or the TCMIS within the window allowed, the end date is opened until the application is completed. TennCare Information Systems has worked closely with the Department of Human Services to ensure these pended applications are reported accurately to TennCare, and TennCare reviews any incomplete/pended uninsured/uninsurable applications. Beginning in November 2001 TennCare is identifying the population who have been extended for greater than 12 months of eligibility with aged/pended or incomplete applications, loading end dates to those records and re-sending the 30 day advanced termination notice.

In its comments, management stated that TennCare’s unwritten “business rules” allow certain categories of Medicaid-eligible enrollees a 12-month extension of eligibility even though the enrollee’s eligibility on ACCENT ends before the 12-month extension ends. We determined that the TennCare waiver allows TennCare to grant eligibility for one year only for “medically needy” enrollees if they are eligible for any month of a calendar year. This extension does not appear to apply to any other categories of eligibility. During audit fieldwork, auditors made numerous requests of management to provide written documentation and justification giving TennCare the authority to grant eligibility to “categorically needy” Medicaid enrollees in segments of 12 months, or to allow enrollees to remain Medicaid eligible until all applications are processed. However, as in the previous year no such documentation was provided.

In November 2001, to respond to the prior finding, TennCare identified and started the termination process for enrollees mentioned above rather than citing unsubstantiated existing “business rules.”

A sample of the Medicaid population, excluding Supplemental Security Income (SSI) enrollees, was tested to determine if the enrollees were eligible for Medicaid on the date of service, based solely upon the information in ACCENT. Testwork revealed that TennCare did

not ensure that DHS maintained adequate documentation of the information entered into ACCENT. See finding 02-DFA-08 for further details on this matter. Medicaid enrollees are enrolled through DHS and Children's Services using ACCENT. TennCare receives daily eligibility data files from ACCENT, which update information in TCMIS. The Bureau of TennCare pays the managed care organizations (MCOs) and behavioral health organizations (BHOs) a monthly capitation payment to provide services to these enrollees. For the year ended June 30, 2002, the Bureau paid capitation payments totaling over \$2.3 billion to MCOs and over \$357 million to BHOs for TennCare enrollees. Of the 60 capitation payments for Medicaid enrollees tested, testwork revealed 3 enrollees (5%) were not eligible for Medicaid on the date of service, based solely upon the information in ACCENT. Of the three ineligible enrollees, two enrollees were no longer eligible for Medicaid according to ACCENT, and one enrollee enrolled through Children's Services was no longer in state custody. According to TennCare's eligibility policies and procedures manual, the two enrollees' Medicaid eligibility should have ended in TCMIS one month after eligibility ended in ACCENT.

Specific details from the sample testwork were as follows:

- For one enrollee, Medicaid ended per ACCENT on November 30, 1997, and should have ended in TCMIS on December 31, 1997. However, TennCare did not close the enrollee's Medicaid eligibility on TCMIS until December 31, 2001, which allowed this enrollee to continue receiving Medicaid services for four extra years. This enrollee was not classified as "medically needy."
- For another enrollee, Medicaid ended per ACCENT on August 31, 2001, after 18 months of "Transitional Medicaid." In Tennessee, Families First eligibility automatically qualifies an individual for Medicaid. According to the *Families First Policy and Procedure Manual*, "Transitional Medicaid" is Medicaid eligibility that is extended for 18 months after an individual loses Families First eligibility. This enrollee's Medicaid eligibility should have ended on September 30, 2001, in TCMIS. However, TennCare did not close this enrollee's Medicaid eligibility on TCMIS until February 1, 2002, which allowed this enrollee to continue to receive Medicaid services for an extra four months. This enrollee was not classified as "medically needy."
- One enrollee's Medicaid was open on ACCENT on the date of service, but the child was no longer in state custody. The Child Welfare Benefits Counselors within Children's Services are responsible for eligibility determinations and redeterminations of children in state custody. According to Children's Services' personnel, when a child leaves state custody, Children's Services ends the Medicaid eligibility in ACCENT after a 30-day extension. This enrollee was released from state custody on August 18, 2000. This enrollee's Medicaid eligibility should have ended on September 18, 2000. However, Children's Services did not end the Medicaid eligibility until March 31, 2002, which allowed this enrollee to continue receiving Medicaid services for an extra year and six months.

The Medicaid population, excluding SSI enrollees, makes up approximately 53% of the TennCare population. The total amount of capitation improperly paid during the audit period for

all the errors noted above was \$541, out of a total of \$4,848 tested. Federal questioned costs totaled \$345. The remaining \$196 was state matching funds. We believe likely questioned costs exceed \$10,000.

Furthermore, because TennCare has not ensured that only Medicaid-eligible individuals are enrolled in TennCare as a Medicaid enrollee, ineligible enrollees could be inappropriately enrolled in other programs. For example, according to the *Code of Federal Regulations* Title 7, Part 247, Section 7(d)(2)(vi)(A), Medicaid enrollees are automatically income-eligible for the Department of Health's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

### **Recommendation**

**Note: For the issues that have been repeated in this finding over the years, this is the same basic recommendation that has been made in the many past audits.**

The Director of TennCare should ensure that adequate staff is assigned at DHS and Children's Services to verify information on all applications and that all information on the applications is verified. The Director of TennCare should ensure that documentation of all critical information used in an eligibility determination or premium determination is maintained in the enrollee's file.

The Director should ensure that valid social security numbers are obtained for all individuals in a timely manner. The Director should ensure that only eligible enrollees are receiving TennCare, and all ineligible enrollees should be removed from the program. When possible, TennCare should recover capitation payments made to the MCOs for ineligible enrollees.

### **Management's Comment**

#### **Inadequate Staff to Verify Information on Applications**

We concur that during the audit period we had inadequate staff for verification of information on applications. Under the modifications to the TennCare waiver, approved by the U. S. Department of Health and Human Services on May 30, 2002, the Department of Human Services (DHS) is the single point of entry for all TennCare applications. This process includes a face-to-face interview with verification of critical eligibility components. Once approved, the modified waiver became effective January 1, 2003, with eligibility determinations beginning July 1, 2002, at the county Department of Human Services offices.

TennCare has a contract with DHS that requires performance of eligibility determinations and redeterminations including verification of critical eligibility components.

### **No Verification of Applications for Individuals Losing Medicaid**

See comments above.

### **Inadequate Documentation of Eligibility Information (This portion of the finding has not been reported in prior years)**

We concur in part. Effective July 1 2002, all eligibility determinations are made by DHS through face-to-face encounters. Proof of information regarding income is required at the time of each face to face interview for eligibility determination.

DHS enters all critical information into the ACCENT system. Approval of the ACCENT system design, which includes the electronic recording of eligibility data, was obtained from the U.S. Department of Health and Human Services before implementation of the system in 1992. There has never been any indication from the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, that the process in place was not adequate to meet federal requirements. In addition, the State Attorney General also issued an opinion in 1992 that the use of an electronic eligibility file and the application form satisfied legal requirements for determining eligibility.

As required by federal law and to ensure program integrity, DHS has had a quality control system in place since implementation of TennCare (and previously under the Tennessee Medicaid program). In this quality control system, called Medicaid Eligibility Quality Control (MEQC), each month DHS uses a random sampling of Medicaid cases to validate eligibility determinations, whether active (eligible) or negative (denied). The MEQC system is designed to reduce erroneous expenditures by monitoring eligibility determinations, third party liability activities, and claims processing (State Medicaid Manual, Part 7, Quality Control). MEQC programs approved in Section 1115 waiver states are relieved of any liability for disallowances for Medicaid eligible enrollees and for individuals added under the waiver resulting from errors that exceed the 3 percent tolerance level established by federal regulations.

In addition, TennCare contracts with the University of Tennessee for the performance of MEQC procedures for the uninsured and uninsurable population.

TennCare believes that the eligibility procedures, including the level of documentation, and the MEQC reviews and follow-up activities provide adequate internal controls over the eligibility process and meet federal requirements.

### **Invalid and Pseudo Social Security Numbers Again Discovered**

We concur in part. The TCMIS assignment of pseudo social security numbers occurs for newborns to the system. Benefits for illegal/undocumented aliens are issued with pseudo numbers, since they cannot get a SSN legally. These are the only cases that will never have a 'real' SSN.

Effective July 1 2002, all eligibility determinations are made by DHS where eligibility information is entered into the ACCENT system. If a number is blank or invalid, ACCENT does an automatic front end match of SSN's entered into the system and provides an 'alert' to the case worker if an adjustment needs to be made. DHS also has a systems report of individuals for those that cannot be matched (usually newborns) that workers are to check. DHS also uses State on-line Query (SOLQ) to verify a number if an individual does not have a card. ACCENT does not allow two individuals to use the same SSN.

### **Ineligible Enrollees Discovered**

We do not concur that individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT represent ineligible TennCare enrollees. As stated in the audit finding, business rules (Member Services Policy – MS-002) allowed certain categories of eligibles to be extended for up to 12 months of eligibility within the TCMIS. We concur that Medicaid enrollees could remain eligible beyond the twelve month extended end date as a result of pended/incomplete applications.

Upon implementation of TennCare, it was apparent that the nature of sudden and retroactive loss of Medicaid eligibility was not in keeping with a good managed care environment. Therefore, methodology was adopted to assure continuity of care for Medicaid enrollees as outlined in the goals for the Waiver and the TennCare Program. Since Families First Legislation extends benefits for eighteen (18) months, it is no longer necessary to provide an additional extension in order to achieve continuity of care for enrollees and we have discontinued this practice.

TennCare generates notices to all Medicaid enrollees 30 days in advance of reaching their TCMIS end date. If an application is entered into ACCENT or the TCMIS within the window allowed, the end date is opened until the application is completed. TennCare Information Systems has worked closely with DHS to ensure these pended applications are reported accurately to TennCare, and TennCare reviews any incomplete/pended uninsured/uninsurable applications. Beginning in November 2001 TennCare identified the population who have been extended for greater than 12 months of eligibility with aged/pended or incomplete applications, loading end dates to those records and re-sending the 30 day advanced termination notice. Significant re-verification efforts were implemented at this time. Effective July 1 2002, DHS became the single point of entry for all TennCare determinations and redeterminations including verification of critical eligibility components.

### **Rebuttal**

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration (F&A) regarding the *Single Audit for the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material weakness, a material instance of noncompliance, and a repeat finding. We recommend 1) procedures be strengthened to ensure participant eligibility is accurately determined and periodically reviewed for any changes that would affect eligibility . . .

Regarding the lack of documentation, the *Code of Federal Regulations* (CFR), 42 CFR 431.17(d), “Conditions for optional use of microfilm copies,”

The agency may substitute certified microfilm copies for the originals of substantiating documents required for Federal audit and review [emphasis added]

While federal regulations do not explicitly define the form of the documentation to be maintained, this regulation establishes that there is an expectation that the department maintain original documentation of the information received.

Regarding the invalid or pseudo social security numbers again discovered, it is not clear from management’s comments which part of the issue management does not concur.

Regarding the ineligible enrollees discovered we did not state that all individuals eligible under Medicaid categories in the TCMIS and not eligible in ACCENT represent ineligible TennCare enrollees. However, we did identify individuals in TCMIS who appear to be ineligible. Although management does not concur, it again has not provided any documentation to support the eligibility of those enrollees in question. Furthermore, there is no provision in the rules, written policies, or written “business rules” that allows individuals who submit incomplete applications to remain eligible for program services indefinitely. As stated in the audit finding, one enrollee’s Medicaid should have ended on December 31, 1997, but was not ended until four years later on December 31, 2001.

Management did not address the part of the recommendation concerning the recovery of capitation payments made to the MCOs for ineligible enrollees.

<b>Finding Number</b>	02-DFA-11
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$140,204.00

**TennCare should improve internal control over the eligibility of state-only enrollees and should ensure that no federal dollars are used for state-only enrollees**

**Finding**

As noted in the prior two audits, controls over the eligibility of state-only enrollees need improvement. During the fiscal year ended June 30, 2002, as a part of the TennCare Partners Program, TennCare provided behavioral health coverage to individuals (state-only enrollees) who would not be eligible for the TennCare program under the Medicaid rules. The individuals classified as state-only enrollees included non-United States citizens, prisoners, those who have provided invalid social security numbers, and non-Tennessee residents. The state-only enrollees' coverage is to be funded totally with state funds. There were 1,155 individuals classified as state-only enrollees during the audit period.

Management concurred in part with the prior audit finding and stated,

The main responsibility for the eligibility of these enrollees is the DMHDD [Department of Mental Health and Developmental Disabilities], who determines the eligibility for the state only enrollees in the Partners program. . . . Certain policies and procedures were revised by DMHDD regarding . . . state onlys. . . . One of the provisions stated that DMHDD would review individuals enrolled as "state onlys" every 6 months to determine if they were still receiving services and if they were still eligible as state onlys. To further address this issue DMHDD drafted changes to the TennCare rules regarding the State Only category. They are currently in the process of rule promulgation. When these rules are promulgated, we essentially can begin termination of the individuals noted.

According to discussion with management at TennCare, enrollment for the state-only category closed June 30, 2000, but reopened on July 1, 2002. During the audit period, management at the DMHDD and the Bureau of TennCare reviewed the state-only eligibility process and revised the policies and procedures and TennCare rules regarding the state-only category. These policies, procedures, and rules did not go into effect until July 1, 2002. Therefore, neither DMHDD nor the Bureau of TennCare reverified and disenrolled ineligible state-only enrollees during the audit period. As a result, enrollees have remained in the TennCare Partners Program since 1998 without any redetermination of their eligibility.

According to the *Rules of the Tennessee Department of Finance and Administration* 1200-13-12-.02 (8)(b)(2), to be eligible as a state-only enrollee, the enrollee must have a family income that does not exceed 100% of the federal poverty level. However, testwork revealed that 75 of 1,155 state-only enrollees (6.49%) had an income recorded in the TennCare Management Information System (TCMIS) that exceeded the poverty-level income standard. The amount paid for the ineligible enrollees totaled \$39,457, which includes \$4,006 in Behavioral Health Organization (BHO) capitation payments and \$35,451 in pharmacy payments. These costs are funded totally with state dollars. As a result, there are no federal questioned costs associated with this condition.

In addition, testwork was performed to determine that no federal dollars were used to pay for the population of state-only enrollees. Testwork revealed that the Bureau uses an estimate to identify these enrollees' costs. TennCare estimated the costs associated with all state-only enrollees to be \$222,144 and thus did not claim federal financial participation on the \$222,144 for the audit period. However, TennCare underestimated the actual costs for these enrollees. Testwork revealed that that amount actually paid for the population of state-only enrollees during the audit period was \$442,323, which included \$63,424 in BHO capitation payments and \$378,899 in pharmacy payments. As a result, TennCare incurred an additional \$220,179 over the estimate and inappropriately drew federal funds to cover these costs. Federal questioned costs totaled \$140,204. The remaining \$79,975 was state matching funds.

### **Recommendation**

The Director of TennCare should ensure that state-only enrollees are reverified as soon as possible and ineligible enrollees are removed from the program. The Director should ensure that no federal dollars are used for state-only enrollees. The Director should ensure that the Bureau develops a mechanism for reporting actual dollars spent for state-only enrollees.

### **Management's Comment**

We concur. The Department of Mental Health and Developmental Disabilities (DMHDD) continues to perform eligibility determinations for state only funded individuals in the TennCare Partners Program. TDMHDD is reviewing state-only eligible enrollees on a regular basis. The DMHDD Eligibility Unit began enrolling state-only individuals in August

2002. A review of eligibility will be performed for each individual classified as state-only every 6 months with the first review to begin in February 2003.

The Fiscal Budget section of the Bureau of TennCare is developing a report to identify actual costs for state-only enrollees. This report will be used to ensure that expenditures are reported accurately and that federal expenditure reports do not include costs for state-only enrollees.

<b>Finding Number</b>	02-DFA-12
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$54,106.00

**For the third consecutive year, TennCare made payments on behalf of full-time state employees, resulting in new federal questioned costs of \$54,106 and an additional cost to the state of \$31,019**

### Finding

As noted in the prior two audits, TennCare made capitation payments on behalf of full-time state employees who are classified as uninsured or uninsurable in the TennCare Management Information System (TCMIS). However, according to personnel in the Department of Finance and Administration’s Division of Insurance and Administration, all full-time state employees have access to health insurance at the time of hire or when the employee reaches full-time status.

According to *Rules of the Tennessee Department of Finance and Administration*, 1200-13-12-.02(2)(b), “All non-Medicaid eligible individuals must meet the following technical requirements: . . . 8. Must not be eligible for participation in an employer sponsored health insurance plan, either directly or indirectly through another family member, except that uninsured children under the age nineteen (19) whose family income is below 200% of the federal poverty level shall be eligible for TennCare even if they have access to employer sponsored health insurance through a parent . . .” Also, Bureau of TennCare rule 1200-13-12-.02(5)(b)(1) states, “Non-Medicaid eligibility for TennCare shall cease when . . . The enrollee becomes eligible for participation in an employer sponsored health plan, either directly or indirectly through a family member.”

Management concurred with the prior audit finding and stated,

A process was put in place in May 2001 to ensure that full-time employees of the State of Tennessee are removed from the TennCare rolls. The Department of Finance and Administration, Division of Insurance, sends a database from the Tennessee Insurance System to TennCare once a quarter of all new state employees. That database is then forwarded to TennCare Information Systems to complete an electronic match against the TennCare rolls. TCMIS sends Program Integrity a list of perfect [individuals with an exact name, date of birth, and social security number match] and imperfect matches [individuals with a similar, but not an exact match on name, date of birth and/or social security number].

For perfect matches, an employer verification letter is sent to the Department of Finance and Administration, Division of Insurance to complete. Once this verification letter is returned to Program Integrity, the TennCare eligibility screens are reviewed to determine the state employee's (and family members, when applicable) TennCare enrollment type (Waiver, DHS, SSI) [and] the income level when there are children on the TennCare case. Referrals are made to Administrative Appeals for termination and to TCMIS to add TPL [third-party liability], if this is not already reported. . . .

When an imperfect match is received from TennCare IS, Program Integrity investigates to determine if there is an unreported marriage or divorce, or if the Social Security number on one of the databases is incorrect. If the investigation does not validate this information, the case is closed and no referral is made to Administrative Appeals for termination. When an investigation validates that the identity of the TennCare enrollee is the same as the state employee, the case is worked the same as the perfect matches. . . .

In May 2001, TennCare performed a match between the Department of Personnel's records and TCMIS to identify full-time state employees who were on TennCare as uninsured or uninsurable enrollees. The Department of Personnel's records provide information on state employees and include state employees who have accepted and declined state insurance. The enrollees that the Program Integrity Unit (PIU) identified and recommended for termination from the program were terminated by the end of fiscal year ended June 30, 2002.

During the fiscal year ended June 30, 2002, TennCare again performed matches between the TIS (Tennessee Insurance System) and TCMIS to identify and terminate full-time state employees who were on TennCare as uninsured or uninsurable enrollees. However, the match between TIS and TCMIS did not identify state employees who have declined state insurance. No matches were performed between the Department of Personnel's records and TCMIS during the fiscal year ended June 30, 2002, to identify and terminate full-time state employees who declined state insurance and were on TennCare as uninsured or uninsurable enrollees.

Using computer-assisted audit techniques to search all of TennCare's uninsured and uninsurable paid-claim records, we found 63 uninsured or uninsurable TennCare recipients enrolled during the audit period who were employed full-time by the State of Tennessee according to records from the Tennessee Department of Personnel. The 63 enrollees we discovered had not been terminated from the program for the following reasons:

- Fifty-six enrollees had declined state insurance but were not discovered during the fiscal year ended June 30, 2002, because a match between the Department of Personnel and TCMIS was not performed during the audit period.
- Two enrollees were not discovered during the matches between TIS and TCMIS. Management could not explain why these enrollees were not discovered.

- Two enrollees were recommended for termination from TennCare and received termination notices but were not terminated because their termination was not completely processed; therefore, TennCare coverage was not ended in TCMIS.
- One enrollee was recommended by PIU for termination but was not terminated because TennCare's Administrative Appeals Unit had no record of receiving the recommendation from the PIU.
- One enrollee's termination notice was returned to TennCare as undeliverable mail. TennCare's Administrative Appeals Unit requested another address from the PIU; however, no additional address was provided by the PIU, and the Administrative Appeals Unit did not follow up.
- For one enrollee, the PIU had a case file but incorrectly did not recommend this enrollee for termination because staff had miscalculated the enrollee's age and determined that the enrollee was under the age of 19 and thus could have access to insurance according to the rules cited above. However, this enrollee was actually 20 years old, had access to insurance, and should have been recommended for termination.

The PIU has now opened cases on the above enrollees. The total amount of capitation payments paid for the errors noted above was \$85,125. Federal questioned costs totaled \$54,106. The remaining \$31,019 was state matching funds.

### **Recommendation**

**Note: This is the same basic recommendation made in the prior two years.**

The Director of TennCare should ensure that comprehensive matches are performed frequently to find full-time state employees with and without state insurance who are not eligible for TennCare as uninsured or uninsurable. Bureau management should ensure that full-time employees of the State of Tennessee who are enrolled in TennCare as uninsured or uninsurable enrollees are removed from the TennCare rolls in accordance with court-approved procedures. This would include following up with the PIU and the Administrative Appeals unit to ensure that they have taken all action appropriate on identified files.

### **Management's Comment**

We concur in part. While additional processes are needed and are in development, the Bureau has taken steps to identify and terminate non-eligible state employees. It should be noted that some state employees may be eligible under Medicaid regulations or certain other categories of eligibility.

The Department of Personnel (DOP) record match performed in May of 2001 was a lengthy process where state employees who were TennCare recipients were identified by a computer record match using records from the DOP, the Department of Finance and

Administration, Division of Insurance, Tennessee Insurance System (TIS) and TennCare Management Information System (TCMIS). TIS identified all state employees with state sponsored insurance. The employing department of each recipient without state sponsored insurance had to be individually identified and an employer verification form sent, completed and returned to the Program Integrity Unit (PIU) for review and consideration for termination. The major obstacle in this type of verification was the amount of time spent by both the PIU and departmental human resources staff in processing each employer verification form.

In addition to the match described above, another process was in place during the audit period to ensure that full-time employees of the State are removed from the TennCare rolls if not eligible. The Division of Insurance monthly sends a data file consisting of new state employees with state sponsored insurance to TennCare. TennCare Information Systems staff then complete an electronic match against the TennCare rolls. The lists of perfect and imperfect matches are submitted to PIU for review and follow-up. The processes put in place have aided in reducing the level of payments being made on behalf of full-time state employees.

A new process is being developed and is in the final stages of testing that will allow an automated computer identification match of full time state employees, based on the Department of Personnel records. This match report will include identification of salaries and dependents. The salary information will allow PIU staff to determine if children of state employees are above poverty level and therefore potentially not eligible for TennCare. Additional review will be performed to determine if these individuals are eligible under other conditions. The process will be ready to implement when reverification is completed or when the current court order is resolved.

The PIU reviewed the 63 uninsured or uninsurable full time state employees identified by the auditors as having access to insurance and the results are as follows:

- a. 22 individuals had an incorrect full time code in the State Employee Information System (DOP System). These individuals were actually part time employees and not eligible for state sponsored insurance. No action could be taken on these employees.
- b. 5 individuals with full-time codes had been terminated from state employment with no new hire information on file at the time that our review was performed.
- c. 14 individuals with full-time codes are currently being held by PIU until the reverification process is completed. If, after completion of this process, they remain on TennCare, individual investigations will be initiated and appropriate recommendations made.
- d. 22 individuals were submitted to TennCare with a recommendation for termination. Of those 22 cases, 2 state employees have appealed, 5 have not had any action taken by TennCare, and 15 have been terminated from TennCare.

<b>Finding Number</b>	02-DFA-13
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility
<b>Questioned Costs</b>	\$241,287.00

**TennCare incorrectly reimbursed Managed Care Organizations, Consultec, Volunteer State Health Plan, and the Department of Children’s Services for services that were unallowable or not performed, resulting in federal questioned costs totaling \$241,287; TennCare also claimed to have newly written procedures to address the Children’s Services issues, but would not provide those procedures during the audit**

**Finding**

As noted in the prior three audits, TennCare has paid the Department of Children’s Services (Children’s Services) for services that were unallowable or not performed. 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. During the year ended June 30, 2002, TennCare paid approximately \$140 million in fee-for-service reimbursement claims to Children’s Services. The prior audit noted \$576,721 improperly paid to Children’s Services. The current audit showed some improvements made by Children’s Services had reduced these improper billings to \$199,809 for the current audit period.

The three previous audit findings addressed three specific types of unallowable payments made by TennCare to the Department of Children’s Services:

- payments for incarcerated youth,
- payments for children on leave status, and
- payments for children under the age of three.

Regarding the unallowable costs to children under three years of age, testwork revealed that for children under the age of three who received services, those services appeared to be medically necessary. However, the two other issues remain.

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration (F&A) regarding

the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a repeat finding. We recommend 1) procedures be implemented to ensure Federal funds are not used for health care costs of a) children who are in youth development or detention centers, . . . c) children on runaway status, . . .

Testwork revealed the following deficiencies:

#### Payments for Incarcerated Youth

Since 1997, 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. Management concurred with this part of the prior audit finding and stated, "We will implement procedures to improve our monitoring of DCS's [Children's Services] billing activity to be sure that inappropriate payments requested are either denied or recouped, if payment has already occurred." The contract between TennCare and Children's Services requires Children's Services to submit monthly, beginning July 1, 2001, a listing of children who are incarcerated. However, based on discussions with TennCare's Children's Services liaison, TennCare received its first listing on June 7, 2002, and therefore was unable to perform necessary reviews of the billing activity for the period under audit.

Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional facilities operated primarily to detain children who have been found delinquent are considered to be inmates of a public institution and thus are not eligible for Medicaid (TennCare) benefits.

In addition, although TennCare's management had entered into a Memorandum of Understanding (MOU) in fiscal year 1999 with F&A Division of Resource Development and Support (RDS) to examine this area, TennCare still does not have adequate controls and procedures in place to prevent these types of payments.

As in the previous audits, we used computer-assisted audit techniques (CAATs) to search TennCare's paid claims records to find that TennCare made payments totaling \$268,582 for the year ended June 30, 2002, for juveniles in the youth development centers and detention centers. Of this amount, \$127,410 was paid to MCOs; \$77,667 to Children's Services; \$51,116 for TennCare Select fee-for-service claims; and \$12,389 for drug claims paid through Consultec. Federal questioned costs totaled \$163,510. The remaining \$105,072 was state matching funds.

The payments to the MCOs were monthly capitation payments—payments to managed care organizations to cover TennCare enrollees in their plans. Since the Bureau did not receive a listing of incarcerated youth until June 7, 2002, and was not aware of the ineligible status of the children in the youth development and detention centers for most of the audit period, TennCare incorrectly made capitation payments to the MCOs on their behalf. As a result, TennCare is making payments on behalf of these individuals to the MCOs, which incur no costs for providing services.

### Payments for Children on Leave Status

TennCare has paid Children's Services for enhanced behavioral health services for children who are in the state's custody but are on runaway status or placed in a medical hospital. No services were performed for these children because they have run away from the service providers or have been placed in a medical hospital. In response to the audit for fiscal year ended June 30, 1999, management stated:

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.

Regarding payments for children on leave status in the audit for fiscal year ended June 30, 2000, management stated:

TennCare has instructed DCS not to bill TennCare for services not provided to children on leave status. TennCare is developing a DCS Policies and Procedures Manual and will confirm this understanding in that manual. In addition, TennCare will request that F&A PAR strengthen its efforts to assure that inappropriate payments are better detected in the future.

Management again concurred with this portion of the prior audit finding in the 2001 audit report and stated that

TennCare should not be paying the Department of Children's Services (DCS) for services to incarcerated youth or for services for children on leave status. . . .

During fieldwork, management stated that TennCare had developed procedures and was in the process of reviewing these procedures. Although TennCare staff stated they were developing a procedures manual, we were unable to confirm its existence because TennCare would not provide it to us. In January 2003, management stated that they were still in the process of modifying some of the procedures. However, these procedures have not been implemented. As a result, the problems with this area continued during the audit period. According to 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 or are hospitalized in a medical hospital. In related findings in Children's Services audits for the previous three audits, Children's Services' management concurred in part with the audit findings. Auditor inquiry revealed that Children's Services still does not notify TennCare when children are on runaway status or are placed in a medical hospital. TennCare

relies upon Children's Services not to bill TennCare when the department has determined the child has run away or been placed in a medical hospital. The Children's Services' provider policy manual allows service providers to bill Children's Services for up to 10 days for children on runaway status. However, based upon HHS' response to the prior year audit findings as well as TennCare not obtaining written approval for the payment of leave days from CMS, Children's Services cannot bill TennCare for those leave days. Children's Services' provider policy manual also allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Children's Services Regional Administrator, the provider may bill Children's Services for up to 21 days while the child is in the hospital, but as stated above Children's Services cannot bill TennCare for any hospital leave days. In spite of repeat audit findings, the Bureau still has no routine procedures, such as data matching, to check for such an eventuality. Therefore, the Bureau has again elected to pay Children's Services without assuring that treatment costs were incurred by the service providers. However, based on the prior findings, TennCare was aware of the possibility of such costs and should have taken appropriate action to identify such situations.

During fieldwork, we asked management about the "new eligibility file update system" referenced in last year's management's comment and how through this system, eligibility information is updated daily. Based upon discussion with management these electronic updates are related to moving the child from the current managed care organization into TennCare select and are not related to the fee-for-service payments to children's services.

As in prior years, using CAATs, we again performed a data match comparing TennCare's payment data to runaway records from the Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that for the year ended June 30, 2002, TennCare had improperly paid \$86,917 to Children's Services for children on runaway status. Federal questioned costs totaled \$55,347. The remaining \$31,570 was state matching funds.

In addition, as in prior years using CAATs, we again performed a data match comparing TennCare's payment data to medical records from the MCOs. The results of the data match indicated that for the year ended June 30, 2002, TennCare had improperly paid \$35,041 to Children's Services for children while they were in hospitals. Federal questioned costs totaled \$22,313. The remaining \$12,728 was state matching funds.

### Targeted Case Management

The Department of Children's Services bills and receives reimbursement from TennCare for targeted case management. Targeted case management includes but is not limited to case manager visits with children, developing permanency plans, maintaining case files, and arranging TennCare related services such as health screenings and behavioral health services. Children's Services bills TennCare a daily rate for each child in its custody that has been assigned a case manager. Targeted case management billings were over \$56 million for the year ended June 30, 2002. We selected a sample of 42 children for which TennCare paid a total of \$10,719 to Children's Services for targeted case management. Based upon the testwork performed, there was no evidence that case management was provided to 2 of 42 children tested (5%) during the dates of services specified in the billing. TennCare paid \$184 for the two

billings in question. Federal questioned costs totaled \$117. The remaining \$67 was state matching funds. We believe likely federal questioned costs exceed \$10,000 for this condition.

#### TPL Edits Overridden

It was also determined that TennCare overrides TPL (third-party liability) edits for Children's Services claims. The TPL edits are designed to identify enrollees who have other insurance and deduct/adjust the amount of claim reimbursement owed to the providers by TennCare. Because TennCare chose to override these edits, the state and the federal government are paying for services that are the legal obligation of third parties. OMB Circular A-133 requires that "states must have a system to identify medical services that are the legal obligation of third parties," so that costs are not passed on to the federal government. Similarly, the state should not have to pay for these costs.

In total, \$199,809 was improperly paid to Children's Services; \$127,410 to the MCOs; \$51,116 for TennCare Select fee-for-service claims; and \$12,389 for drug claims paid through Consultec. A total of \$241,287 of federal questioned costs is associated with the conditions discussed in this finding. The remaining \$149,437 was state matching funds.

### **Recommendation**

**Note: This is the same basic recommendation, for the repeated portions of the finding, made in the prior three audits.**

In light of the multiple repeat findings over the years, the Director and staff of TennCare must realize the probability of such improper payments continuing in the absence of effective controls. They should at least ensure that computer-assisted monitoring techniques are developed by the Bureau to prevent or detect payments for incarcerated youth, children on runaway status, and children placed in medical hospitals. The Director of TennCare should ensure that Children's Services bills only for recipients who receive services and are eligible to receive services. The Director should ensure that targeted case management rates and billings by Children's Services are based on children receiving targeted case management services. The Director should ensure that TennCare does not override the third-party liability edits for Children's Services claims and that TennCare does not pass on to the state and federal government the cost of services that are the legal obligation of third parties.

### **Management's Comment**

We concur in part, including the notation that there were reductions in inappropriate billings. The staff of the Bureau worked assiduously with the Department of Children's Services (DCS) during the last quarter of fiscal year 2002 to develop policies and procedures for identifying and reporting children who are either in a youth development center (YDC) or on runaway status. According to the interagency agreement, beginning in June 2002, DCS provides a monthly list of children in YDCs and a list of children on runaway status. Currently, TennCare Fiscal staff review billings against these lists to identify any inappropriate billings and

subsequently recoups any funds paid for ineligible services. This, as the report has noted, has resulted in a reduction in the amount of inappropriate billings for both incarcerated and runaway youth.

The policies and procedures referenced in the finding were in still in progress while the auditors were performing the audit. Although the policies and procedures have still not been finalized, the listings generated as a result of the work done on them are available and are being used as stated previously. TennCare did not release these policies and procedures because after extensive internal review, it was determined that they did not fulfill the requirements of the interagency agreement with DCS. Specifically, while the procedures identified children who are ineligible for certain services and allowed TennCare to recoup inappropriate billings, they did not fulfill the requirement that DCS prevent inappropriate billings, and submit only “clean” billings.

Accordingly, four new policies and procedures have been requested of DCS: One each for identification of children in a YDC or on runaway status and one each to prevent inappropriate billings of children in a YDC or on runaway status. TennCare has also requested the assistance of the Department of Finance and Administration, Office of Program Accountability Review (PAR) to validate the listings as part of the Bureau's monitoring of DCS. TennCare is now in the process of working with DCS to ensure that these policies and procedures are established.

We will review the processes in place over TPL and the related edits to determine whether any changes should be made.

While improvements have been made in developing DCS' infrastructure (their process for identifying children who are ineligible due to their incarcerated or runaway status) and in reducing or recouping inappropriate billings, the Bureau is committed to continuing to work with DCS to ensure billings reflect only eligible services.

<b>Finding Number</b>	02-DFA-14
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed
<b>Questioned Costs</b>	\$123,067.00

**TennCare incorrectly reimbursed the Department of Children’s Services for services that are covered by and should be provided by the behavioral health organizations, resulting in federal questioned costs of \$123,067**

**Finding**

As noted in the prior three audits, TennCare has continued to incorrectly reimburse the Department of Children’s Services (Children’s Services) for services that are covered by and should be provided by the behavioral health organizations (BHOs). The prior audit finding reported \$1,180,676 that TennCare paid Children’s Services for services that should be provided by BHOs. The current audit showed some improvements made by Children’s Services had reduced these improper billings to \$193,266 for the current audit period.

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. The TennCare/BHO contracts also provide all services to prevent children from entering state custody. With the exception of continuum services, behavioral services for children not in state custody should be provided through the TennCare BHOs. Enhanced behavioral health services for children in state custody and continuum services should be provided by Children’s Services. Continuum services are defined by TennCare’s contract with Children’s Services as “A broad array of treatment and case management services ranging from residential to community based services provided by DCS [Children’s Services] as medically necessary to meet the treatment needs of the child. Services are begun to children in DCS custody but may continue after a child is reunified to home.”

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001, HHS recommended that TennCare implement procedures to ensure that TennCare reimburses Children’s Services only for allowable costs for children in its care.

In response to prior findings, management stated that it would continue to request Children’s Services to cooperate in billing only for contracted services. Also, management has engaged the Department of Finance and Administration’s (F&A’s) Office of Program

Accountability and Review (PAR) to monitor Children's Services' billing process to search for more types of unallowable payments. TennCare's contract with Children's Services was amended to require the transmission of information from Children's Services to TennCare regarding children who are in state custody.

However, although management held meetings, amended the contract, and initiated monitoring efforts, TennCare still paid Children's Services for children who were not in the state's custody and therefore should have been covered by the BHOs. Although TennCare staff stated they were developing a procedures manual to identify services covered by the BHOs for children not in state custody or at risk of state custody, we were unable to confirm its existence because TennCare would not provide it to us.

Discussions revealed that, according to TennCare's Children's Services' liaison, TennCare never received the listing of children who were in state custody. Even though there were still billing issues, TennCare continued to rely on Children's Services to bill correctly for the children in its care.

As a result, TennCare has continued to make payments to Children's Services for enhanced behavioral health services for children not in state custody during the dates of service. Using computer-assisted auditing techniques, auditors again performed a data match comparing payment data on the Bureau of TennCare's system to custody records from the Tennessee Kids Information Delivery System (TNKIDS). The results of the data match again indicated that TennCare had improperly paid \$193,266 to Children's Services for the year ended June 30, 2002, for children who were not in the state's custody during the dates of service billed to TennCare. Federal questioned costs totaled \$123,067. The remaining \$70,199 was state matching funds.

### **Recommendation**

**Note: This is the same basic recommendation for the remaining issues that has been noted in the previous three findings.**

The Director of TennCare should ensure that monitoring techniques are implemented to detect and prevent payments to Children's Services for services that should be provided by the BHOs.

### **Management's Comment**

We concur that the Department of Children's Services (DCS) should not bill for services that should be provided by a behavioral health organization (BHO). TennCare will analyze the billings submitted by DCS. Upon completion of the analysis, we will work with DCS to implement any additional procedures or controls that may be needed and will recoup any funds paid for inappropriate billings.

<b>Finding Number</b>	02-DFA-15
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

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

**Finding**

The previous five audits have reported that TennCare has not adequately monitored TennCare-funded activities of the Department of Children’s Services (DCS). TennCare uses the services of the Department of Finance and Administration’s Division of Resource Development and Support (RDS) to monitor DCS. The prior year’s audit finding addressed two specific areas where RDS did not follow the requirements of its agreement with TennCare.

- RDS did not test the accuracy of DCS billing rates.
- RDS did not submit quarterly monitoring reports.

These areas were not corrected. Management concurred with the prior audit finding and stated that TennCare had discussed the testing of billing rates with RDS in a planning meeting and had determined that TennCare would be responsible for monitoring these rates. Management also stated that TennCare would select a sample of claims on a periodic basis, test the rates billed by DCS, and resolve any discrepancies with DCS. In addition, management also stated that TennCare would work with RDS to ensure that the quarterly reports are submitted. However, based upon discussions during fieldwork with the Assistant Commissioner of Delivery Systems, the Chief Financial Officer, an Assistant Commissioner with the Department of Finance and Administration, and TennCare’s DCS liaison, none knew if any of these actions had occurred. Furthermore, testwork revealed that neither RDS nor TennCare has tested the accuracy of DCS billing rates. In addition, TennCare did not modify the contract with RDS to remove RDS’ responsibility to test the rates. Discussions with management during fieldwork revealed that an Assistant Commissioner had discussion with RDS regarding this matter. However, the Assistant Commissioner did not ensure that the contract was modified.

Testwork also revealed that RDS did not submit a monitoring report to TennCare for the first quarter of the audit period, and the monitoring efforts for the fiscal year did not include all procedures requested by TennCare. For example, according to the agreement between TennCare and RDS, RDS is also responsible for the following:

- determining whether DCS has implemented procedures to identify incarcerated youth and prevent charges related to the care and treatment of the incarcerated youth to TennCare and to provide TennCare with notification of the date of admission and release of a youth to/from a locked facility;
- testing to ensure that the rates charged to TennCare are consistent with the documentation of expenditures;
- testing whether DCS adjusted billings to TennCare with any reimbursements/credits received from third-party providers for services previously billed to TennCare; and
- testing for the consistency of amount billed by provider and paid by DCS and the amount billed to TennCare by DCS.

Based on discussions with RDS personnel, none of the above were performed during the fiscal year.

In accordance with the agreement between DCS and TennCare, DCS 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. DCS pays these providers and bills TennCare for reimbursement. For the year ended June 30, 2002, TennCare paid approximately \$140 million to DCS in fee-for-service reimbursement claims.

Because of the inadequate monitoring of DCS, TennCare cannot ensure that the amounts billed are correct and allowable.

### **Recommendation**

The Director of TennCare should ensure that RDS properly performs its responsibilities under the monitoring agreement and should require quarterly reports from RDS. The Director of TennCare should see that specific TennCare staff are assigned the duties of monitoring the DCS billing rates and that they fulfill that responsibility. The Director should ensure that staff are held accountable for actions promised in management's comments that do not occur.

### **Management's Comment**

We partially concur. The new contract with RDS that went into effect October 1, 2002 will be revised to no longer require testing of the DCS rates.

Although the agreement with RDS stated the contractor would test rates billed by DCS, the Bureau agreed with RDS to test the rates internally. However, these tests were not performed during the audit period. Because of the process in place for establishing and loading DCS rates, the determination has been made that rates do not require testing. DCS residential treatment rates are reviewed in advance by the Comptroller's Office and the methodology is approved by the Centers for Medicare and Medicaid Services. Rates for targeted case management are reviewed

by the Comptroller's Office. All rates are verified for accuracy when loaded onto the payment system. The system will identify and reject any billings that exceed the established rates. The new contract with RDS that went into effect October 1, 2001, was revised and no longer requires testing of the DCS rates.

RDS submitted quarterly monitoring reports for three quarters during state fiscal year 2002 and a memorandum report for the first quarter of the year. For the first quarter, monitoring of DCS residential providers was not performed; this information is clearly disclosed in the memorandum dated October 19, 2002. RDS performs the monitoring of these providers during the remaining three quarters of the year, thereby ensuring adequate monitoring.

Staff from the Bureau of TennCare worked with staff of DCS to develop a process to provide the Bureau a monthly report of children who are incarcerated (in youth development centers) and thus ineligible for TennCare services. Beginning in June 2002, DCS generated a monthly report of children in the centers. Reports submitted to the Bureau cover the last quarter of the fiscal year ending June 30, 2002. The Bureau has used these reports to send notices to DCS regarding inappropriate billings.

While a procedure to identify incarcerated youth has been implemented, currently the only procedure available to correct for these billings is to notify DCS and recover funds. Accordingly, TennCare requested, in January 2003, that DCS develop new policies to both identify youth in the centers and prevent billings for these services to TennCare.

### **Rebuttal**

This is the fifth consecutive year that the Bureau of TennCare has not ensured adequate monitoring of DCS. Management has concurred with the audit finding in each of the previous four audits.

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration (F&A) regarding the *Single Audit for the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material weakness and a repeat finding. We recommend procedures be strengthened to ensure billings from the Department of Children's Services are monitored to comply with grant requirements.

While RDS submitted quarterly monitoring reports for three quarters during the audit period, this monitoring did not include areas required by the agreement TennCare has with RDS which include:

- determining whether DCS has implemented procedures to identify incarcerated youth and prevent charges related to the care and treatment of the incarcerated youth to

TennCare and to provide TennCare with notification of the date of admission and release of a youth to/from a locked facility;

- testing to ensure that the rates charged to TennCare are consistent with the documentation of expenditures;
- testing whether DCS adjusted billings to TennCare with any reimbursements/credits received from third-party providers for services previously billed to TennCare; and
- testing for the consistency of amount billed by provider and paid by DCS and the amount billed to TennCare by DCS.

During fieldwork, discussions with the Assistant Commissioner of Delivery Systems, the Chief Financial Officer, an Assistant Commissioner with the Department of Finance and Administration, and TennCare's DCS liaison, none knew if TennCare had selected a sample of claims on a periodic basis, tested the rates billed by DCS, and resolved any discrepancies with DCS as promised in the previous audit's management's comment.

It does not appear that "all rates are verified for accuracy when loaded onto the payment system" as described by management. During fieldwork we noted that one procedure code for a provider was incorrectly loaded as \$270.79 per day instead of \$275.79 per day. Further investigation with staff at Children's Services revealed that Children's Services had submitted a request to TennCare to correct this problem. According to TennCare's system, the rate was updated on September 16, 2002. Since TennCare did not have adequate rate monitoring in place, it appears that if Children's Services had not notified TennCare of the rate discrepancy, the problem would have gone on much longer without detection.

Given the high probability of errors when loading the rates, TennCare should improve its rate monitoring effort. Also as stated in finding 02-DFA-13, TennCare has turned off third-party liability (TPL) edits for Children's Services claims. Monitoring of the rates could assist the Bureau in determining that TPL amounts are appropriately being deducted from payments to Children's Services.

Finally, management stated that "the determination has been made that rates do not require testing." However, management contradicts this statement in the "State of Tennessee Summary Schedule of Prior Audit Findings for Years 2001 and prior" required by the *Office of Management and Budget Circular A-133*. In the reporting of the status of corrective actions for the prior year audit findings as of June 30, 2002 management stated that "TennCare will select a sample of claims on a periodic basis and test the rates billed by DCS."

<b>Finding Number</b>	02-DFA-16
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting
<b>Questioned Costs</b>	None

**TennCare still does not adequately monitor the Medicaid Home and Community Based Services Waiver**

**Finding**

As noted in the prior three audits, the Bureau of TennCare’s monitoring of the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled (HCBS MR/DD waiver) under Section 1915(c) of the Social Security Act is still inadequate to provide the federally required assurances of health and welfare and of financial accountability and to ensure fulfillment of TennCare’s contract responsibilities.

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 expended with respect to such services.

The prior audit finding identified eight specific weaknesses with TennCare’s monitoring effort for the Medicaid Waiver for Home and Community Based Services for the Mentally Retarded and Developmentally Disabled. The following three issues from the prior year were not repeated:

- Policies regarding preparation of the HCFA 372 report were in draft stage. The policies have been finalized.
- TennCare’s contract with the Division of Mental Retardation Services (DMRS) was not updated to reflect the new PAE (pre-admission evaluation) review responsibilities. (DMRS, which oversees the program for TennCare, is contractually required to monitor the HCBS MR/DD waiver’s Medicaid service providers.) This weakness has been corrected.
- TennCare did not approve marketing plans as required by TennCare’s contract with DMRS. This weakness could not be evaluated since the HCBS MR/DD waiver

program had a moratorium in effect that limited entry into the waiver for the audit period. As a result, there was no marketing of the HCBS MR/DD waiver.

However, the other five issues remain. Four of five of the issues are repeated from the three previous audits. The other issue was reported for the first time in the previous audit.

#### No Formal Monitoring Plan to Ensure All Areas Are Monitored

TennCare still has not developed a formal monitoring plan (including the necessary policies and procedures) to ensure that all the required areas are adequately monitored and that other procedures are performed to provide the required federal assurances.

Management concurred with this portion of the prior audit finding and stated:

A meeting is scheduled for February 14, 2002 to develop an interim QM [quality monitoring] plan. A permanent QM plan will be developed upon hiring a QM manager.

Management also concurred in the report for the year ending June 30, 2000, and stated that TennCare was seeking additional positions for the TDLTC that will be moved into the Quality Monitoring Unit. Discussions with the Director of Long-Term Care revealed that, as a result of the February meeting, management developed a temporary QM plan to monitor the Arlington Mentally Retarded and Developmentally Disabled (MR/DD) Waiver. However, this interim plan did not include the larger HCBS MR/DD waiver. In addition, auditor inquiry revealed that attempts by TennCare to hire a QM manager have not been successful.

The HCBS MR/DD waiver that has been in effect since the 1980s requires TennCare to have a formal plan of monitoring in place to ensure the health and welfare of individuals in the waiver. The waiver further requires that all problems identified by the monitoring process will be addressed by TennCare in an appropriate and timely manner, consistent with the severity and nature of deficiencies.

#### Required Assurances Not Reported Timely

TennCare has not reported the required assurances to the U.S. Department of Health and Human Services (HHS) in a timely manner. Section 1915(c)(2)(E) of the Social Security Act requires the state to provide the Secretary of HHS with an annual report, the Centers for Medicare and Medicaid Services (CMS) 372 report, which details the impact of the waiver on the type and amount of medical assistance provided under the state plan and on the health and welfare of the recipients. The report should also include TennCare's assurances of financial accountability under the waiver.

TennCare once again did not submit the CMS 372 Report within 181 days after the last day of the waiver period as required by the CMS *State Medicaid Manual*, Section 2700.6 E., Submittal Procedures for Due Date. The CMS 372 report for the HCBS MR/DD waiver for fiscal year 2001 and the respective CMS 372 (S) report for fiscal year 2000 that should have been submitted by December 28, 2001, were submitted September 6, 2002. The Arlington MR/DD, and Shelby County Elderly and Disabled waivers' CMS 372 reports that should have

been submitted by December 28, 2001, had not been submitted as of December 6, 2002. The CMS 372 report for the American Disabled for Attendant Programs Today (ADAPT) waiver (Davidson, Hamilton, and Knox counties) that should have been submitted by April 28, 2002, had not been submitted by December 6, 2002. The respective CMS 372 (S) reports have also not been submitted.

In a letter from the Centers for Medicare and Medicaid Services (CMS) dated October 25, 2001, regarding completion of a monitoring visit performed in October 2001, CMS stated,

Based on the deaths of three consumers since June 2001, and a review of the state's progress in implementing the activities identified in the State's response to the report, we find that Tennessee continues to not meet its obligations to assure the health and welfare of waiver participants, as required under 42 CFR 441.302(a).

Management concurred with this portion of the prior audit finding and stated that "[w]ith increased QM staff in the TDLTC [TennCare Division of Long-Term Care], reports should be timely from this point forward." However, according to the Director of Long-Term Care, staffing levels are still inadequate, and as a result, the reports have not been submitted timely.

#### Inadequate Staff to Perform the Monitoring Duties

Testwork revealed that TennCare still does not appear to have adequate personnel to perform the monitoring needed to support the federally required assurances. The Bureau of TennCare had only one permanent monitor, who is a registered nurse, for the approximately 4,300 recipients of waiver services, approximately 500 service providers, and DMRS during the year ended June 30, 2002. Management concurred with this portion of the prior audit finding and stated that "a QM Unit is being established with a number of new positions approved to staff the unit." According to discussions with the Director of Long-Term Care, no new employees have been hired because management has decided to out-source these functions. She stated that TennCare has been unable to find experienced individuals at the salary levels available in the State's civil service system.

#### No Monitoring of the Office of Program Accountability and Review (PAR)

Discussions with staff in the long-term care unit revealed that TennCare has not monitored PAR's work for the HCBS MR/DD waiver and the Arlington waiver during the audit period. Therefore, management can not be sure that PAR has complied with the terms of its monitoring agreement with TennCare.

#### Contractually Required Monitoring for the HCBS MR/DD Waiver Program Not Performed

According to discussions with the director of TennCare's division of long-term care, TennCare did not perform its monitoring responsibilities outlined in TennCare's contract with DMRS. TennCare's contract with DMRS requires TennCare to perform these responsibilities:

1. TennCare is to monitor the plans of care for persons receiving waiver services by reviewing a sample of the plans of care for individuals in the program during the annual state assessment or more frequently, if needed.
2. TennCare is to monitor and approve DMRS's policies and procedures for implementation and coordination of the waiver services approved by CMS.
3. TennCare is to provide quality assurance monitoring to evaluate performance of DMRS and its providers.
4. TennCare is to conduct periodic reviews to ensure the health, safety and welfare of waiver enrollees, compliance with Medicaid requirements, and to ensure contractual compliance of DMRS.

Testwork revealed that DMRS continues to implement policy without the approval of TennCare which is further evidence of a lack of general oversight, control, and coordination at the governor level.

Management concurred with this issue in a previous audit finding and stated:

Regarding DMRS monitoring tools, policies and procedures, TDLTC has reviewed the Quality Monitoring section of the DMRS Operating Guidelines. QE [quality enhancement] tools are undergoing further revision and TDLTC is participating in this process. The DLTC Regional Monitoring Nurse participated in testing the current QE tool for Home Health providers and provided recommendations for revision to the form and process during the testing period.

However, testwork revealed that DMRS continued to issue policies that were not approved by TennCare. The 12 pages of rates that DMRS used to pay waiver providers were generated by DMRS but were not approved by TennCare. The Operations Manual for Community Providers was not approved by TennCare, and only four sections of the Operating Guidelines that replaced a portion of the outdated Operations Manual for Community Providers were reviewed and approved by TennCare. DMRS also issued new policy for service plans and cost plans and QE guidelines without TennCare's approval. Testwork also revealed that TennCare has not approved all monitoring tools used by DMRS to monitor the waiver's providers.

During fieldwork, the Director of Long-Term Care stated that CMS conducted a review of the HCBS MR/DD waiver and that this review satisfied these monitoring requirements outlined in the contract. When we examined the documentation of the monitoring TennCare performed in conjunction with CMS, we determined that this monitoring included monitoring for the contract requirements. However, TennCare has not monitored DMRS for these areas of the contract since the review by CMS in November 2000 and focus reviews conducted in February and March of 2001.

In a related prior-year finding, it was noted that alternative providers such as nutritionists, therapists, and dentists were not monitored. In response to the prior audit finding management concurred and stated:

. . . TDLTC is establishing a Quality Monitoring Unit. Staff in this unit will evaluate the DMRS QE system and provide recommendations for improving the process and correcting deficiencies as is appropriate. A major focus will be on ensuring follow-through sufficient to assure timely correction of deficiencies noted.

Discussions with management revealed that TennCare did not complete the actions indicated in the prior year management's comments to ensure monitoring and has not ensured monitoring of the waiver's alternative providers including nutritionists, therapists, and dentists, and TennCare did not ensure monitoring of vision service providers for the Arlington Mentally Retarded and Developmentally Disabled (MR/DD) Waiver.

Because critical monitoring responsibilities have not been fulfilled, TennCare cannot support the required federal assurances for health and welfare and for financial accountability. Also, TennCare's inadequate monitoring increases the risk that other federal requirements are not met.

### **Recommendation**

**Note: This is the same basic recommendation for the remaining issues as the last three audits.**

The Director of TennCare should develop waiver monitoring policies and procedures to ensure that a formal monitoring plan exists to provide the required health and welfare and financial accountability assurances to CMS. The Director should ensure that the HCFA 372 reports and contractually required reports are submitted in a timely manner. The Director should ensure sufficient monitoring of the process to ensure adequate assurances of health and welfare and of financial accountability are made to CMS. The Director should ensure that an adequate number of appropriately trained staff are available to perform monitoring. In addition, the Director should ensure that the monitoring performed by PAR is reviewed to ensure that the monitoring performed is adequate. The Director should ensure that all providers are monitored and that all contractual monitoring responsibilities are satisfied, including monitoring of DMRS policies and procedures.

### **Management's Comments**

#### **Formal Monitoring Plan**

We concur. TennCare Division of Long Term Care (TDLTC) has had difficulties recruiting and retaining adequate numbers of qualified and trained Quality Monitoring (QM) staff, but continues to work toward filling all vacant positions, including the QM Manager position.

TennCare is working with CMS technical consultants, the Division of Mental Retardation Services (DMRS) and other stakeholders to develop a formal Quality Monitoring Plan for the MR waiver that will include outcomes, indicators, evaluation tools, and responsible parties. Regular meetings have been held to work on this project. A technical assistance contract has been implemented and a draft initial report has been issued, inclusive of a work plan. The Quality Monitoring plan for the (mental retardation) MR waiver is expected to be available by July 1, 2003.

TDLTC will also develop a Quality Monitoring plan for elderly/disabled waiver programs. This plan is expected to be available by January 1, 2004. TDLTC staff are currently working with Tennessee Commission on Aging and Disability (TCAD) staff to develop quality assessment processes for the new State Wide Waiver and are beginning review of quality assessment procedures for existing programs.

### **372 Reports**

TDLTC continues to work toward preparing timely 372 reports. Requests for generation of the reports are submitted to Information Systems timely, generally in the month following the beginning month of the new waiver year. This is the earliest the report can be requested with assurance of claims submission for the reporting period. This allows approximately 5 months for production of the report. Timeliness of production of the initial reports has improved; however, errors in the data reported have necessitated TDLTC to work with IS staff to try to identify the cause of the error(s) for the reports to be generated again, sometimes multiple times. Although errors in the report may be corrected, in subsequent reports, new errors may be noted. Report errors can result in delay of the final report. Another issue related to timely submission of 372 reports has been adequate staff to provide QM reports. A summary of QM activities is to be included with the 372 report.

TDLTC will continue to work with IS staff to ensure timely production of 372 reports and timely correction of errors. It is anticipated that the new TCMIS system (to be implemented fully in October 2003) will result in timely reports with more accurate data. TDLTC will continue to work toward hiring and retaining adequate QM staff to perform required QM functions, including timely reports of QM findings and 372 summary reports.

### **Inadequate Staff to Perform Monitoring Duties**

At this point, outsourcing quality assurance functions is uncertain. TDLTC continues to try to fill vacant positions and is working with CMS technical assistants to develop an effective monitoring process given the staff and other resources available. TDLTC currently has 3 Regional Nurse Monitors (1 per region), 2 MR Program Specialists, and a Managed Care Program Specialist (for data base management) within the QM unit. Two additional MR Program Specialists have accepted positions, one to begin on April 1, 2003 and the other on July 1, 2003. Three additional positions are being sought for the unit. Until a QM Manager is appointed, the TDLTC Medical Director will manage the QM Unit staff and functions.

## **No Monitoring of Office of Program and Accountability Review (PAR)**

TennCare does not contract with PAR for monitoring of the MR waiver programs. PAR does have a contract with DMRS. DMRS has monitored the effectiveness of PAR.

### **Contractually Required Monitoring not Performed**

TDLTC is currently drafting a policy for review and approval of DMRS policies. Current DMRS management understands that TDLTC must approve policies prior to issuance. Procedures have recently been implemented for sign-off as indicated by the TDLTC Director's dated signature on all policies issued after March 2003. TennCare has not retroactively approved all DMRS policies, manuals, and tools in use prior to the CMS audit report. DMRS policies and procedures in existence prior to the CMS audit will be reviewed as issues come up pertaining to specific policies. There is insufficient staff within TDLTC to retroactively approve the volume of policy-related documents currently in existence. TennCare is currently working with DMRS and other stakeholders to revise TennCare Home and Community Based rules, revise waiver definitions, and draft a new Operations Manual. These rules and policies will be promulgated to replace current rules and policies. TennCare and DMRS are also working together with CMS technical consultants and other stakeholders to review and revise current quality assurance tools, policies and procedures. CMS consultants are also assisting with improving case management/support coordination and incident management policies, tools, practices and procedures.

Regarding monitoring activities, TennCare was exempted from monitoring the (Mental Retardation/Developmentally Disabled (MR/DD) waiver according to the first Corrective Plan until October 2002. TennCare staff did do follow-up monitoring regarding the individual issues noted in the CMS report. DMRS reported their follow-up efforts to TennCare for review. Sufficient staff has not been available to perform a full-scale review of the MR/DD waiver. Focused reviews have been done to resolve complaint issues. An audit of the Arlington Waiver was conducted in Spring 2002. This report was initially intended to be reviewed by a contracted external quality assurance entity. A contractor was identified; however, the status of contracting with an external entity is now uncertain. Consequently, the report of this audit is still in draft form, but is being finalized by the TDLTC Medical Director and TDLTC Director.

### **Auditor's Comment**

This finding points out the numerous deficiencies of TennCare's monitoring of the HCBS MR/DD waiver. Management at DMRS has chosen to engage the PAR unit to assist in the monitoring of the HCBS MR/DD waiver. TennCare has a duty to ensure that all waiver monitoring is performed and is adequate.

Management states "TennCare was exempted from monitoring the (Mental Retardation/Developmentally Disabled (MR/DD) waiver according to the first Corrective Plan until October 2002." Upon receiving this response we asked management to provide written documentation from CMS that would indicate that CMS did not expect TennCare to monitor the

waiver until October 2002. However, management stated that CMS sent no written approval other than oral approval to implement the corrective action plan mentioned in management's comment.

<b>Finding Number</b>	02-DFA-17
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

**TennCare is still not paying claims for services provided to the mentally retarded and developmentally disabled in accordance with the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled**

**Finding**

As noted in the prior three audits, TennCare has contracted with and paid Medicaid providers in violation of the terms of the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled (HCBS MR/DD waiver). The *Code of Federal Regulations* (CFR), Title 42, Part 431, Section 10(e)(3), allows other state and local agencies or offices to perform services for the Medicaid agency. As a result, the Bureau of TennCare has contracted with the Division of Mental Retardation Services (DMRS) (both the Bureau and DMRS are within the Department of Finance and Administration) to oversee the HCBS MR/DD waiver program. However, DMRS continues to not comply with HCBS MR/DD waiver requirements regarding claims for services.

The prior finding noted the following:

- TennCare did not contract directly with providers but allowed DMRS to contract directly with these providers. Furthermore, DMRS did not obtain written approval from TennCare before entering into contracts with providers, nor did it submit copies of provider contracts to TennCare before their execution.
- TennCare did not make direct payments to providers of services covered by the waiver and allowed claims to be processed on a system not approved as a Medicaid Management Information System.
- TennCare allowed DMRS to pay waiver claims outside the prescribed waiver arrangement.
- TennCare allowed DMRS to combine services without waiver approval.

Management concurred with the prior audit findings concerning DMRS contracting directly with providers and corrected the situation by changing the contracts to three-way contracts between the provider, TennCare, and DMRS. However, the remaining issues continue

to be problems, even though management concurred with these prior audit findings three previous times.

Testwork revealed that TennCare has continued to inappropriately pay DMRS as a Medicaid provider. DMRS in turn has continued to treat the actual Medicaid service providers as DMRS vendors. According to Medicaid principles, as described in the *Provider Reimbursement Manual*, Part I, Section 2402.1, DMRS is not a Medicaid provider because it does not perform actual Medicaid services.

#### Failure to Process and Pay Claims on Approved MMIS

Furthermore, the waiver agreement also requires provider claims to be processed on an approved Medicaid Management Information System (MMIS) and provider payments to be issued by TennCare. However, under the current arrangement, TennCare has allowed DMRS to process claims on its own system and make payments to providers through the State of Tennessee Accounting and Reporting System (STARS).

In response to the previous audit finding for year ending June 30, 2001, management stated:

Federal regulations allow providers to reassign payment to DMRS. Signed provider agreements include reassignment of payment to DMRS. However, we concur that the payments made by DMRS were not made via an approved MMIS system. TDLTC has had meetings with TennCare Information Systems staff, Fiscal staff and Provider Services staff to begin developing mechanisms for direct provider payment. . . .

In response to this issue in the audit finding for year ending June 30, 2000, management stated:

. . . During the request for proposal and contract process with interested new fiscal agents, the possibility for direct provider payment and voluntary reassignment of provider payment to DMRS will be explored. . . .

In response to this issue in the audit finding for year ending June 30, 1999, management stated:

. . . Provisions will be implemented that allow the provider voluntary reassignment of their service payment to a government agency, i.e., 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.

While the HCBS MR/DD waiver allows voluntary reassignment of a provider's right to direct payment, the provider agreements in effect during the audit period required the provider to

accept payment from DMRS. Contrary to management's prior-year comments, the "signed provider agreements" do not allow for voluntary reassignment since direct payments through the TennCare Management Information System (TCMIS) were not possible during the audit period. The Centers for Medicare and Medicaid Services (CMS) agree and have instructed TennCare to comply. A report dated July 27, 2001, on a compliance review conducted by CMS for the HCBS MR/DD waiver stated:

Section 1902(a)(32) requires that providers have the option of receiving payments directly from the State Medicaid Agency. The state should modify its payment system to comply with this requirement.

#### Claims Paid Outside the Waiver Agreement

Testwork revealed that DMRS has paid waiver claims outside the prescribed waiver arrangement. The waiver is designed to afford individuals who are eligible 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 for waiver recipients would be processed in accordance with all applicable federal regulations and waiver requirements, and the state would receive the federal match funded at the appropriate federal financial participation rate.

The billing and payment process is as follows:

1. Medicaid service providers perform services for waiver recipients.
2. Providers bill DMRS for services.
3. DMRS pays providers based on rates established by DMRS, not the rates in the waiver.
4. DMRS bills TennCare based on the waiver rates.
5. TennCare pays DMRS the TennCare rates using the TCMIS.

Also, regarding DMRS' paying waiver claims outside the prescribed waiver agreement, management stated:

We concur that DMRS has been paid in accordance with the rates in the waiver and that in most cases, the rates paid to providers by DMRS have been different. The rates in the approved waiver document are estimated average rates. It is common for states to contract with providers for rates that are different than the average rates in the waiver to accommodate for differences in regional costs of living and staffing costs. The goal is for the rates paid to average what has been approved in the waiver application for FFP. The amount paid to DMRS in excess of what was paid providers was intended to provide reimbursement to DMRS for administrative costs of daily operations for the waiver program. The amounts realized via this mechanism do not, in fact, cover all the administrative costs incurred by DMRS; therefore, DMRS is not "profiting" from this arrangement. However, we intend to include in TennCare's contract with DMRS a description

of payment for administrative services in accordance with the cost allocation plan approved by CMS (verbal notification has been received approving the cost allocation plan and official notification is expected soon). The cost allocation plan includes a process to perform a year-end cost settlement.

This response was similar to the response for year ended June 30, 2000. TennCare included in their contract a section entitled “payment methodology” and described the payment of administrative costs through the cost allocation plan. While DMRS may not be recovering enough money through the claims reimbursement process to pay its providers and fund all administrative costs, it should be noted that administrative costs should be claimed using a cost allocation plan. Under the current arrangement with the Bureau, the profit (the excess of TennCare’s reimbursements to DMRS over DMRS’ payments to providers) from the reimbursement of treatment costs is inappropriately being used to pay administrative costs.

The federal government has also noted this inappropriate practice of using claims reimbursement to partially fund administrative costs in the CMS compliance review report dated July 27, 2001, in which CMS stated:

The State Medicaid Agency reimburses the DMRS for the services and DMRS reimburses the providers. It appears that, in some cases, the DMRS reimburses providers less than the payment received from the Bureau of TennCare. Governmental agencies may not profit by reassignment in any way, which is related to the amount of compensation furnished to the provider (e.g., the agencies may not deduct 10 percent of the payment to cover their administrative costs). To do so places the agency in the position of “factor” as defined in 42 CFR 447.10(b). Payment to “factors” is prohibited under 42 CFR 447.10(h).

Testwork specifically revealed that because TennCare has not ensured that DMRS complied with the waiver and federal regulations, TennCare paid DMRS more than DMRS had paid the providers in 53 of 60 claims examined (88%). TennCare paid DMRS less than DMRS paid the providers on the other 7 claims. For the 60 claims examined, TennCare paid \$91,428.95 to DMRS, and DMRS paid the providers \$83,613.83. As noted in finding 02-DFA-18, testwork on this same sample revealed that these claims were not adequately approved and/or documented. As a result, the questioned costs relating to the inadequate approval and/or documentation have been reported in finding 02-DFA-18. No additional questioned costs relating to the differences in payments will be reported in this finding.

#### Combined Services Without Approval

In the prior audit it was noted that DMRS contracted with providers who were providing a service described as community participation (CP) combo. CP combo services are provided to individuals in the HCBS MR/DD waiver. Chapter three of DMRS’ *Operations Manual for Community Providers* permits CP combo services, which combine the following services: community participation, supported employment, and day habilitation (services to improve the recipient’s social skills and adaptive skills) services. However, the HCBS MR/DD waiver does not allow any combination of services. Management stated in response to the prior-year audit finding

CMS has indicated that it is permissible to allow a combination of day services, as long as the provider is not paid for two day services that are billed during the same period of time. TDLTC will have further discussions with CMS and DMRS pertaining to the way DMRS has elected to pay for combination services. The system will be revised as necessary to comply with federal regulations and ensure appropriate payment for services rendered. TDLTC will monitor for overpayment via survey and post payment review.

In addition, a transmittal letter from HCFA (the Health Care Financing Administration, now known as CMS) dated January 23, 1995, states:

For a state that has HCFA approval to bundle waiver services, the state must continue to compute separately the costs and utilization of the component services to support final cost and utilization of the bundled service that will be used in the cost-neutrality formula.

During fieldwork, we asked management for documentation that CMS has approved this type of combo service. However, no such documentation of the alleged agreement was provided. By not receiving approval from the federal government, there is a chance that the services that were combined were not combined in accordance with the objectives of the program.

TennCare must comply with all federal regulations and waiver requirements to avoid losing federal contributions to the state's \$5 billion Medicaid/TennCare program.

### **Recommendation**

**Note: This is the same basic recommendation made in the prior three audits.**

The Director of TennCare should take immediate action to comply with all federal requirements, including those in the waiver. The Director should also ensure that TennCare pays providers in accordance with the waiver. If TennCare maintains the current method of payment to providers through the DMRS system, it should ensure providers are given the option of receiving payment through TCMIS directly. For providers paid through the DMRS system, the director should ensure that TennCare pays DMRS the same amount paid by DMRS to the providers. For providers who do not choose to reassign payments to DMRS, TennCare must pay providers directly through TCMIS. The Director should ensure that TennCare has CMS approval for all bundled services.

### **Management's Comment**

We partially concur.

## **Provider Payment**

We concur that the payments made by the Division of Mental Retardation Services (DMRS) were not made via an approved Medicaid Management Information System during the audit period. Direct provider payment has been discussed at meetings with the system contractor for inclusion in the design of the new system. Staff from DMRS and the TennCare Division of Long Term Care (TDLTC) have participated in TennCare Management Information System (TCMIS) planning sessions and have made it clear that the new system must be able to accommodate direct provider payment for mental retardation (MR) waiver providers. Implementation is scheduled for October 2003. In addition, direct payment of providers and a simplified rate structure have been included in the Infrastructure Development and Corrective Action plan for the MR waiver programs.

Meetings were held on January 15, 2002 and February 12, 2002 to discuss direct provider payment for the MR program. Participants in the first meeting were limited to TDLTC, Fiscal staff and DMRS staff. Participants in the second meeting included TDLTC, Fiscal and Information Systems staff as well as DMRS and MHDD Fiscal and Information Systems staff. Meeting participants concluded that given the fact that there are approximately 400 MR waiver providers and over 800 different service rates, enrollment of providers and development of a direct provider payment system would be a very complex and time consuming project with the current TCMIS.

DMRS attempted to implement a new rate system tied to a level of care assessment (NC SNAP) that would have simplified the rate structure by reducing the number of rates and providing consistency in the rates paid for different waiver services. However, implementation plans were delayed and eventually scrapped due to provider, advocacy and consumer/family groups opposition to use of the assessment instrument to determine rates. TDLTC staff continued to participate in DMRS meetings related to restructuring and simplifying MR waiver rates until the NC SNAP rate restructure project was terminated. Additional meetings to discuss alternative methods of restructuring rates were held November and December 2002 following termination of the NC SNAP project. Without simplification of the rate system, direct provider payment was believed to be unmanageable given the current demands on the TCMIS system. Consequently, it was determined that TDLTC would write business rules for implementation of direct provider payment for the newly approved Statewide Waiver for the Elderly and Disabled. Because the program is less complicated with fewer participants, fewer anticipated providers, a less extensive service package and fewer rates, it was determined that this program would be a better testing ground for implementation of provider enrollment and direct provider payment procedures. Plans were made to implement direct provider payment for the MR programs following successful implementation for the Statewide Waiver.

For the Statewide waiver, business rules were written by TDLTC staff in collaboration with TennCare Fiscal staff and Tennessee Commission on Aging and Disability (TCAD) in May 2002 and submitted to TennCare Information Systems staff. Business rules were then reviewed, revised and finalized. Internal waiver coordination meetings among TDLTC staff, meetings with other divisions within TennCare, and technical assistance meetings with the TCAD staff have been held from late in 2001 through early 2003 to work toward implementation of the new

waiver, including the direct provider payment system. Providers are currently being enrolled with assistance from the TennCare Provider Unit. Once sufficient numbers of providers are enrolled, the direct payment system will be tested and implemented. It is anticipated that testing will be completed by April 2003.

### **Payment of DMRS as a Provider**

We concur that until approval of the cost allocation plan, DMRS administrative expenses were partially reimbursed by TennCare through a 7% add-on to waiver service rates. However, currently, the amount paid DMRS in total for all waiver services is utilized to reimburse providers for the cost of waiver services. The utilization figures and budgets for individual services, which were estimates to begin with, need to be revised to more accurately reflect current expenditures. This will be done with submission of a new waiver application, which is expected to be completed within the next 6 months. DMRS administrative costs are currently reimbursed via a Centers for Medicare and Medicaid Services (CMS) approved cost allocation plan.

### **CP Combo Rates**

We concur that approval of “bundled services” has not been sought from CMS. Although combo rates existed during the time of the last CMS audit, CMS did not cite a deficiency for combo services. Combo services, as currently used by DMRS, were created to increase flexibility and reduce the volume of service requests required in the provision of day services. For instance, a person may have a part-time job that requires the person to work a variable schedule each week—for example, the person may work 20 hours one week and 10 hours the next week, depending on the needs of the employer and/or the waiver enrollee. The person’s Individual Service Plan (ISP) may require that the person receive community participation during the weeks where fewer hours are worked. In such a situation, the person would be authorized to receive up to 83 hours per month of a combo service, which allows both supported employment and community participation to be provided for different numbers of hours each week, as long as the monthly maximum is not exceeded. The provider would then be paid the supported employment rate for the number of hours of supported employment billed and the community participation rate for the number of hours of community participation billed.

If combo services were not authorized, there would be no flexibility—the person would be authorized for a set number of hours of each service and each time there was a need for the hours to change based on the person’s needs, a new service authorization would need to be submitted. Consequently, it would be contrary to the best interests of waiver enrollees and administratively burdensome at the state and provider level to reduce the amount of flexibility in the provision of day services. TDLTC and DMRS intend to remedy the issue regarding flexibility in the provision of day services through revision of waiver definitions for the waiver renewal application that will be completed within the next 6 months.

<b>Finding Number</b>	02-DFA-18
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Eligibility
<b>Questioned Costs</b>	\$18,075.00

**TennCare has still failed to ensure that adequate processes are in place for approval of the recipient and for the review and payment of services under the Medicaid Home and Community Based Services Waiver**

**Finding**

As noted in the prior three audits, TennCare has not ensured that the Division of Mental Retardation Services (DMRS) appropriately reviews and authorizes the eligibility of and the allowable services for recipients under the Medicaid Home and Community Based Services for the Mentally Retarded and Developmentally Disabled (HCBS MR/DD) Waiver and the Elderly and Disabled waivers. DMRS allowed providers to render services to recipients before proper eligibility preadmission evaluations (PAEs) were performed and documented and before services were reviewed and authorized. As a result, claims were paid for unallowable and/or unauthorized services, and the required service plan and cost plans were inconsistent.

Management concurred with the findings reported in the audit reports for fiscal years ended June 30, 1999, and June 30, 2000, and stated it would review and modify the service authorization process. The only apparent change to the process occurred in June 2000 when TennCare began approving PAEs. For the audit period ended June 30, 2001, management partially concurred and indicated that it would continue to review the deficiencies noted in the finding. It is not clear from management's prior comments with which part of the finding it did not concur. Furthermore, as evidenced by the high percentage of errors, management apparently has not taken sufficient action to correct the numerous issues noted.

A sample of 60 claims from the HCBS MR/DD Waiver was selected. In the review of the 60 claims, testwork revealed that for 52 (87%) of the claims tested for the waiver recipients, deficiencies were noted. The deficiencies included the following:

- For 47 of the claims tested, the enrollee's service plans were not signed timely or were missing from the regional office. The *Operations Manual for Community Providers*, Chapter 2, states that billing cannot be claimed for services furnished prior to the development and authorization of the Service Plan.

- The services provided on the enrollee's service plan were not in agreement with the independent support plan (ISP) for two of the recipients tested.
- The enrollee's Freedom of Choice form was not completed properly or was missing for five of the claims tested. Chapter 1 of the *Operations Manual for Community Providers* requires the Freedom of Choice to be signed by the individual prior to enrollment, and the completed form should include the name of the individual considered for waiver services.
- Chapter 2 of the *Operations Manual for Community Providers* requires the service plan to be maintained for a minimum of three years by the organization funded to provide support coordination. However, for 10 of the 35 ISC (independent support coordination) claims in the sample, the service plans were either not approved by the regional office or were missing at the ISC agency.
- Proper supporting documentation was not retained by many of the vendors for the claims reviewed. In many instances, the support was inadequate because the hours or days recorded by the vendor differed from the hours or days paid by TennCare. In some cases, documentation could not be found, or the waiver recipient was absent from the provider on the day the claim was made.
- Testwork also revealed that in one case the services provided exceeded the levels approved in the service plans. For this claim, ten more hours of nursing were paid than were approved on the service plan. In another case, a service approved on a service plan was not provided to the enrollee.

The total amount of the 60 claims sampled was \$91,429. Costs associated with the errors noted above totaled \$27,967, of which \$17,809 is federal questioned costs. The remainder of \$10,158 is state matching funds. The total amount paid for HCBS MR/DD waiver claims was \$190,555,033.

A sample of 60 claims for the HCBS Elderly and Disabled waiver was selected. In a review of the claims for the elderly and disabled recipients, testwork revealed that for 57 of 60 claims tested (95%), the supporting documentation was not adequate. The following problems were noted:

- For 22 claims (37%), the supporting documentation for personal care obtained from the provider was not adequate for many of the claims examined because the hours paid did not agree with the hours the vendor recorded. Other differences occurred because office hours that should have been charged as administrative time were charged to personal care hours. Also, several discrepancies were noted between the meals provided and the meals paid. In some cases, vendors were paid for more units than the documentation showed. (See the questioned costs below.)
- For 55 claims (92%), the services were furnished pursuant to a written plan of care, and numerous individuals who should have been furnished two to four hours of personal care per the plan of care received less than two hours per day. Not following the written plan of care could result in enrollees not receiving services in accordance with their needs assessment.

The total amount of the 60 claims sampled was \$54,263. Costs associated with the overpayments noted above totaled \$417, of which \$266 is federal questioned costs. The remainder of \$151 is state matching funds. The total amount paid for HCBS Elderly and Disabled waiver claims was \$4,507,580. We believe likely questioned costs associated with this condition exceed \$10,000.

A sample of 25 PAEs from the HCBS waivers was selected from PAEs approved during the year ended June 30, 2002. TennCare uses PAEs to document the necessity of waiver services. Before enrollees obtain waiver services, TennCare requires an approved and completed PAE. In a review of the PAE approval process, testwork revealed that for 13 of 25 PAEs tested (52%) for the waiver recipients, the PAEs were not completed properly, or the supporting documentation was not adequate. Specifically, one or more of the following deficiencies were noted:

- For ten PAEs (40%), the supporting physical and/or psychological exams were not signed within the required time frame. Chapter 1 of the *Operations Manual for Community Providers* requires that the psychological and physical exams be performed within the preceding 12 months. If an exam was performed over 90 days but less than one year before the PAE date, the PAE must be updated.
- The regional office could not locate one of the approved PAEs selected for review.
- For three PAEs (12%), the Plan of Care on the PAE were not properly completed.

In addition, testwork noted that the TennCare Management Information System (TCMIS) does not have a system edit to prevent payment for duplicate services during the same time period for a person who receives services from more than one waiver. Although no duplicate payments were found, similar services could be provided to an enrollee through different waivers. Allowing individuals to receive services through multiple waivers could prevent others who need waiver services from obtaining access to the services because there are a limited number of slots available.

Since TennCare did not ensure that adequate processes were in place for the approval of recipient eligibility and for the review and payment of services under the Medicaid Home and Community Based Services Waiver, Medicaid providers of HCBS Waiver services were paid for recipients whose eligibility and services were not adequately documented. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires that costs be adequately documented.

### **Recommendation**

**Note: This is the same basic recommendation made in the prior three audits.**

The Director of TennCare should determine why the measures taken in the previous year were inadequate and should ensure that the eligibility criteria for all individuals are documented

on the PAE. The Deputy Commissioner over DMRS should ensure that review and approval of services under the HCBS Waiver is adequately documented. Freedom of Choice forms should be appropriately completed for all enrollees. The Director should ensure that provisions are made to ensure documentation is kept for providers that cease providing services. The Director of TennCare should ensure that only properly supported and completed PAEs are approved. Waiver claims without adequate documentation should be denied. The Director should ensure that ISC agencies maintain proper service plans. The Director of TennCare should ensure that recipients are approved for only one waiver so as not to limit access to services by others.

### **Management's Comment**

We partially concur.

#### **HCBS MR/DD Waiver Issues**

We concur. Draft audit findings have been provided to Division of Mental Retardation Services (DMRS). The findings, as well as the auditor's documentation of these findings will be reviewed at the April TennCare/DMRS Steering Committee meeting. Potential corrective measures will be discussed as well. DMRS will be required to submit a corrective plan within 30 days and TennCare will review and approve the plan or make additional recommendations. TennCare Division of Long Term Care (TDLTC) will monitor implementation of the corrective actions.

TDLTC has hired a new staff member who will be responsible for tracking all corrective actions for programs under TDLTC's administrative oversight.

The Corrective Action and Infrastructure Development Plan created by TennCare and DMRS, with input from program stakeholders, includes measures intended to streamline the planning and service authorization process. Work plans with action steps will be developed for all areas of the Plan. All corrective actions identified in this plan will be tracked for completion by identified responsible parties at TennCare and DMRS. Some work plans have been developed with assistance from CMS technical assistance contractors. Development of remaining work plans will be discussed at the April TennCare/DMRS Steering Committee meeting.

#### **Elderly and Disabled /Waiver**

We concur with these findings. In fact, similar issues were identified during the last TennCare State Assessment of the ADAPT waiver. The report for the ADAPT State Assessment has been delayed due to staffing and workload issues; however, a summary of the findings has been compiled for review with Senior Services. A meeting will be scheduled to discuss findings with Senior Services management during the month of April, in advance of issuing the report of findings. The State Assessment Report will be issued by April 30, 2003. Senior Services will be required to submit a plan of correction that will be reviewed by TDLTC. Upon acceptance of the plan of correction, TDLTC will monitor for implementation of corrective actions.

Senior Services has previously been advised in correspondence from TDLTC that travel/administrative time may not be billed as administrative hours.

### **PAEs**

We partially concur with these findings. Nurse reviewers who approve the PAE ensure that there is a physician's history and physical within 1 year of the physician's certification date on the PAE. If the H&P (History and Physician Certification) is more than 90 days old, an update is required. TDLTC policy is to consider the physician's signature on the PAE as an update to the H&P if "see attached" is written on the H&P section of the PAE. PAE nurse reviewers are aware of the policies for PAE reviews. Reviewers receive an average of 4-6 months training including follow-behind review by an experienced review nurse. However, approximately 32,000 PAEs are reviewed annually, and some human error is expected. TDLTC is in process of collecting and reviewing auditor documentation and will address any errors that are noted with the appropriate nurse reviewers.

In discussions with auditors, it was explained that while psychological dates may be after the date of the PAE certification and the H&P date, an individual may not be enrolled in the waiver until a PAE is approved. PAEs are not approved without an attached psychological. Consequently, payment for waiver services should not occur prior to the date of the documentation submitted with the PAE. Although TDLTC staff still do not fully agree with the auditors position, we have revised internal policies to hopefully avoid further audit findings related to this issue. Nurse reviewers who review MR waiver or ICF/MR PAEs were instructed to ensure that the date of the PAE certification and approval is on or after the date of the H&P and psychological prior to approval. Written TDLTC internal policies will be revised accordingly. We will follow this process point forward, but will not be able to make adjustments for PAEs approved in the past. Following meetings with auditors last fall, a conference call was held with DMRS intake staff to advise of potential audit findings. A formal memorandum will now be sent to DMRS Central Office and Regional Offices to outline changes in requirements for PAEs submitted. The memorandum will also advise of the importance maintaining required documentation in accordance with the contract between DMRS and TennCare, as well as TennCare rules.

We do not have sufficient information at this time to determine agreement or disagreement with findings related to Plans of Care. TDLTC staff will review auditor's documentation to determine what was improper about the Plan of Care on the PAE and address appropriately.

### **Systems Edit**

We concur that there is no edit to prevent payment for services in 2 different waiver programs simultaneously. However, no duplicate payments were found. Because of previous audit findings, TDLTC explored the possibility of establishing such an edit, but were told that it was not possible at this time. Consequently, different avenues were explored to correct the problem. All Support Coordination agencies were advised that clients were not to be enrolled in

other waiver programs if enrolled in the MR waiver. Senior Services were advised of the audit finding as well. Although these may not have been the corrective actions originally intended, there is no evidence at this point that these measures were not effective.

<b>Finding Number</b>	02-DFA-19
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

**TennCare’s monitoring of the pharmacy program payments still needs improvement**

**Finding**

As noted in the prior year, TennCare’s monitoring of the payments for the pharmacy program still needs improvement. TennCare contracts with Consultec, LLC (Consultec) to pay claims on a fee-for-service basis to providers for individuals who are both Medicare and Medicaid eligible as well as for behavioral health drugs for TennCare enrollees. Consultec pays the claims submitted by the pharmacy program providers, and then TennCare reimburses Consultec for the cost of the claims paid. TennCare reimbursed \$850,742,110 to Consultec for claims for the year ended June 30, 2002.

The prior audit finding discussed the following three specific problems:

- TennCare did not adequately monitor the payments for the pharmacy program,
- TennCare did not maintain all the weekly listings of claims submitted by Consultec, and
- TennCare could not locate the drug use review board annual report.

The last two issues have been corrected. However, the first and most critical issue remains.

In response to the prior finding, management stated:

We do concur with the need for monitoring procedures. The Bureau will coordinate efforts between the Fiscal Unit and the Pharmacy Unit to assure written policies and procedures are developed and followed to effectively monitor the contract between TennCare and Consultec (ACS). The monitoring effort will include procedures that will assure claims are paid correctly for eligible members and that Consultec pays providers exactly as they invoice the TennCare Bureau.

Furthermore, during the current audit fieldwork, management stated that they planned for the Internal Audit Unit to perform payment monitoring of Consultec and that management has begun developing a monitoring process.

Based on discussions with management, testwork, and observation, we have determined that TennCare has not developed the written policies and has not ensured adequate monitoring of the payments to Consultec. Some examples of the deficiencies in TennCare's monitoring of the contract between TennCare and Consultec include the following:

- TennCare did not monitor to ensure the amount paid to the providers for the drugs was correct and based on the average wholesale prices of the drugs prescribed, and that third-party liabilities were appropriately deducted from the amount paid.
- TennCare did not adequately monitor to ensure that an individual provider claim was not reimbursed more than once.
- TennCare did not monitor to ensure that Consultec paid providers only for claims for TennCare eligibles who should be receiving benefits through Consultec.
- TennCare did not monitor to ensure that Consultec paid the providers the same amounts billed to TennCare.
- TennCare did not monitor for claims paid for deceased individuals or incarcerated individuals.

Inadequate monitoring could lead to duplicate paid claims, ineligible recipients receiving benefits, Consultec's not paying providers what is billed to TennCare, and/or the incorrect amount being paid for drugs. In addition, TennCare's inadequate monitoring of the payments for the pharmacy program has resulted in payments for deceased individuals. (See finding 02-DFA-22 for further details regarding this matter.)

### **Recommendation**

**Note: This is the same basic recommendation for the remaining issues that has been noted in the previous audit finding.**

The Director of TennCare should ensure that staff perform adequate monitoring of pharmacy program contract payments and develop and implement written policies and procedures as necessary to effectively monitor the contract with Consultec. The monitoring effort should include procedures to ensure that claims are paid only for individuals who should be receiving benefits through Consultec, correct amounts are paid for drugs, third-party liabilities are appropriately deducted, no duplicate claims are paid, claims are paid only for living enrollees who are not incarcerated, and that Consultec is paying providers the same amount billed to TennCare.

## Management's Comment

### TennCare Pharmacy Program

We concur. TennCare has worked extensively with our internal auditors over the last year to develop a sound monitoring process for the TennCare Pharmacy Program's contract with Consultec. Our last meeting with the auditors was held on February 20, 2003. The auditors had requested changes in the reports and other data submitted by the pharmacy contractor to allow the TennCare Pharmacy Unit and TennCare Fiscal Unit to adequately monitor the contract. We expect final written recommendations from the auditors in the near future. TennCare is currently using an independent contractor to collect third party liabilities as that is not a duty performed by Consultec.

The new monitoring process will include mechanisms that ensure, at a minimum:

- Providers are paid accurately and TennCare is invoiced accurately for those claims
- Providers claims are not paid twice (duplicate billings)
- All paid pharmacy claims are for eligible TennCare members
- Pharmacy claims are not paid for deceased members; or recognizing the lag between death notices and claims submissions, recoupment of prescriptions that were paid in error

<b>Finding Number</b>	02-DFA-20
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

**TennCare’s monitoring of the payments for TennCare Select needs improvement**

**Finding**

TennCare’s monitoring of the payments for TennCare Select enrollees needs improvement. TennCare contracts with Volunteer State Health Plan, Inc., for the administration of TennCare Select. According to the contract, the purpose of TennCare Select is to “(1) provide services to populations who are more difficult to serve because of their health care needs, their mobility, and/or their geographic location; and (2) to serve as a back-up in any area of the state where TennCare enrollees cannot be adequately served by other TennCare HMOs, either in the event of the unexpected exit of an existing risk HMO or a need for additional capacity.” Volunteer State Health Plan pays the claims submitted by the providers for individuals enrolled in TennCare Select, and then TennCare reimburses Volunteer State Health Plan for the cost of the claims. The amount TennCare reimbursed Volunteer State Health Plan for TennCare Select claims was \$312,061,645 for the year ended June 30, 2002.

Discussions with management revealed that TennCare staff have not adequately monitored the payments to Volunteer State Health Plan for claims of the TennCare Select enrollees. Some examples of the deficiencies in TennCare’s monitoring of the payments for TennCare Select include the following:

- TennCare did not monitor to ensure the amount paid to the providers for services provided to TennCare Select enrollees was correct and that third-party liabilities were appropriately deducted from the amount paid.
- TennCare did not adequately monitor to ensure that an individual provider claim was not reimbursed more than once.
- TennCare did not adequately monitor to ensure that Volunteer State Health Plan only billed TennCare for claims paid for eligible TennCare Select enrollees.
- TennCare did not monitor to ensure that Volunteer State Health Plan paid the providers the same amounts billed to TennCare.

- TennCare did not reconcile the amount TennCare reimbursed Volunteer State Health Plan to the TennCare Select claim encounter data received by the Division of Information Systems.

The inadequate monitoring could lead to duplicate paid claims, ineligible recipients receiving benefits, Volunteer State Health Plan not paying providers the same amounts it received from TennCare, and/or the incorrect amount being paid to providers.

### **Recommendation**

The Director of TennCare should ensure that staff perform adequate monitoring of the TennCare Select payments. The monitoring effort should include procedures to ensure that the amount paid to the providers for services provided to TennCare Select enrollees is correct and that third-party liabilities are appropriately deducted from the amount paid, an individual provider claim is not reimbursed more than once, Volunteer State Health Plan only bills TennCare for claims paid for eligible TennCare Select enrollees, Volunteer State Health Plan pays the providers the same amounts received from TennCare, and TennCare reconciles the amount TennCare reimburses Volunteer State Health Plan to the TennCare Select claims.

### **Management's Comment**

We concur. We will develop procedures to monitor for the items in the recommendation. We have begun reconciling payments to encounter data. We will have an audit performed of the amounts billed to the state for compliance with contract terms.

<b>Finding Number</b>	02-DFA-21
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$919,767.00

**For the second year, TennCare chose to go against the direction of the Centers for Medicare and Medicaid Services and inappropriately claimed federal matching funds for premium taxes related to the graduate medical education program and pool payments made to Meharry Medical College and essential provider hospitals**

**Finding**

As noted in the prior-year audit, against the direction of the Centers for Medicare and Medicaid Services (CMS), TennCare inappropriately claimed federal funds for premium taxes related to the graduate medical education program and a pool payment to Meharry Medical College for its dental program. In addition, during the current audit, it was found that TennCare also inappropriately claimed funds for premium taxes related to a pool payment to essential hospital providers. Management did not concur with the prior-year audit finding even though CMS specifically stated in both years' approval letters that TennCare could not claim federal financial participation for these taxes.

As noted in the prior finding, TennCare has contracted with four graduate medical schools to administer the graduate medical education program. For the years ended June 30, 2002, and June 30, 2001, these contracts with the schools totaled \$46 million for each year.

In addition to these four contracts, TennCare also contracted each year with Volunteer State Health Plan (VSHP), a managed care organization (MCO), to disburse the \$46 million to the four graduate medical schools. However, TennCare's payments to VSHP resulted in MCO premium taxes that were to be paid by VSHP back to the state. As a result, TennCare contracted with VSHP for a total of \$46,938,776 for each fiscal year to cover VSHP's premium tax cost. The approval letters from CMS to TennCare for the graduate medical education program specifically state,

. . . as we have already advised your staff, the State cannot claim Federal financial participation (FFP) for the \$938,776 that you intend to pay Volunteer State Health Plan for their cost of the MCO premium tax that will be paid back to the state.

An examination of TennCare's quarterly expenditure report revealed that TennCare again claimed federal financial participation for this premium tax. For the year ended June 30, 2002,

the premium tax totaled \$938,776, of which \$597,437 is federal questioned costs. The remaining \$341,339 is state matching funds.

TennCare also contracted with Xantus Healthplan to make a pool payment to Meharry Medical College for Meharry's dental program. The total amount paid to Xantus was \$4,917,276 for the year ended June 30, 2002. A similar amount of \$4,909,168 was paid in the year ended June 30, 2001. The fiscal year 2002 payments consisted of \$4,817,950 to Meharry; a 2% MCO premium tax of \$98,326; and an administrative fee to Xantus of \$1,000.00. The CMS approval letters for these pool payments also prohibited TennCare's claiming the federal financial participation on the payments to Xantus for premium taxes. However, TennCare again claimed \$62,575 in federal financial participation for the premium tax for the year ended June 30, 2002, which is federal questioned costs. The remaining \$35,751 is state matching funds.

In addition, TennCare contracted with VSHP to make a pool payment to essential provider hospitals. The total amount paid to VSHP was \$20,408,164, which consisted of the payment to the hospitals of \$20,000,001 and a 2% MCO premium tax of \$408,163. The CMS approval letter for this pool payment also prohibited TennCare's claiming the federal financial participation on the payment to VSHP for premium taxes. However, TennCare claimed \$259,755 in federal financial participation for the premium tax, which is federal questioned costs. The remaining \$148,408 is state matching funds.

In total, for the year ended June 30, 2002, TennCare claimed \$1,445,265 for premium taxes. A total of \$919,767 of federal questioned costs is associated with the conditions discussed in this finding. The remaining \$525,498 was state matching funds.

TennCare's continued failure to follow specific CMS guidance outlined in the approval documents has resulted in more federal questioned costs and could also jeopardize future federal funding.

### **Recommendation**

The Director of TennCare should ensure that TennCare follows directives of the federal grantor in determining which costs can be funded with federal dollars.

### **Management's Comment**

We do not concur. It is our opinion that these are allowable expenditures under Title XIX regulations. It is our responsibility to claim all expenditures eligible for federal funding. CMS officials are aware the state claimed the funding and we have not received any further correspondence from CMS on this issue.

## Rebuttal

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Tennessee Department of Finance and Administration regarding the *Single Audit of the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material instance of noncompliance. We recommend (1) procedures be implemented to ensure Federal funds are not used to pay premium taxes and (2) the questioned costs be returned.

In addition, CMS continued to specifically state in the approval letters that TennCare cannot claim federal financial participation for these taxes. CMS, not TennCare, is ultimately the judge as to which costs are allowable and which costs are not. OMB Circular A-133 defines a questioned cost as a cost which “resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds” [emphasis added].

<b>Finding Number</b>	02-DFA-22
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Eligibility
<b>Questioned Costs</b>	\$207,499.00

**For the fifth consecutive year, TennCare did not recover capitation payments made to managed care organizations for deceased individuals (who had been dead for more than a year) and for the second year TennCare did not recover fee-for-service payments made for deceased enrollees; this has resulted in new federal questioned costs of \$207,499 and additional costs to the state of \$118,479**

### Finding

As noted in the prior four audits, TennCare has continued to inappropriately use federal matching funds for capitation payments paid to managed care organizations for deceased individuals who have been dead for more than a year. In addition, as noted in last year's audit, TennCare has not ensured that adequate controls are in place to recover fee-for-service payments that are made to providers for dates of service after an enrollee's date of death.

The capitation payments are made to the MCOs on behalf of TennCare enrollees to cover medical 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 capitation and fee-for-service payments will be made. 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.

When this issue was first discovered in the audit for the year ended June 30, 1998, TennCare's procedures for identifying deceased enrollees were inadequate. As a result of that finding, management implemented new procedures utilizing on-line access to the Social Security Administration's death records and recovered millions of dollars in capitation paid to the MCOs. Although improvements were made, the audit for the year ended June 30, 1999, disclosed that TennCare was not recovering capitation beyond twelve months from the date of death notification. In response to the finding for June 30, 1999, management stated that "Procedures will be established to allow recoveries for capitation payments that exceed the twelve-month reconciliation for identified deceased enrollees." However, the audit for the year ended June 30, 2000, reported that TennCare still was not recovering capitation payments beyond twelve months from the date of death notification. In response to that finding, TennCare sought an opinion from the state's Attorney General's Office which agreed that recovery could not exceed the twelve

month limitation. The audit for the year ended June 30, 2001, reported that TennCare did not recover fee-for-service claims paid to providers and used federal matching funds for capitation payments paid to managed care organizations for deceased individuals including those who had been dead for more than a year. Management did not concur with that finding, but stated that it would review the process to ensure that procedures in place are effective.

Although TennCare does not always receive notification of date-of-death in a timely manner, timely reverification of eligibility would allow TennCare to detect a change in an individual's eligibility status. However, because of a Temporary Restraining Order TennCare has not reverified the eligibility of enrollees timely (see the observations and comments section of this report for more details).

When an enrollee dies, TennCare receives notification of the death from various sources. It is reasonable to expect that TennCare would not receive the notice of death of an enrollee immediately. Because of this normal delay in the death notification process, TennCare has procedures in place to retroactively recover capitation payments made to the MCOs up to twelve months before the official date of death of an enrollee.

Although TennCare's contract with the MCOs prohibit the recovery of payments from the MCOs for these individuals, TennCare has continued to claim federal financial participation for individuals that have been deceased for more than 12 months. For costs to be allowable for federal financial participation, the costs must be paid for allowable services provided to living enrollees.

As in the past four audits, we performed a data match between capitation payments per TennCare's paid claims tapes and date-of-death information from the Office of Vital Records in the Department of Health. We found that TennCare paid \$920,868 to MCOs on behalf of deceased individuals reported by the Office of Vital Records. We selected a sample of 350 of these payments to the MCOs totaling \$43,606 to determine if these payments had been recovered. For 267 of 350 payments tested (76%) totaling \$40,498, TennCare had not recovered the payment to the MCO as of November 28, 2002. For all the 267 payments selected except two, the recovery had not occurred because the individual was either not identified as deceased in TennCare's system or had some other date of death that could not be substantiated. For the two, the recovery had not occurred apparently because the dates of death loaded in TCMIS were over a year before the capitation payment service dates. Federal questioned costs totaled \$25,713. The remaining \$14,785 was state matching funds.

Testwork also revealed that TennCare has not ensured that adequate controls are in place to recover fee-for-service payments that are made to providers for dates of service after an enrollee's date of death. The fee-for-service payments are for services or medical equipment provided to TennCare enrollees. The fee-for-service claims are paid or denied based on recipient eligibility information listed in TCMIS. Based on discussion with management, the fee-for-service payments were made because the date-of-death notification occurred after the date of the payment. According to staff, the recoveries for fee-for-service claims are performed manually, not automatically by the system. Not using TCMIS to automatically recover these payments increases the risk that payments might not be recovered. In addition, management stated that if

more than a year were to pass before one of these payments were to be identified, then a recovery would never be made. While there appears to be a legitimate reason for not recovering capitation payments occurring more than a year before notification of death, there does not appear to be a legitimate reason for not recovering such fee-for-service payments.

As in the past two years, we performed a data match between fee-for-service payments for nursing homes, the Home and Community Based Service Waiver for the Mentally Retarded and Developmentally Disabled, and Medicare cross-over services per TennCare's paid claims tapes and date-of-death information from the Office of Vital Records in the Department of Health. We found that TennCare paid \$110,089 to providers on behalf of deceased individuals reported by the Office of Vital Records. We selected a sample of 60 of these payments to the providers totaling \$11,144 to determine if these payments had been recovered. For 26 of 60 payments tested (43%) totaling \$5,343, TennCare had not recovered the payment to the provider as of November 28, 2002. Federal questioned costs totaled \$3,402. The remaining \$1,941 was state matching funds. We believe that likely federal questioned costs associated with this condition could exceed \$10,000.

In addition, we also found that TennCare made payments through Consultec, LLC (Consultec), for drugs for deceased individuals. A comparison of data from the Office of Vital Records and claim information received from TennCare revealed that TennCare paid \$265,903 for individuals with dates of death that occurred before the dates of service. Federal questioned costs totaled \$169,320. The remaining \$96,583 was state matching funds.

Also, we discovered fee-for-service payments for deceased individuals made to Volunteer State Health Plan, Inc. for enrollees in TennCare Select. A comparison of TennCare select claim information with the Office of Vital Records revealed that TennCare paid \$14,235 for individuals with dates of death that occurred before the date of service. Federal questioned costs totaled \$9,064. The remaining \$5,170 was state matching funds.

A total of \$207,499 of federal questioned costs is associated with the conditions discussed in this finding. The remaining \$118,479 was state matching funds.

### **Recommendation**

The Director of TennCare should consider removing the 12-month limit on recoveries from the contracts with the MCOs. Nevertheless, the federal government should not share in the costs of unrecovered payments due to the 12-month limitation in the contracts. Furthermore, the Director should determine why the death notification process sometimes exceeds a reasonable period and should take corrective action as needed. In addition, the Director should ensure that all fee-for-service payments, including pharmacy and TennCare select claims, made on behalf of deceased recipients are recovered back to the date of death.

## **Management's Comment**

### **TennCare Information Systems**

We do not concur. TennCare Information Systems has processes in place to facilitate the recovery of both fee-for-service and capitation payments made on the behalf of deceased individuals. We process capitation payments on a monthly basis and process fee-for-service payments on a weekly basis. TennCare Information Systems staff works suspected dates of death. Other dates of death, which are obtained from the MCOs, are researched and, if verified, are manually updated to the TCMIS. We will work with Vital Records to attempt to correct any delays in reports of death.

In addition, TennCare purchased a subscription service to obtain date of death information directly from the Social Security Administration. We will work with the Program Integrity Unit to validate and react to potential matches.

### **TennCare Pharmacy Unit**

The billing procedures for long term care pharmacy providers require them to dispense all medications in a nursing home setting in seven day supplies and in unit dose packaging. These individually wrapped drugs can legally be returned to the pharmacist's stock in the event the prescriber changes an order, there are unexpected side effects to a drug or if the drug prescribed is not effective. The pharmacy provider should bill TennCare "post-consumption" in order to properly credit all drugs sent to the nursing home that are not taken by the patient. Because these providers bill after the month has ended, the date of service on the claim is usually the end of the month or the first few days of the next month. If the patient had expired during the month and that information is loaded into TennCare's system (and that of Consultec-ACS) a month or two later, then the claim would appear to have been paid after the patient was deceased.

In a new procedure we are implementing for monitoring pharmacy claims, TennCare will review lists of deceased patients and verify if the dates of service for these patients fall into this situation with long term care providers or if another situation exists. In either event, claims paid erroneously will be discovered and recouped.

## **Rebuttal**

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Tennessee Department of Finance and Administration regarding the *Single Audit of the State of Tennessee* for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a material instance of noncompliance and a repeat finding. We recommend 1) procedures be implemented to ensure payments are only made on behalf of living enrollees, 2) payments made on behalf of deceased clients be recovered, and 3) the questioned costs be returned.

TennCare information systems staff in their comment state that “TennCare Information Systems has processes in place to facilitate the recovery of both fee-for-service and capitation payments made on the behalf of deceased individuals.” Regarding capitation payments, management’s comments do not address the \$25,713 of federal questioned costs that management’s controls failed to recover.

Management also did not address the part of the recommendation concerning the removal of the 12-month limit on recoveries from the contracts with the MCOs. Also, management did not address the incorrect billing of the federal government’s share of unrecovered payments. The recovery of TennCare select claims was also not addressed in management’s comment.

<b>Finding Number</b>	02-DFA-23
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$19,843.00

**A Medicaid enrollee’s pre-admission evaluation was not on file, and medical necessity could not be substantiated**

**Finding**

Because a long-term care provider did not maintain a pre-admission evaluation (PAE) for a Medicaid enrollee, TennCare could not provide the necessary documentation to substantiate the medical necessity of services provided to the enrollee.

*Rules of the Tennessee Department of Finance and Administration Bureau of TennCare, Section 1200-13-1-.10(2)(f), states:*

A PreAdmission Evaluation must include a recent history and physical signed by a physician who is licensed as a doctor of medicine or doctor of osteopathy. A history and physical performed within 365 calendar days of the PAE Request Date may be used if the patient’s condition has not significantly changed. Additional medical records (progress notes, office records, discharge summaries, etc.) may be used to supplement a history and physical and provide current medical information if changes have occurred since the history and physical was performed.

TennCare uses PAEs to document enrollees’ eligibility and need for nursing home services.

Testwork revealed that for one of 25 PAEs (4%), neither TennCare nor the long-term care provider could provide the complete PAE, which included the physician’s signature and documentation of medical necessity.

Per discussion with TennCare staff, TennCare issues “lost PAE” letters when a PAE cannot be located. However, TennCare did not realize the PAE was lost when the enrollee transferred from one provider to another.

*Office of Management and Budget (OMB) Circular A-133* defines questioned costs as costs that:

. . . at the time of the audit, are not supported by adequate documentation.

The total amount paid for the individual who did not have an approved PAE was \$31,162. The total amount paid for the individuals sampled was \$402,732. TennCare paid \$1,026,215,550 for nursing home claims. Federal questioned costs totaled \$19,843. The remaining \$11,319 was state matching funds.

### **Recommendation**

Since the PAEs are critical support for TennCare eligibility, the Director of TennCare should ensure that PAEs are properly maintained, and if a PAE is lost, that appropriate actions are taken to ensure that medical necessity can be substantiated through medical records or other evidence. To assist in the effort, the Director should ensure that TennCare complies with all utilization of care and services and suspected fraud requirements discussed in finding 02-DFA-35.

### **Management's Comment**

We concur that a long-term care provider could not provide a Pre-admission Evaluation (PAE). There are approximately 350 nursing facilities in Tennessee with a total of around 39,000 beds. Occupancy rates average 90-91% and about 75% of the residents occupying these beds at any given time will be Medicaid eligible. Approximately 30,000-32,000 PAEs are approved yearly. It would stand to reason that given these numbers, an occasional PAE may be lost or misplaced due to clerical error or other circumstances, such as off-site storage of old records. The missing PAE related to this finding involved the transfer of a resident from one facility to another. TennCare rules allow transfer forms to be used instead of PAEs when transferring to the same level of care at a different facility. Page one of the approved PAE in use prior to the transfer is required to be sent with the transfer form to the new facility as proof of the original approval.

Because of the volume of records generated in the PAE process, missing PAEs have been anticipated. TennCare Division of Long Term Care (TDLTC) does not have sufficient storage space to maintain copies of all approved PAEs. Consequently, when a PAE is approved, a PAE work card is maintained on file and a PAE segment is entered on the TennCare Management Information System (TCMIS). The work card provides historical information regarding all PAE submissions for a person. This work card serves as proof that on a particular date a PAE was approved because the applicant met the level of care criteria for the requested reimbursement level. There is a process in place to generate "lost PAE" letters based on the information maintained by TDLTC when PAEs are lost.

TDLTC believes that providers are sufficiently informed that PAEs are to be kept on file as documentation of medical eligibility/level of care determination. Previous bulletins have been issued advising of this requirement. This information is also routinely provided at TennCare

Nursing Facility Provider workshops presented by PAE and Claims Unit staff. Providers are also routinely advised of the process for requesting lost PAE letters.

Upon implementation of the new system, all PAEs and supporting documentation will be scanned into the system and stored for future reference. TennCare will then have the ability to provide a copy of the actual PAE to the facility upon request. In the meantime, TDLTC will issue a bulletin to nursing facility providers to remind them that PAEs must be maintained on file for Medicaid eligible residents. The bulletin will advise that the provider should contact TDLTC for lost PAE letters (or copies of approved PAEs when the new system is implemented) if PAEs are missing.

<b>Finding Number</b>	02-DFA-24
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

**TennCare needs to improve policies and procedures and processing of Medicare cross-over claims**

**Finding**

As noted in five prior audit findings, TennCare has not corrected control weaknesses in processing Medicare cross-over claims. The following issues were again noted in the current audit:

- TennCare’s policies and procedures manual for pricing cross-over claims is inadequate; and
- TennCare’s Management Information System (TCMIS) was not set up to appropriately deduct third-party liability (TPL) for psychologists and social workers.

Management corrected an issue reported last year regarding departmental rules. However, management did not concur with the other issues reported in the prior year finding. Regarding issues repeated in the current audit, management did not address our concerns about the inadequate cross-over claims policies and procedures manual not including certain pricing information about some types of professional cross-over claims.

Management also did not concur with the issue that TCMIS was not set up to appropriately deduct TPL for psychologists and social workers. However, management’s comments did not address specifically how the system detects TPL on claims for psychologists and social workers.

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.

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). During fieldwork, we asked management precisely how TennCare identifies and deducts third-party resources (commonly referred to by TennCare as TPL, third-party liability) for psychologists and social workers. Discussions with the Director of

Information Systems revealed that TennCare's system was not programmed to search the psychologists' and social workers' provider codes to identify TPL related to claims.

In addition, TennCare's policies and procedures related to professional cross-over claims and institutional cross-over do not contain adequate pricing guidelines. Testwork performed revealed that the following pricing methodologies were not mentioned in TennCare's policies and procedures manual for cross-over claims:

- For institutional cross-over claims with injection codes, the system automatically pays a \$2.00 administrative fee.
- For professional cross-over claims where there is not a type of service listed, TennCare pays the amount which is billed. After the audit period, TennCare developed a policy to deny claims where no type of service was listed on the claim and send the claims back to the provider.

Testwork also revealed that the payment methodology for the following types of providers was not discussed in TennCare's policies and procedures manual for cross-over claims:

- radiology,
- rural health,
- home health,
- rehabilitation services, or
- dialysis.

Not including all pricing methodologies and types of providers in the policies and procedures manual could lead to confusion among staff regarding pricing methodologies for cross-over claims.

### **Recommendation**

**Note: This is the same basic recommendation for the remaining issues that has been noted in five previous audit findings.**

The Director of TennCare should ensure that TCMIS detects and deducts TPL when necessary for cross-over claims for psychologists and social workers. The cross-over claims policies and procedures manual should be updated to include all pricing methodologies.

### **Management's Comment**

We partially concur with this finding. We concur that the system does not have the third-party liability (TPL) edits to identify psychologists and social workers' claims. A System Change Request (SCR) has been initiated to update the system for the TPL edit for these

provider codes. Upon completion of the required system modifications, TennCare will reprocess cross-over claims adjudicated during the audit period ending June 30, 2002 and up until the time the SCR is made to identify any potential adjustments. In addition, we will continue to review institutional and professional cross-over programs to ensure all provider types are edited for TPL.

We concur that our policies and procedures manual for cross-over claims did not include the pricing methodologies for Rural Health Clinics and Radiology providers. The manual was updated December 5, 2002 to include methodologies for payments to these provider types. However, we do not concur that the policies and procedures manual did not contain methodologies for Dialysis Clinics, Home Health Services and Rehabilitation Centers. These provider types are included in the section that identifies all providers that are paid billed charges.

### **Auditor's Comment**

Management's comments regarding pricing methodologies for Dialysis Clinics, Home Health Services, and Rehabilitation Centers refer to the pricing of professional cross-over claims. However, management's policies for the pricing of institutional cross-over claims do not address the pricing of claims for Dialysis Clinics, Home Health Services, and Rehabilitation Centers.

<b>Finding Number</b>	02-DFA-25
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$185,757.00

**The Bureau of TennCare overstated the amount of Certified Public Expenditures**

**Finding**

The Bureau of TennCare overstated the amount of Certified Public Expenditures (CPEs) for the fiscal year ended June 30, 2001, which was reported to the Centers for Medicare and Medicaid Services (CMS) during the fiscal year ended June 30, 2002. CPEs are actual unreimbursed expenditures incurred by public and private hospitals for TennCare enrollees who are eligible and individuals who are eligible but not enrolled in the TennCare program (the state does not pay any portion of the hospitals' expenditures directly). The CMS Special Terms and Conditions provides for CMS to reimburse the state at the applicable federal matching rate for these costs identified as CPEs.

TennCare contracts with the Medicaid/TennCare Section of the Comptroller's office to review the amount providers report for CPEs on the Hospitals' Joint Annual Reports. These reports are submitted by hospitals and include amounts expended for charity care. After each review of the annual reports, the Medicaid/TennCare Section generates and forwards to TennCare a spreadsheet containing updates from the review of the annual reports, to be reported as CPEs.

Each month TennCare receives an estimated amount from the federal government for CPEs. Once TennCare receives the Final CPEs from the Medicaid/TennCare Section, TennCare makes an adjustment in the State of Tennessee Accounting and Reporting System (STARS) and adjusts subsequent draws from the federal government accordingly. Auditing procedures performed for the fiscal year ended June 30, 2002, revealed that TennCare's CPEs for the fiscal year ended June 30, 2001, were overstated by \$291,991. This overstatement resulted because TennCare did not properly adjust the CPEs drawn to agree with the spreadsheet received from the Medicaid/TennCare Section, dated April 25, 2002. Federal questioned costs totaled \$185,757. Since no state funds were expended for CPEs, there are no state matching funds associated with this condition.

### **Recommendation**

The Chief Financial Officer should ensure that Certified Public Expenditures are reconciled to the Medicaid/TennCare Section's reports and reported accurately and in compliance with federal laws and regulations. Draws of federal funds should be adjusted for the difference between estimated and actual CPEs.

### **Management's Comment**

We concur. The funds referenced in the finding were returned to the the Centers for Medicare and Medicaid Services (CMS) on January 3, 2003 and were adjusted in the December 31, 2002 CMS 64 report. Management will ensure that a reconciliation to the final approved report from the Comptroller's Office will be completed and adjustments reported in a timely manner.

<b>Finding Number</b>	02-DFA-26
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$4,636.00

**TennCare’s providers did not substantiate the medical costs associated with fee-for-services claims or provide evidence that the service was actually provided**

**Finding**

TennCare could not provide documentation to substantiate medical costs associated with fee-for-service claims. For claims to be allowable, Medicaid costs for medical services must be for an allowable service rendered which includes being supported by medical records or other evidence indicating that the service was provided and consistent with the enrollee’s medical diagnosis.

Although the state is operating under a waiver from the federal Centers for Medicare and Medicaid Services (CMS) to implement a managed care demonstration project, more and more services are being paid on a fee-for-service basis. This is occurring because the state has decided to shift the burden of high cost/high risk groups from the managed care organizations to the state. Services provided on a fee-for-service basis include: services provided in the long-term care facilities, services provided to children in the state’s custody, services provided under the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled, services provided to enrollees who are both TennCare and Medicare recipients (Medicare cross-over claims), services provided to TennCare Select enrollees, and pharmacy claims for individuals that are recipients of TennCare and Medicare as well as behavioral health drugs for all TennCare enrollees.

We tested a sample of claims for children in state custody, claims for services provided under the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled, claims for services provided to TennCare Select enrollees, and pharmacy claims, to determine the adequacy of documentation supporting the medical costs associated with these claims for service. Specifically, testwork revealed that TennCare’s providers could not provide documentation to support the need for the medical service, including pharmaceutical services, or that the service was actually provided for 13 of 65 claims (20%). The documentation for these claims could not be obtained for the following reasons:

- For one pharmacy claim, TennCare personnel indicated that a provider located in Florida prescribed the medication to the individual. When the provider was

contacted, the provider stated that they had never seen the individual. This issue has been referred to the Special Investigations section of the Comptroller's Office and to the Bureau of TennCare's Office of Program Integrity for further investigation.

- For two pharmacy claims, the provider that prescribed the drug could not be located.
- For two pharmacy claims, the documentation received from the doctors that prescribed the drugs did not support the need for the drugs.
- For one of Children's Services' claims, the documentation could not be obtained because the medical records according to the provider had been destroyed in a fire.
- For one of Children's Services' claims, there was no documentation that the child was located in the facility for 6 days of the 28 days billed. There was an additional two days, where the child was allowed a leave of absence from the facility.
- For five of the HCBS claims, there was not adequate documentation that the services billed were provided.
- For one of the Children's Services' claims, the documentation received from the facility did not support the services billed.

The total amount of the errors noted above was \$7,281, out of a total of \$45,797 tested. Federal questioned costs totaled \$4,636. The remaining \$2,645 was state matching funds. TennCare paid \$1,524,319,677 in fee-for-service claims for the types of claims sampled. We believe likely questioned costs exceed \$10,000.

Without having adequate documentation that medical services, including pharmaceutical services, are provided and are consistent with the medical diagnosis, TennCare may be paying for and billing the federal government for unallowable medical costs.

### **Recommendation**

The Director of TennCare should ensure that providers maintain the required documentation to support costs charged to the program. In addition, TennCare should perform its own post-payment reviews to ensure providers are billing for appropriate, allowable medical costs.

### **Management's Comment**

#### **TennCare Division of Long Term Care**

We concur with regard to Home and Community Based Services claims. Adequate documentation was not provided to auditors to document provision of services billed. We do not know at this point if the documentation did not exist or if it was just not provided. We have obtained information regarding the claims tested and have provided this information to DMRS. DMRS regional office staff are assisting in researching whether there is sufficient documentation

to support the claims paid. If the documentation does not exist, recoupments will be initiated as appropriate.

### **Pharmacy**

We concur. On July 1, 2002 the use of a standardized prescriber identification system for all pharmacy claims (MCO and carve-outs) was implemented. The use of DEA numbers has improved encounter data and pharmacy utilization management. In the future, when asked similar pharmacy questions by state auditors, TennCare staff will not only provide prescriber identification information, but also research the specific claims by contacting the dispensing pharmacy to assure the claims correctly identified the prescriber. In one of the cases above, the pharmacist had incorrectly entered the prescriber identification number for a physician that happened to live in Florida.

TennCare is currently implementing an audit procedure for the pharmacy carve-out programs, based in large measure on the input and recommendations from TennCare Internal Audit. These new monitoring efforts of Consultec's (ACS) billings and data will assure that the payments to Consultec are correct. TennCare cannot audit pharmacy claims for dually eligible members to determine medical necessity because these patients are not typically seen by TennCare participating providers.

### **Children's Services Claims**

We concur that providers should maintain adequate support for services provided. The Bureau of TennCare contracts with the Department of Finance and Administration, Office of Program Accountability Review (PAR) to monitor the Department of Children's Services (DCS) residential treatment providers. Regarding the provider's records that were destroyed in a fire, there is no possible way that TennCare can ensure that these incidents do not occur. For the two remaining issues, TennCare will coordinate with DCS to determine the cause of the issues and make appropriate billing adjustments, if such are indicated.

<b>Finding Number</b>	02-DFA-27
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Noncompliance
<b>Compliance Requirement</b>	Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$16,124.00

**TennCare inappropriately paid \$32,247 for administrative leave for the former Director and a former Assistant Commissioner who terminated employment**

**Finding**

TennCare inappropriately paid for administrative leave for employees who terminated employment.

*Department of Personnel Policy, Chapter 3, states:*

Discretionary leave may be for reasons or situations where an employee is removed from normal duties with approval of the appointing authority or other authorized supervisor for a period of (30) calendar days or less when considered necessary for proper operation of the agency or welfare of the employee. Periods of discretionary leave with pay that exceed thirty (30) calendar days must be approved by the Commissioner of the Department of Personnel. . . .

Testwork revealed that for the period July 1, 2002, through July 30, 2002, TennCare paid the former Director of TennCare, \$15,913 for 30 days of administrative leave with pay after he resigned his employment with the state. The Director had no accrued annual leave at the time of his termination. However, as a result of the extra 30 days of pay, he was also paid for one day of annual leave, which was accrued during the period he was not working, but was receiving his salary. The former director's annual salary was \$190,956. Although TennCare had a letter signed by the Commissioner of the Department of Finance and Administration granting approval of this paid leave, this leave does not appear to be necessary for proper operation of the Bureau of TennCare or for the welfare of the employee, as required by this policy.

Testwork also revealed TennCare paid the former Assistant Commissioner of Delivery Systems \$16,334 from September 3, 2002, through October 31, 2002, for 60 days of administrative leave after his employment was terminated by the Director of TennCare. At the time he stopped working, he had accrued 52.5 hours of annual leave. He was paid for these hours as well as for two more days of annual leave he accrued during the 60 days he was not working, but was receiving his salary. His annual salary was \$98,004. Although TennCare also had a letter signed by the Commissioner of the Department of Finance and Administration

granting approval of paid leave for 60 days, the Commissioner of the Department of Finance and Administration does not have the authority to grant discretionary leave with pay for periods exceeding 30 days. Again, according to Department of Personnel Policy, leave in excess of 30 days must be approved by the Commissioner of the Department of Personnel. Furthermore, this employee's paid leave does not appear to be necessary for proper operation of the Bureau of TennCare or welfare of the employee, as required by this policy.

The total amount paid for administrative leave, after termination of employment, to the former Director of TennCare and the former Assistant Commissioner for Delivery Systems was \$32,247. Federal questioned costs totaled \$16,124. The remaining \$16,123 was state matching funds.

The approval of administrative leave for former employees, without a justifiable business reason as outlined in the guidelines of the Department of Personnel's policies and procedures, has resulted in unnecessary costs to the state and federal governments.

### **Recommendation**

The Commissioner of the Department of Finance and Administration and the Director of TennCare should ensure that only reasonable and necessary administrative leave is approved.

### **Management's Comment**

We do not concur with the auditor's conclusion that the decisions on administrative leave were not necessary for the proper operation of the Bureau of TennCare. TennCare management and the Commissioner of Finance and Administration made decisions regarding the referenced employment situations based on their knowledge of circumstances and understanding of the impact these circumstances were having on TennCare staff and operations. They took actions believed to be in the best interests of the TennCare program.

We do concur that we failed to obtain the Commissioner of the Department of Personnel's approval for the administrative leave in excess of 30 days for the Assistant Commissioner of Delivery Systems. This was an oversight and every effort will be made to ensure that any such future transactions contain all appropriate approvals.

### **Rebuttal**

As stated in the finding, the payment of administrative leave for these former employees does not appear to be necessary for the proper operation of the Bureau of TennCare.

<b>Finding Number</b>	02-DFA-28
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
<b>Questioned Costs</b>	\$55,718.00

**For the third consecutive year, TennCare did not pay provider claims in a timely manner**

**Finding**

As noted in the prior two audits, the Bureau of TennCare did not pay Medicare crossover provider claims within 6 months after receiving the Medicare claim as required by federal regulations. In addition, the Bureau paid the Department of Children’s Services (Children’s Services), Home and Community Based Waiver (HCBS), and long term care claims over 12 months after receiving the claim. In the audit for the year ended June 30, 2000 management stated:

We do not concur. While it is true that some claims were processed outside of the timelines quoted in the finding, we need to review the claims in question in order to determine the reasons for the delay. Processing can appropriately occur outside of the timelines listed for a variety of reasons. We will review our policies surrounding this to ensure they are appropriate.

Management concurred with the audit finding for the year ended June 30, 2001, stating that they “are reviewing the controls over cross-over claims and will implement necessary changes to ensure compliance with regulations.” However, testwork revealed that the problems still exist.

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Tennessee Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a repeat finding. We recommend 1) procedures be implemented to ensure Medicaid claims are submitted and paid within the time limits contained in Federal regulations and 2) the questioned costs be returned.

The *Code of Federal Regulations*, Title 42 Part 447 Section 45(d), “Timely processing of claims,” states,

(1) The Medicaid agency must require providers to submit all claims no later than 12 months from the date of service (2) The agency must pay 90 percent of all clean claims from practitioners, who are in individual or group practice or who practice in shared health facilities, within 30 days of the date of receipt. (3) The agency must pay 99 percent of all clean claims from practitioners, who are in individual or group practice or who practice in shared health facilities, within 90 days of the date of receipt. (4) The agency must pay all other claims within 12 months of the date of receipt, except in the following circumstances: (i) This time limitation does not apply to retroactive adjustments paid to providers who are reimbursed under a retrospective payment system. . . . (ii) If a claim for payment under Medicare has been filed in a timely manner, the agency may pay a Medicaid claim relating to the same services within 6 months after the agency or the provider receives notice of the disposition of the Medicare claim. (iii) The time limitation does not apply to claims from providers under investigation for fraud or abuse. (iv) The agency may make payments at any time in accordance with a court order, to carry out hearing decisions or agency corrective actions taken to resolve a dispute, or to extend the benefits of a hearing decision, correction action, or other court order to others in the same situation as those directly affected by it.

The Bureau of TennCare pays long-term care, skilled nursing facilities, and Medicare crossover providers directly. The Division of Mental Retardation Services (DMRS) within the Department of Finance and Administration pays providers under the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled (HCBS-MR) waiver. Children's Services providers are paid directly by Children's Services. After paying their providers, DMRS and Children's Services submit their provider claims to the Bureau for reimbursement.

Testwork revealed TennCare paid \$70,796 in claims to crossover providers that were not paid within 6 months of receipt of the claim. In addition, TennCare paid claims more than 12 months after receipt of the claim: \$16,666 in claims to providers for long-term care and \$38 for other fee-for-service claims. Although federal regulations allow certain exceptions beyond the 12-month or 6-month requirement, the claims in question do not fall within the exceptions listed in the CFR.

A total of \$87,500 was paid for claims that were not in compliance with the CFR. Federal questioned costs totaled \$55,718. The remainder of \$31,782 is state matching funds.

### **Recommendation**

The Director of TennCare should ensure that the claims are paid within 12 months of the date of receipt and that Medicare crossover provider claims are paid within 6 months after receiving notice of the disposition of the Medicare claim.

### **Management's Comment**

We concur. We will review our claims editing and payment process and make necessary changes to ensure compliance with federal requirements.

<b>Finding Number</b>	02-DFA-29
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Procurement and Suspension and Debarment
<b>Questioned Costs</b>	\$28,925.00

**TennCare did not comply with purchasing guidelines, used incorrect vendor authorization forms, and used a delegated purchase authority to circumvent the competitive bid process for purchases for legal services**

**Finding**

As noted in the prior-period audit, TennCare made purchases from vendors that did not comply with federal and state regulations. Specifically, these purchases of legal services for agency matters and court actions were not in compliance with the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; Department of Finance and Administration Policy 6, “Payments Under Contract After Closing or Purging of Contract From STARS;” or with the Delegated Purchase Authority (DPA).

Management concurred with the prior audit finding and stated accounts payable staff require vendor authorization forms to be completed and submitted with billings. Also management said that the payment limits in the DPA contracts are being increased. Although management concurred, the issues noted in the prior audit remain.

For the purchases for year ended June 30, 2002, TennCare increased the payment limits. However, as stated below there was a purchase that did not have an authorization to vendor form.

Procurements questioned in this finding were made using DPAs. DPAs are granted to departments by the Commissioner of the Department of Finance and Administration when purchases are small in nature and frequent in occurrence and it is not practical to determine in advance their volume, delivery, or exact costs. DPAs assist departments in expediting the purchasing process. The DPA in effect during the year ended June 30, 2001, was renewed for the year ended June 30, 2002.

Circular A-87 basic guidelines require that purchases “conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items” and “be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other

activities of the governmental unit.” These basic guidelines also require that all costs “be adequately documented.”

Testwork revealed the following conditions:

### **Noncompliance With Basic Purchasing Guidelines**

In a sample of 41 purchases, 34 (83%) did not comply with one or more of the A-87 basic guidelines because the purchases did not comply with state purchasing procedures. Section 6, “Service Provider Selection,” of the DPA states that the “Bureau of TennCare shall retain records to show the basis of each purchase. . . .” Furthermore, Section 12, “Authorization To Vendor,” of the DPA states, “All purchases made pursuant to this authority shall be made by the use of the attached Authorization to Vendor. . . .” All purchases made under the DPA should be sufficiently and adequately supported. The following issues were noted:

Thirty-one of the 41 purchases (76%) were not adequately documented. Specifically, one or more of the following deficiencies were noted:

- No “authorization to vendor” form could be found.
- The “authorization to vendor” form was not signed by a state employee.
- The time sheets of the vendors were not attached, making it impossible to determine compliance with the DPA limits.
- The hours on the vendor’s invoice did not agree with the hours on the vendor’s time sheets.
- It appeared in some cases that there was a possibility that vendor employees could have been billing TennCare for hours the vendor employee was at lunch. A review of the sample items revealed that some vendor employees deducted hours taken for lunch while others did not report any lunch taken.

Two of the 41 purchases (5%) did not conform to all limitations required by the DPA which TennCare used to make these purchases. For example, the total for one purchase exceeded the \$5,000 limit required by the DPA. Another purchase included charges for one or more of the vendor’s employees, which exceeded the \$250-per-day limit required by the DPA.

In addition, the same two purchases were not approved by all appropriate state officials who were party to the original contract agreement as required by Policy 6 of the Department of Finance and Administration, “Levels of Approval Requirements.”

### **Lack of Current Vendor Authorization Forms**

Testwork also revealed that when the DPA was renewed, a new “Authorization to Vendor” form was created, containing new terms of authorization. Terms of authorization are essential in this purchaser-vendor relationship because they represent the binding terms of agreement between the vendor performing the services and the State paying for them. However,

for 37 of 39 current year payments (95%), the prior year's "Authorization to Vendor" form was used for purchases authorized under the DPA in effect for the year ended June 30, 2002.

### **Lack of Evidence of Competitive Bid Process**

Section 6.b. of the DPA states,

Each purchase pursuant to this Delegated Purchase Authority will be made, where practicable, on a competitive basis, taking into consideration price, delivery, availability, quality of work, and experience.

The auditors inquired several times about the methodology or approach used to ensure that purchases from vendors are initiated and compensated on a competitive basis; however, the General Counsel did not provide any evidence that the vendors were obtained on a competitive bid basis.

### **Inappropriate Use of Delegated Purchase Authority**

Testwork revealed that the Bureau of TennCare did not comply with the terms under Section 3 of the DPA, "Justification," which states,

This Delegated Purchase Authority shall be used to obtain the services of and to compensate witnesses, expert advisors, paralegal and legal associates, sheriffs and constables, court clerks, security personnel, and court reporters for services rendered in conjunction with Bureau of TennCare programs. The services purchased are episodic, uniquely transactional, or emergent and it is not possible to determine in advance their volume, delivery, or exact costs. . . .

However, because TennCare compensated several individuals who performed legal services for more than 12 months and up to 36 months, it appears that these services are not episodic, uniquely transactional, or emergent as required under the DPA.

According to OMB Circular A-133, costs that "are not supported by adequate documentation" are questioned costs. The total of the purchases in question above is \$57,850. Of the \$57,850 paid, federal questioned costs are \$28,925. An additional \$28,925 of state matching funds was related to the federal questioned costs. The total amount paid for the sample of 41 purchases was \$185,192. According to data from the State of Tennessee Accounting and Reporting System (STARS), the total amount paid pursuant to the noted DPA was \$2,854,910.

### **Recommendation**

**Note: Except for the new issues noted, this is the same basic recommendation that was made in the previous audit.**

The Director of TennCare should ensure the Chief Financial Officer (CFO) complies with the recommendations noted in this finding. If the CFO does not comply with the recommendations, the Director should find out why. The CFO should ensure that all costs are in compliance with Circular A-87 guidelines and with the terms of the DPA. The CFO should ensure that adequate procedures to detect payments not in compliance with OMB Circular A-87 guidelines are performed during the payment review and approval process. The CFO should ensure TennCare is in compliance with Policy 6 of the Department of Finance and Administration. The CFO should ensure that vendors are informed, and that the DPA includes specific terms stating, that lunch-hour costs should not be billed to TennCare. The CFO should ensure that TennCare uses the correct "Authorization to Vendor" forms. The CFO should use DPAs only for services that are purchased on an episodic, uniquely transactional, or emergent basis. Any other services should be obtained through the state's competitive procurement process. Documentation of the state's competitive procurement process should be maintained and provided to us.

### **Management's Comment**

#### Office of General Counsel

TennCare concurs that all costs should be in compliance with Circular A-87 guidelines. TennCare will ensure that adequate procedures are in place to detect payments not in compliance with OMB Circular A-87 guidelines when performing payment review and approval processes.

Legal Assistants were originally hired in the Office of General Counsel from the DPA because of the sudden increase in work resulting from the *Grier* Revised Consent Decree. Although it was originally the belief of management that the workload as a result of *Grier* would eventually taper off and that DPA staff would no longer be necessary but that has not been the case. The number of cases processed through the Office of General Counsel has increased steadily for two years, resulting in the need for ever increasing staff. *Grier* appeals have increased more than 400% over the last two years. Additionally, as a result of the *Rosen v. Tennessee Commissioner of Finance and Administration* case, workload in the eligibility unit of the Office of General Counsel has increased by at least 400% in appeal volume this year over last and is still climbing due to appeals in the recertification process.

As the need for additional staff has arisen, the Bureau has hired under the DPA for the short term and then tried to work with the Department of Personnel to create positions in which to transition DPA vendors. In the past six months the Office of General Counsel has replaced 21 DPA vendors with full-time state employees. On February 25, 2003, the Office of General Counsel was notified that 20 additional full-time state employee Legal Assistant positions had been approved. The Office of General Counsel is working the state register to fill the 20 positions as soon as possible thus replacing 20 additional contract positions with 20 state employee positions. It is anticipated that all Legal Assistant contract positions in the Office of General Counsel will be eliminated by May 1, 2003.

In the last six months a meeting was held with all DPA vendors to once again explain billing procedures (several meetings/trainings have been held over the past two years). Vendors were informed that "authorization to vendor" forms must be signed by one of three managing attorneys, time sheets must be attached to the vendor forms, the hours on the vendor invoices must be exactly the same as the hours on each time sheet, and that lunch breaks would now be mandatory and all lunch breaks must be reflected as non-paid. At this meeting, procedures for using the OGC time clock, which was instituted in July 2001, were reiterated. On January 23, 2003, an OGC Policy and Procedure, entitled Attendance Policy for On-site Vendors, was revised. This policy was originally drafted on October 1, 2001 and revised March 26, 2002.

On January 21, 2003, the Office of General Counsel was notified by the TennCare Bureau that the authorization to vendor form for this fiscal year had been changed. Upon notification OGC immediately began using the correct forms.

The General Counsel exchanged emails and phone calls with the auditor from October to December 2002, but from the conversations was not aware that the auditor was seeking evidence that legal assistants were hired under a competitive basis. If this had been understood, it would have been explained that it was not practical to go through a competitive process for these services. However, we paid an hourly rate to each legal assistant, taking into consideration price, delivery, availability, quality of work and experience.

The Bureau of TennCare is committed to compliance with all state and federal laws and has worked through the state process to establish permanent positions. With the approval of the additional positions within the various divisions of TennCare, it is expected that the use of the DPA will substantially decrease.

#### TennCare Solutions Unit

The TennCare Solutions Unit (TSU), the Medical Appeals Unit within TennCare also hired staff from the DPA because of the sudden increase in work resulting from the Grier Revised Consent Decree. Since 2001 the number of DPA staff have been reduced from in excess of forty to the current level of ten DPA staff. The reduction has been facilitated by the establishment and hiring of state positions within the TSU to process the medical appeals that continue to date.

The TSU DPA staff always use a time card, complete a weekly time sheet and an Authorization to Vendor form each week. Each DPA staff person is assigned to a full-time state employee for the purposes of supervision. The supervisor is also responsible for signing the DPA employee's time sheet. Copies of the time card, weekly time sheet and Authorization to Vendor forms are retained in the TSU personnel files. There is a designated state employee working under the direction of the Director of the TSU, who is assigned the task of processing these documents for TennCare's Fiscal Services office and maintaining a copy in the TSU files. This same person is also responsible for keying time for the state staff in the TSU. These documents require a supervisory signature for approval prior to submission. In addition, training has been held with all DPA staff and their supervisors to ensure that the documents are completed accurately and completely. Staff working through the DPA contract are required to take a

minimum thirty minute lunch break anytime they work six or more continuous hours and all lunch breaks are required to be reflected on the time sheets. DPA staff is not permitted to work in excess of forty hours weekly. Any discrepancies in time are reported to the Director and fully resolved prior to submission of the documents.

### Member Services

The managers of Member Services and Administrative Appeals documented all contract personnel time. Contract personnel were only paid for time worked and no overtime was allowed. Copies of timesheets are signed by the manager and are kept for our records. Any discrepancies are brought back to the employee to correct. After corrections are made the Authorization to Vendor forms and timesheets are attached and are signed by the employee and manager to be forwarded to OGC for payment.

### Administrative Services

Administrative Services is now monitoring the DPA payments on a weekly basis to ensure that they are properly signed, persons have taken off time for lunch, and that the Divisions are proceeding with replacing contracted legal assistants with State employees.

<b>Finding Number</b>	02-DFA-30
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Procurement and Suspension and Debarment
<b>Questioned Costs</b>	None

**TennCare did not require all contractors and providers to make necessary disclosures concerning suspension and debarment**

**Finding**

As noted in the prior two audits, the Bureau of TennCare has not required all providers of goods and services, and all others involved in nonprocurement transactions with contracts equal to or in excess of \$100,000, to certify their organization and its principals have not been suspended or debarred from a government program.

In a letter of correspondence from the U.S. Department of Health and Human Services (HHS) to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 2000, through June 30, 2001, HHS stated:

This is a repeat finding. We recommend procedures be implemented to ensure suspension and debarment requirements are met.

In response to the prior audit finding, management amended purchasing and HCBS waiver contracts to contain the required certifications. However, testwork revealed that the providers enrolled through TennCare’s Provider Enrollment Unit (PEU) were not required to supply suspension and debarment certifications during the audit period.

According to the Office of Management and Budget “A-133 Compliance Supplement,” which references the *Code of Federal Regulations* (CFR), 45 CFR 76,

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include procurement contracts for goods and services equal to or in excess of \$100,000 and all nonprocurement transactions. . . . Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

The Division of Mental Retardation Services (DMRS) in the Department of Finance and Administration enrolls providers in the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled. However, neither the PEU nor DMRS has policies in place that include federal suspension and debarment requirements. Also, the Bureau's purchasing manual does not include the federal requirements concerning suspension and debarment.

Management concurred in part with the prior audit finding and stated in response that

TennCare's *Purchasing Policy and Procedures* manual contains *The Department of General Services' Agency Purchasing Procedures Manual*, which includes a section on suspension and debarment. Furthermore, the TennCare manual has been amended to add a section on vendor debarment.

In our comment to their response we noted, the referenced section of the *Department of General Services' Agency Purchasing Manual* did not include federal suspension or debarment requirements; it contained requirements pertaining to the state's Qualified Vendor List. Vendors who are on the state's Qualified Vendor List may be suspended or debarred by the federal government. The Tennessee Department of General Services is not responsible for compliance with federal suspension and debarment requirements. Instead, each department must ensure compliance.

The A-133 Compliance Supplement encourages states to have

Official written policy for suspension and debarments that: Contains or references the Federal requirements; prohibits the award of a subaward, covered contract, or any other covered agreement for program administration, goods, services, or any other program purpose with any suspended or debarred party; and requires staff to obtain certifications from entities receiving subawards (contract and subcontract) over \$100,000, certifying that the organization and its principals are not suspended or debarred.

Since the Bureau does not require providers enrolled through the PEU to certify that their organization and its principals have not been suspended or debarred, the Bureau would be less likely to know if it had contracted with suspended or debarred parties. Not having policies that contain all federal requirements increases the chance that federal suspension and debarment requirements are not met.

### **Recommendation**

The Director of TennCare should ensure that providers enrolled through the PEU certify that their organization and its principals have not been suspended or debarred from a government program. TennCare's purchasing manual and the PEU unit's policies and procedures should be amended to include the federal requirements. The Director of TennCare should ensure that DMRS develops policies which include federal requirements.

### **Management's Comment**

We concur. The Bureau attempted to comply with the prior year finding recommendation by requiring contractors certify to us that they were not debarred or suspended. However, a policy was not developed until the current year. The suspension and debarment policy is currently under review and will become effective once approved. Policies for the Provider Enrollment Unit and the Purchasing Manual will be revised to reference or include the approved policy.

The Bureau will work with the Division of Mental Retardation Services to ensure that they also implement a policy to comply with the federal regulations over debarment and suspension procurement practices.

<b>Finding Number</b>	02-DFA-31
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition
<b>Compliance Requirement</b>	Program Income
<b>Questioned Costs</b>	None

**TennCare still needs to improve enrollee premium reporting**

**Finding**

As noted in findings in three previous audits, the “Case file premiums by month” report contained a problem that compromised the reliability of this report. The TennCare Bureau prepares this report each month to track the total premiums billed to enrollees, the total amount remitted by enrollees, and the total amount due from enrollees. Management uses this report to develop premium estimates for financial reporting purposes.

The prior audit finding noted that the column that summarizes “total overdue” from enrollees included balances that management had written off.

Management concurred in part with the prior-year audit finding and took corrective action that resulted in all other issues contained in the prior-year finding not being repeated. Management’s previous comments did not address the issue of write offs being included in the “total overdue” amount.

According to TennCare legal staff and review of a court order dated September 8, 1999:

. . . effective October 27, 1998, the TennCare Bureau forgave all unpaid premium balances that accrued between January 1, 1994, and September 30, 1995, for individuals enrolled as uninsured or uninsurable. . . .

Although discussions with TennCare’s legal counsel confirmed that TennCare should not have any enrollee premium balances for the period January 1, 1994, through September 30, 1995, and although this issue has been noted in previous audits, the report that totals premiums by month again contained outstanding balances for these months. Management still does not have an explanation for the discrepancy in the report. In prior years, management stated that these differences resulted from computer programming errors.

In the current year, management could not give a more definite explanation for these balances. However, the Director of Information Systems stated that he believed that TennCare was not billing enrollees for premiums for the time period January 1, 1994, through September

30, 1995. Although management provided examples of individuals who had premiums written off and were not billed by TennCare, management could not demonstrate that these examples were included in the amounts on the premium reports. Furthermore, management could not explain by the end of fieldwork which enrollees made up the balances on the report for the months in question.

While these balances on the report from January 1994 through September 1995 are not material to the TennCare program or for financial reporting purposes, there is a possibility that TennCare is incorrectly billing enrollees for premiums that should have been written off.

### **Recommendation**

The Director of TennCare should assign specific staff responsibility to determine why there are balances on the premium report for January 1994 through September 1995 and take appropriate action. The Director should ensure that reports used for financial reporting purposes are accurate and do not include amounts for premiums that have been written off. Furthermore, the Director should ensure that enrollees are not billed for premiums that have been written off.

### **Management's Comment**

We concur. Management has requested that Internal Audit perform a review of certain financial reports for accuracy, which will include reports generated for enrollee premiums. This review is underway. Once completed, corrective actions recommended made by the auditors will be implemented to ensure the premium reports are reliable and accurate.

<b>Finding Number</b>	02-DFA-32
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Subrecipient Monitoring
<b>Questioned Costs</b>	None

**TennCare did not comply with the Department of Finance and Administration's Policy 22, Subrecipient Monitoring**

**Finding**

As noted in the previous audit, the bureau did not identify and report its subrecipients to the Department of Finance and Administration (F&A) as required by Policy 22. Policy 22 establishes guidelines for uniform monitoring of subrecipients that receive state and/or federal funds from state departments, agencies, and commissions. The policy requires TennCare to submit an annual monitoring plan to the Division of Resource Development and Support (RDS) in the Department of Finance and Administration for review, comment, and approval by September 30 of each year. This plan should identify all subrecipients to be monitored, describe the risk criteria utilized to select subrecipients for monitoring purposes, identify full-time equivalents dedicated to monitoring activities, and include a sample monitoring guide. TennCare has not prepared and submitted the required plan to identify its subrecipients and document other plan requirements for the audit period.

In addition, TennCare is required to submit an annual report summarizing its monitoring activities to the RDS by October 31 of each year. Per TennCare management, the report was not submitted to the division. Management could not give a reason as to why this report had not been submitted.

Management concurred with the prior-year audit finding and stated that they had assigned an individual the responsibility for coordinating contract monitoring and implemented a process to evaluate each contract to determine those that are subrecipient contracts. During fieldwork, we asked management if they had assigned a person to perform this monitoring. Management indicated that a person had been assigned to perform this task; however, this task was not completed.

Management also stated they would do the following:

- Assign each subrecipient to an appropriate individual for monitoring.
- Submit to the Department of Finance and Administration by February 28, 2002, the monitoring plan with all relevant information.

- Submit the annual report of monitoring activities by October 31 of each year.

However, based on discussion with the Assistant Commissioner of Finance and Administration, none of the above proposed actions have been completed.

Not submitting the required monitoring plan and annual report resulted in inadequate monitoring of subrecipients.

### **Recommendation**

The Director of TennCare should ensure that the required annual monitoring plan is submitted by September 30 of each year and that the plan includes all the required information. Also, the Director should ensure that the annual report summarizing TennCare's monitoring activities is submitted by October 31 of each year. The Director should determine why actions proposed in last year's management's comments have not been completed and take appropriate action.

### **Management's Comment**

We concur. For fiscal year 2002, the monitoring plan was not completed and submitted. However, TennCare did request that Finance and Administration monitor Department of Children's Services contracts for residential treatment, which are funded in part by TennCare, and Graduate Medical Education contracts. Each contract entered into by TennCare, including those identified as subrecipients, are assigned to an individual for monitoring. These individuals are responsible for ensuring that services performed under each contract are done in accordance with contract terms.

The monitoring plan for 2003 was submitted by the September 30, 2002 deadline. In addition, the annual summary of monitoring activities was submitted to Finance and Administration by October 31, 2002.

<b>Finding Number</b>	02-DFA-33
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

**The Bureau's overall compliance with the special terms and conditions of the TennCare program needs improvement**

**Finding**

As noted in the prior three audits, the Bureau of TennCare has not complied with all of the TennCare waiver's Special Terms and Conditions (STCs). There are a total of 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 federal Centers for Medicare and Medicaid Services (CMS) describe in detail the nature, character, and extent of anticipated federal involvement in the TennCare waiver. CMS's approval of the waiver and federal matching contributions are contingent upon the Bureau's compliance with the STCs. A review of the Bureau's controls and procedures to ensure compliance with the STCs indicated that some areas still need improvement.

The STC coordinator did not adequately monitor the STCs of the TennCare waiver. An internal quarterly STC status report prepared by the STC coordinator and used during the prior audit was discontinued for the current year. When we asked management why the quarterly status reports were not continued, management indicated that a number of STCs are monitored through preparation of the Quarterly Progress Reports sent to CMS. Our analysis of the CMS Quarterly Progress Reports revealed that the Bureau included in the report progress relating to the following STCs: 2, 3, 4, 5, 9, 14, 23, 24, and 35. However, there are other applicable STCs that are not reported in the Quarterly Progress Report. New procedures implemented during the audit period included the distribution of a progress file from the STC coordinator to management. A review of the progress file revealed that the status of five STCs was either unknown or not identified by the STC coordinator. The STCs were 7, 11, 12, 29, and 36.

Testwork revealed instances of noncompliance for 3 of 24 applicable STCs. Problems related to STCs 12, 23, and 24 are repeated from the previous audits. Previously reported compliance issues with STCs 1, 3, 9, 19, 20, and 30 were resolved during the audit period. The three STCs that require improvement are as follows:

- STC 12 – *CMS will provide FFP at the applicable federal matching rate for . . . Actual expenditures for providing services to a TennCare enrollee residing in an*

*Institution for Mental Diseases (IMD) for the first 30 days of an inpatient episode, subject to an aggregate annual limit of 60 days.* Testwork revealed that TennCare has not requested information on actual expenditures from the BHOs and continues to use estimated expenditures rather than actual to draw funds. Management concurred with this portion of the prior-year audit finding and stated, “We have reviewed this finding and have directed the BHO to develop a quarterly report listing TennCare members having an institutional confinement/episode of more than 30 days, and/or those meeting or exceeding an aggregate annual limit of 60 days. When the report is developed, it will be run for calendar years of 2000 to date. These reports are due by March 1, 2002. When received, the reports will be used to calculate the correct amounts referenced in the audit findings. This procedure will be used to calculate the correct figures each quarter henceforth.” During fieldwork we asked the Chief Financial Officer, an Assistant Commissioner for the Department of Finance and Administration, the Director of TennCare Partners, and fiscal/budget staff if the reports were being received. However, none of these employees knew if the reports had been requested as stated in the prior year audit finding. Based upon this response it appears that TennCare did not request this information from the BHO as stated in the prior year audit response. The Director of TennCare Partners stated that he would request this information from the BHO.

- *STC 23 – The state must continue to ensure that an adequate MIS is in place and provide evidence of such to CMS upon request. One feature of the system must be to report current enrollment by plan.* Management did not concur with this portion of the prior-year audit finding but stated that “advances in technology have rendered the current TCMIS [TennCare Management Information System] in need of updating and further replacement. . . . TennCare is in the process of releasing an RFP [request for proposal] which will ultimately lead to the replacement of the current TCMIS with a state of the art system. . . . The new TCMIS will replace the current system and will include features that will provide extensive and enhanced reports on enrollment by plan to CMS. We desire improvement; however, proper redesign, procurement, and implementation of a replacement system takes a significant amount of time. Delivery in 2003 is appropriate.” According to the Director of Information Systems, the RFP was released on April 22, 2002. According to Information Systems (IS) staff, a new TCMIS to be implemented in 2003 is a top project for the Bureau of TennCare.
- *STC 24 – The State must continue to assure that its eligibility determinations are accurate.* Management concurred with the prior audit finding and stated, “The Bureau of TennCare began the Reverification process by mailing out initial reverification notices to approximately 10,000 enrollees. . . . By March 2002, the Bureau expects to be mailing out approximately 40,000 initial notices per month.” However, implementation of management’s plan was delayed. TennCare began the reverification process in December 2001, and mailed 10,000 reverification notices. However, in March 2002, only 25,000 reverification notices were mailed. No other reverification notices were issued during the audit period. However, significant progress did occur after the audit period. According to TennCare records, during the months of July, August, September, and October of 2002, TennCare mailed over

372,000 reverification notices, which included over 577,000 TennCare uninsured and uninsurable enrollees. As of October 19, 2002, TennCare had terminated 35,150 individuals found to be ineligible for the TennCare program through the reverification process. Furthermore, as of November 2, 2002, the Bureau has terminated almost 87,000 enrollees for not responding to the reverification requests. In addition, there were other internal control weaknesses with TennCare eligibility. (See finding 02-DFA-10.)

### **Recommendation**

The Director of TennCare should ensure overall compliance with the Special Terms and Conditions of the TennCare waiver. The STC coordinator should include the status of all STCs in the progress file that is sent to management. The Director should continue to communicate with the STC coordinator and other designated monitoring officials to guarantee compliance with the Special Terms and Conditions.

The Director should ensure that the requested reports are received from the BHOs and used to determine actual expenditures for services to enrollees residing in an IMD. The Director should ensure timely development of the new TCMIS. The Director should ensure that all TennCare enrollee's eligibility is reverified every 12 months and that internal control over eligibility is adequate.

### **Management's Comment**

We concur. The responsibility for coordination of the Special Terms and Conditions (STC) was reassigned in October 2002. The Bureau had attempted to incorporate STC reporting into the quarterly report submitted to CMS. However, the internal quarterly status report on STCs alone has been reinstated effective for the January-March 2003 quarter.

In addition, we want to point out that we operated under two sets of STCs in state fiscal year 2002. From July through the end of January, we were under the "old" STCs. Beginning in February, we began a one-year extension of the TennCare waiver, which was sometimes referred to as "TennCare II." The STCs were slightly different. Beginning in July 2003, we started a new TennCare waiver, which involved another set of STCs.

STC 12 – We concur. TennCare is currently reviewing reports of enrollees in Institutions of Mental Disease that were prepared by the Department of Mental Health and Developmental Disabilities (DMHDD). DMHDD worked with the Behavioral Health Organizations to develop the report format and recently submitted reports for 1997-2001 to the Bureau for analysis. Another report for the first 6 months of 2002 is in progress and will be submitted to TennCare in February 2003. Once the Bureau's analysis is complete, appropriate adjustments will be made to expenditures and federal draw amounts. In addition, DMHDD will run the report quarterly and will submit it to the Bureau at least 6 months past the end of each quarter. This timeframe will ensure the reliability of the data contained in the report.

STC 23 – We concur. TennCare has awarded a contract for development, implementation, and maintenance of an efficient and modern management information system. The new system has been designed and is actively in development. Initial testing is to begin by or before April 2003 and full implementation is to take place by October 2003. The new system is expected to rectify system-related issues specified in past audit findings and will allow for vastly improved processing, reporting, and fraud detection.

STC 24 – We concur that the mailing of reverification notices stopped in April 2002. The reason for this change in the reverification process was that a transition from the Department of Health to the Department of Human Services (DHS) was taking place during this time. Effective July 1, 2002, eligibility determination functions were moved to DHS with the exception of presumptive eligibility for pregnant women and women with breast or cervical cancer; these eligibility functions remained in the health department. The number of reverification notices mailed after July 1, 2002, was considerable, as the auditor’s report indicates.

<b>Finding Number</b>	02-DFA-34
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	\$2,241.00

**For the fourth consecutive year, internal control over provider eligibility and enrollment was not adequate to ensure compliance with Medicaid provider regulations**

**Finding**

As noted in the three previous audits, the TennCare program still did not have adequate internal control for provider eligibility and enrollment to ensure compliance with Medicaid provider regulations. Management partially concurred with the prior audit finding and corrected three issues concerning the following:

- TennCare’s contract with the Department of Children’s Services (Children’s Services) requiring Children’s Services to comply with Medicaid provider rules and regulations;
- TennCare’s providing the Division of Mental Retardation Services (DMRS) with the Medicaid provider rules and regulations that DMRS should follow; and
- TennCare’s maintaining documentation that the providers for all long-term care facilities (LTCF) met the prescribed health and safety standards.

However, the current audit revealed that TennCare still had the following internal control weaknesses and noncompliance issues that were noted in the previous audit:

- the licensure status of Medicare crossover, managed care organization (MCO), and behavioral health organization (BHO) providers was not reverified after the providers were enrolled;
- TennCare did not monitor the enrollment of Medicaid providers at Children’s Services and DMRS;
- provider agreements did not comply with all applicable federal requirements;
- departmental rules were not followed; and
- not all providers had a provider agreement, as required.

Responsibility for TennCare provider eligibility and enrollment is divided among the Provider Enrollment Unit in the Division of Provider Services and the Pharmacy Program in the Division of Pharmacy, both in the Bureau of TennCare; the Division of Resource Management in Children's Services; and the East, Middle, and West Tennessee regional offices in DMRS.

The Provider Enrollment Unit is responsible for enrolling MCO and BHO providers; Medicare crossover individual and group providers (providers whose claims are partially paid by both Medicare and Medicaid/TennCare); and long-term care facilities, which include skilled nursing facilities and intermediate care facilities. The Pharmacy Program is responsible for the eligibility of the providers that provide drugs to individuals who are both Medicare and Medicaid eligible and that provide behavioral health drugs to TennCare enrollees.

Children's Services is responsible for the eligibility of the providers it pays to provide Medicaid-covered services to eligible children. DMRS is responsible for the eligibility of the providers it pays to provide services under the Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled program. (DMRS is responsible for the daily operations of this Medicaid program.) TennCare reimburses Children's Services and DMRS for payments to these providers.

#### Provider Licensure Not Reverified

In response to the prior-year finding, management stated, "The Provider Enrollment unit has developed procedures for reverifying the licensure renewal for providers participating in the Medicaid Program. The implementation of this new program will ensure providers participating in the program maintain a valid license. However, the implementation of the license reverification program is pending for mainframe system modifications and the hiring of three new staff members." Although the system modifications were made and the procedures developed, new staff positions have not been obtained; therefore, the positions cannot be filled. Testwork revealed that for 38 of 50 crossover providers tested (76%), there was no evidence in the TennCare Management Information System that the provider's license had been reverified. This appears to have occurred because, without the needed staff, the reverification process has not been fully implemented or performed on a continuous basis.

Testwork also revealed that the Pharmacy Program does not perform an initial verification or a reverification of pharmacy provider licenses. Although the Department of Commerce and Insurance has a Web site available to verify that a pharmacy has a license, the TennCare Pharmacy Program staff does not use the site for verification.

Because of the lack of reverification of providers, the Provider Enrollment Unit and the Pharmacy Program cannot ensure that only licensed providers are enrolled in the TennCare program as required. The *Rules of the Tennessee Department of Finance and Administration*, Section 1200-13-1-.05, "Providers," states 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."

## Children's Services and DMRS Did Not Always Comply With Medicaid Provider Rules and Regulations

Testwork revealed TennCare did not monitor the enrollment of Medicaid providers at Children's Services. On behalf of TennCare, the Division of Resource Development and Support (RDS) in the Department of Finance and Administration (F&A) performed fiscal monitoring procedures at Children's Services during the year ended June 30, 2002. At that time, RDS verified that providers had a current license. However, TennCare did not require RDS to examine Children's Services' provider agreements to ensure compliance with the Medicaid regulations discussed below.

Testwork revealed that Children's Services and DMRS did not always comply with Medicaid provider rules and regulations governing requirements of the provider agreements. Children's Services and DMRS did not comply with criteria (3) of the *Code of Federal Regulations* (CFR), Title 42 Part 431 Section 107, "Required Provider Agreement," and Children's Services did not comply with criteria 4 and DMRS did not comply with criteria 4 and 6 of the *Rules of the Tennessee Department of Finance and Administration*, 1200-13-1-.05, "Providers."

Section 4.13(a) of the Tennessee Medicaid State Plan says, "With respect to agreements between the Medicaid agency and each provider furnishing services under the plan, for all providers, the requirements of 42 CFR 431.107 . . . are met." Also, 42 CFR 431.107 (b)(1)(2)(3) 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 paragraph (b)(1) of this section 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 of this chapter.

The *Rules of the Tennessee Department of Finance and Administration*, Section 1200-13-1-.05 (1)(a), "Providers," states,

Participation in the Medicaid program will be limited to providers who

1. Accept, as payment in full, the amounts paid by Medicaid or paid in lieu of Medicaid by a third party . . . ;
2. Maintain Tennessee, or the State in which they practice, medical licenses and/or certifications as required by their practice;
3. Are not under a federal Drug Enforcement Agency (DEA) restriction of their prescribing and/or dispensing certification for scheduled drugs. . . ;
4. Agree to maintain and provide access to Medicaid and/or its agency all Medicaid recipient medical records for five (5) years from the date of service or upon written authorization from Medicaid following an audit, whichever is shorter;
5. Provide

medical assistance at or above recognized standards of practice; and 6. Comply with all contractual terms and Medicaid policies as outlined in federal and state rules and regulations and Medicaid provider manuals and bulletins.

#### Provider Agreements Not Adequate

In response to the prior finding, management stated, “The Provider Enrollment unit developed and implemented the use of a new Provider Participation Agreement form and revised the current Provider Enrollment application to comply with the requirements of 42 CFR 431.107. We implemented the use of these new forms in October 2001. Each provider must complete these forms to enroll and participate in the Medicaid Program.” However, these forms are only completed for new enrollees enrolling with the Provider Enrollment Unit after September 31, 2001. Therefore, the Children’s Services, DMRS, and Pharmacy Program provider agreements did not comply with federal requirements. Testwork performed on the Children’s Services, DMRS, and Pharmacy Program provider agreements noted that these agreements did not disclose ownership and control information and information on a provider’s owners and other persons convicted of criminal offenses against Medicare or Medicaid, as required by 42 CFR 455 subpart B.

In addition, TennCare’s agreements for individual crossover, MCO, and BHO providers enrolled prior to October 1, 2001, did not require providers to

- keep any records necessary to disclose the extent of services the provider furnishes to recipients;
- furnish to the Medicaid agency, the secretary, or the state Medicaid fraud control unit information required in 42 CFR 431.107; and
- disclose ownership and control information and information on a provider’s owners and other persons convicted of criminal offenses against Medicare or Medicaid.

Furthermore, TennCare’s agreements with group crossover providers enrolled prior to October 1, 2001, did not require providers to

- keep any records necessary to disclose the extent of services the provider furnishes to recipients; and
- furnish to the Medicaid agency, the secretary, or the state Medicaid fraud control unit information required in 42 CFR 431.107.

#### Departmental Rules Not Followed

The TennCare Provider Enrollment Unit, Children’s Services, DMRS, and the Pharmacy Program did not limit participation to providers that complied with the *Rules of the Tennessee Department of Finance and Administration*, Section 1200-13-1-.05 (1)(a), “Providers.”

Testwork revealed that the TennCare Provider Enrollment Unit did not require Medicare crossover, MCO, and BHO providers that enrolled prior to October 1, 2001, to

- accept, as payment in full, the amounts paid by Medicaid or paid in lieu of Medicaid by a third party;
- not be under a federal Drug Enforcement Agency (DEA) restriction of their prescribing and/or dispensing certification for scheduled drugs;
- maintain and provide Medicaid and/or its agency access to all Medicaid recipient medical records for five years from the date of service or upon written authorization from Medicaid following an audit, whichever is shorter;
- provide medical assistance at or above recognized standards of practice; and
- comply with all contractual terms and Medicaid policies as outlined in federal and state rules and regulations and Medicaid provider manuals and bulletins.

Children’s Services did not require providers to

- maintain and provide Medicaid and/or its agency access to all Medicaid recipient medical records for five years from the date of service or upon written authorization from Medicaid following an audit, whichever is shorter.

DMRS did not require providers to

- maintain and provide Medicaid and/or its agency access to all Medicaid recipient medical records for five years from the date of service or upon written authorization from Medicaid following an audit, whichever is shorter; and
- comply with all contractual terms and Medicaid policies as outlined in federal and state rules and regulations and Medicaid provider manuals and bulletins.

The Pharmacy Program did not require providers to

- not be under a federal DEA restriction of their prescribing and/or dispensing certification for scheduled drugs; and
- provide medical assistance at or above recognized standards of practice.

#### TennCare Did Not Have Documentation That All Providers Had an Agreement

In response to the prior finding, management stated, “To ensure all intermediate care and skilled nursing facilities’ provider files contain the appropriate forms and agreements, the reviewer must complete an enrollment checklist. We currently depend on HCF [Health Care Facilities in the Department of Health] to notify our office of nursing home facilities needing new contracts. However, we are currently working with the IS [Information Systems] unit on system modifications to track all LTCF recertification due dates and to generate monthly reports to alert staff of upcoming contract termination dates.” Although the system modifications have been made, the Provider Enrollment Unit is not receiving the monthly reports. Also, even though the use of an enrollment checklist has been implemented, not all providers had an agreement in their file.

A sample of payments to intermediate care facilities and skilled nursing facilities was tested to determine if TennCare had documentation that the provider met the prescribed health and safety standards and that a provider agreement was on file for the dates of services for which each payment was made. Intermediate care facilities and skilled nursing facilities are long-term care providers. Each time the Board for Licensing Health Care Facilities recertifies a long-term care provider, it sends TennCare a Certification and Transmittal Form, and TennCare issues a new provider agreement to the long-term care provider for the certification period. As mentioned above, the State Plan and 42 CFR 431.107 require that providers have a provider agreement.

For one of 60 payments to intermediate care facilities tested (2%), TennCare did not have a provider agreement. The total amount of errors noted above was \$2,612. Federal questioned costs totaled \$1,663. An additional \$949 of state matching funds was related to the federal questioned costs. We believe that likely questioned costs would exceed \$10,000. For one of 60 payments to skilled nursing facilities tested (2%), TennCare did not have a provider agreement. The total amount of errors noted above was \$908. Federal questioned costs totaled \$578. An additional \$330 of state matching funds was related to the federal questioned costs. We believe that likely questioned costs would exceed \$10,000. However, after testwork was performed, the provider agreements were negotiated with the providers to correct the errors. TennCare paid approximately \$923 million to intermediate care facilities and \$104 million to skilled nursing facilities for the year ended June 30, 2002.

TennCare contracts with Consultec, LLC (Consultec), to pay claims on a fee-for-service basis to providers for individuals who are both Medicare and Medicaid eligible as well as for behavioral health drugs for TennCare enrollees. Consultec pays the claims submitted by the Pharmacy Program providers, and then TennCare reimburses Consultec for the cost of the claims paid. A sample of payments to Consultec was tested to determine if the pharmacy was licensed and that a provider agreement was on file for the dates of services for which each payment was made. Testwork revealed that 25 of 25 agreements tested (100%), were signed by the providers, but not by the Bureau of TennCare. The Pharmacy Participation Agreement, Section 9.5, "Application of Pharmacy," states, "This signing of this Agreement by Pharmacy shall constitute an offer only, unless and until it is executed by TennCare in the State of Tennessee." The agreements are not considered executed without containing all proper signatures. TennCare reimbursed approximately \$851 million to Consultec for claims for the year ended June 30, 2002.

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

### **Recommendation**

**Note: This is the same basic recommendation, for the remaining uncorrected issues, that has been made in the prior three audits.**

The Director of TennCare should ensure that adequate internal control exists for determining and maintaining provider eligibility. The Director should ensure that procedures are implemented to reverify licensure and to prevent future payments to non-licensed providers.

The Director should ensure that a knowledgeable staff monitors the enrollment of Medicaid providers at Children's Services and DMRS. Management and staff should ensure the Bureau of TennCare, Children's Services, and DMRS comply with all Medicaid federal and state provider rules and regulations. The provider agreements should be revised to comply with the State Plan and the *Code of Federal Regulations*. Participation should be limited to providers that meet the requirements of the departmental rules. Management should ensure that all Medicaid/TennCare providers have a provider agreement, the agreement is signed by the appropriate parties, and providers are otherwise properly enrolled before they are allowed to participate in the program.

### **Management's Comment**

#### **Provider Licensure Not Reverified**

##### **Provider Enrollment Unit**

We partially concur. As stated in the finding above, the Provider Enrollment Unit (PEU) verifies the license on all new providers enrolling in the TennCare program. In addition, in early 2002, the PEU implemented procedures to reverify licenses of active TennCare providers, which are those currently billing TennCare for crossover claims. During 2002, PEU reverified the license renewals of over 6,000 (90%) providers currently participating in the TennCare program. Active TennCare providers were determined by using the 2001 provider payment report and/or the IRS 1099 reports. During this reverification effort, only one provider was identified that had not renewed his license; this issue was subsequently resolved as the provider was in the process of renewing it.

Because provider licenses are renewed biennially, PEU will reverify license renewal for active providers every other year. During 2003, the reports mentioned above will again be used to identify active providers. With the current staffing levels and the huge number of registered providers, it is not possible to implement a full reverification program for all providers in the system. We believe that reverification of the active providers fulfills the requirement of the Rules since these are the providers participating in the program.

##### **TennCare Pharmacy Unit**

We concur. The TennCare Pharmacy Unit will begin a process of reviewing all pharmacy provider agreements to assure the pharmacy providers' licenses are current. For all new providers, this review is performed before their participation is approved.

## Children's Services and DMRS Did Not Always Comply With Medicaid Provider Rules and Regulations

### **Children's Services issues**

We concur. TennCare will immediately request monitoring of Children's Services provider agreements by the Program Accountability Review section of the Department of Finance and Administration. We will request that the monitors confirm compliance with the required Medicaid provider rules and regulations regarding provider agreements.

### **TennCare Division of Long Term Care (TDLTC)- DMRS issues**

We do concur that DMRS was not compliant with all Medicaid Provider rules and regulations. Following last year's audit, DMRS was advised of their responsibility to maintain compliance with all state and federal Medicaid rules, regulations and policies related to providers. A suspension/debarment policy has been drafted. The draft policy has been forwarded to DMRS management staff with instructions to prepare for implementation of the policy. The final policy will be forwarded when available. Specific language related to suspension/debarment was included in the FY 2002 and FY 2003 contracts between TennCare and DMRS at D.5.d.

The contract between DMRS and TennCare was revised for FY 2002 and FY 2003 to be inclusive of specific requirements for maintenance of records. The contract contains language requiring DMRS to comply with state and federal rules and regulations and TennCare policies and procedures as well. TennCare and DMRS continue to work together to ensure compliance with the contract and with State and Federal requirements for the waiver program. Throughout the past year, numerous meetings were held between TennCare and DMRS to work through compliance issues. Weekly meetings between DMRS, TennCare and the Commissioner of Finance and Administration were initiated in February 2003. Monthly steering committee meetings between TennCare and DMRS central office staff were initiated in March 2003 for the purpose of monitoring the progress of corrective actions and discussing compliance and other programmatic issues.

### Provider Agreements Not Adequate Departmental Rules Not Followed

### **Provider Enrollment Unit**

The Provider Enrollment Unit developed and implemented the use of a new Provider Participation Agreement form and revised the current Provider Enrollment application to comply with the requirements of CFR-431.107. PEU implemented the use of these new forms in October 2001 and effective with the implementation date all providers enrolling in TennCare Medicaid must complete the new forms. With respect to providers enrolled before October 2001, PEU will use the 2002 provider payment report and/or the IRS 1099 report to identify providers that are actively participating in the TennCare program. All providers identified as

currently participating in the TennCare program and enrolled before October 2001 will be notified and requested to complete the new agreement.

With the current staffing limitations and the huge number of providers registered, it is not possible to obtain new agreements on both active and inactive providers. We believe that obtaining new agreements on active providers fulfills the requirements of the Rules since these are the providers participating in the TennCare program.

## **TDLTC**

We concur for the audit period; however, the finding has been corrected. The FY 2002 DMRS provider agreements were revised to add suspension/debarment language. The FY 2003 provider agreements were revised to add disclosure of ownership and control.

## **TennCare Pharmacy Unit**

We concur. TennCare's Pharmacy Unit will soon be issuing amendments to the current Pharmacy Participation Agreement that will include requirements for compliance with the Tennessee state plan, 42 CFR 431.107, 42 CFR 455 subpart B and Section 1200-13-1-.05(1)(a), as appropriate. The new amendments of the agreement will also change the language in Section 9.5 to be more consistent with other TennCare provider agreements in that it will not require signature by the state, only the provider.

The TennCare Pharmacy Unit will begin a process of reviewing all pharmacy provider agreements to assure the pharmacy providers' licenses are in order. All new providers will have this review performed before their participation is approved.

## **Children's Services**

We concur. We will work with Children's Services to revise the current provider agreements to ensure that all federal requirements are included. Also, as stated above, we will request that the monitors confirm compliance with the required Medicaid provider rules and regulations regarding provider agreements.

## **TennCare Did Not Have Documentation That All Providers Had Agreements**

### **Provider Enrollment Unit**

We concur. The provider agreement referenced in the finding was obtained and on file for the new owners; however, due to the facility's change of ownership, the effective date of the new ownership was not clearly communicated to TennCare PEU. We contacted Health Care Facilities regarding the error on the Certification and Transmittal (C&T) Form and requested a corrected copy. The facility received and signed a new agreement.

To ensure all intermediate care skilled nursing facilities provider files contain the appropriate forms and agreements; the reviewer must complete a checklist and verify the C&T effective dates. In addition, all provider agreement contracts will be reviewed to verify any lapses in coverage dates.

**TennCare Pharmacy Unit**

See comments above regarding pharmacy provider agreements.

<b>Finding Number</b>	02-DFA-35
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness and Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

**For the fourth consecutive year, TennCare did not comply with federal regulations and the Tennessee Medicaid State Plan concerning unnecessary utilization of care and services and suspected fraud**

**Finding**

As noted in the previous three audits, the Bureau of TennCare still has not complied with federal regulations and the Tennessee Medicaid State Plan concerning unnecessary utilization of care and services and suspected fraud for areas of the program that are still under the fee-for-service arrangement. Management concurred with the prior-year finding and stated,

. . . Significant steps have been taken toward implementing a Post-payment review process for LTC [long-term care] waiver programs. . . . Two nurse auditors from the Comptroller's office have been reassigned to TDLTC [the TennCare Division of Long-Term Care] and are being trained to review records for HCBS [Home and Community Based Services] Waiver programs. . . . These nurses began formal record reviews in November 2001. A process for post-payment reviews for the MR [Mentally Retarded] Waiver program is being developed first, due to the need to develop such process for compliance with the MR Waiver Corrective Plan. The process developed will then be modified and implemented for other LTC waiver programs.

The nurses performed one limited post-payment review, consisting of a sample size of 40, on the HCBS Waiver for the Mentally Retarded and Developmentally Disabled. Per discussion with the Director of Long-Term Care, no other reviews were performed on the HCBS Waiver claims or LTC facility claims. She also stated that because TennCare has been unable to hire staff to perform post payment reviews, it plans to contract with an outside vendor to perform these reviews. However, TennCare did not use an outside vendor during the audit period, nor did TennCare have other procedures in place for the ongoing post-payment reviews for the HCBS Waiver or LTC services. The Director of Long-Term Care was not aware of any formal cost/benefit analysis performed to arrive at the outsourcing decision.

In addition in its comments from the prior audit, management stated,

With respect to fraud and abuse, a new process will require the respective programs and the TennCare Quality Oversight and Program Fraud organizations to work together to assure the finding is addressed. The Bureau will develop a plan to address this issue in collaboration with Program Fraud organizations.

For the past three audits, management's comments have basically remained the same stating that they would address changes in the program and develop a plan to address utilization of care and suspected fraud in the areas of the program that were still on a fee-for-service basis. In the audit report for the year ended June 30, 2001, we reported that TennCare had begun developing, but did not complete a comprehensive plan to address these requirements.

Finally, during the audit for the year ended June 30, 2002, discussions with management revealed that a new committee called PRIQ, consisting of members from the Provider Network, Provider Relations, Program Integrity, and Quality Oversight, was formed to address issues of fraud, abuse, complaints, and audit findings. The committee conducted its first formal meeting in February 2002 and now meets monthly. The group focuses primarily on providers for which complaints have been received. Formal written procedures were developed in October 2002, after the end of the audit period.

Although the state is operating under a waiver from the federal Centers for Medicare and Medicaid Services (CMS) to implement a managed care demonstration project, more and more services are being paid on a fee-for-service basis. This is occurring because the state has decided to shift the burden of high cost/high risk groups from the managed care organizations to the state. Services provided on a fee-for-service basis include: services provided in the long-term care facilities, services provided to children in the state's custody, services provided under the Medicaid Home and Community Based Services Waiver for the Mentally Retarded and Developmentally Disabled, services provided to enrollees who are both TennCare and Medicare recipients (Medicare cross-over claims), services provided to TennCare Select enrollees, and pharmacy claims for individuals that are recipients of TennCare and Medicare. Discussions with key TennCare management during the current audit and in the previous audits 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," except for the one post-payment review performed for the HCBS waiver during the audit period; 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.

These same conditions existed during the three preceding audits.

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, in 1992 the State Medicaid Agency told the federal grantor in the Tennessee Medicaid State Plan,

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 that during the audit period, there was no statewide program of surveillance and utilization control. This condition has existed during the previous three audit periods.

An example of an area needing utilization review is TennCare's pharmacy program. During testwork we noted an enrollee who averaged more than 40 prescriptions a month and two enrollees for whom TennCare paid over \$100,000 each for drugs for the year ended June 30, 2002. While all or some portion of these billings may be appropriate, the lack of procedures to identify enrollees with possible excessive use and investigate these billings could cause TennCare to be incurring costs for drugs that are not needed by the enrollee.

Although much of the TennCare program operates differently than the former Medicaid fee-for-service program, for areas that still operate under the Medicaid fee-for-service program, effort is needed in the form of program-wide surveillance and utilization control and identification of suspected fraud, to help ensure that state and federal funds are used only for valid medical assistance payments.

### **Recommendation**

**Note: This is the same basic recommendation we have made for the three consecutive prior audits.**

The Director of TennCare should ensure development of the comprehensive plan for utilization control and identification of fraud for all areas of the program that are fee-for-service

based. When the plan is completed, the Director should ensure that it is implemented promptly. The Director should ensure that procedures are performed to identify and investigate enrollees who might be receiving excessive prescriptions.

### **Management's Comment**

#### **Program Integrity Unit and PRIQ Group**

We concur. As stated in the finding, the PRIQ team meetings began in February 2002 and continue on a bi-monthly basis. This group focuses on complying with federal regulations and the state plan regarding unnecessary utilization of care and services and suspected fraud for fee-for-service areas of the program by providing opportunities to discuss trends identified in provider behavior which appear outside the norm. These meetings have resulted in some case referrals to the Program Integrity Unit (PIU), which performs investigations as indicated by circumstances of each case. Referrals are also received by the PIU from other sources, including mail, fax, hotline calls and the Fraud and Abuse web-site. A representative from the Long Term Care Division has been asked to join the PRIQ group at the next meeting in March 2003.

PIU also meets with representatives of Health Related Boards (HRB) and the Tennessee Bureau of Investigation (TBI) Medicaid Fraud Unit on a regular basis regarding allegations of potential provider abuse of the TennCare program. These meetings have resulted in referrals to the PIU for validation of allegations. If an allegation is validated, the case is referred to TBI and/or HRB for further action on licensure or prosecution.

The PIU has actively participated in the development of the Fraud and Abuse program in the replacement TCMIS, which is being designed. This program will allow the PIU to perform statistical analysis and peer review reports and identify outliers (both enrollees and providers) in addition to other fraud and abuse monitoring activities. Both on-demand reports and targeted queries have been developed for the new system, which will assist Program Integrity in initiating investigations in a timely manner and will allow for movement towards more proactive investigations.

#### **TennCare Division of Long-Term Care**

We partially concur. The TennCare Division of Long Term Care (TDLTC) has had difficulties recruiting and retaining staff in the Quality Monitoring (QM) Unit. Resources were stretched in training new QM staff, given the fact that there was only one existing staff member with QM experience. TDLTC did get two nurse auditors on loan from the Comptroller's Office to assist with QM functions. However, one of these nurses has since retired and the position has been abolished. TDLTC continues to attempt to fill vacant positions within the QM Unit. Although outsourcing had been planned for this unit because of the inability to adequately staff it, the current fiscal environment may not allow this flexibility.

A tool was developed for the two nurses to review approximately 40 records. The review process took longer than anticipated due to the training needs of the reviewers, the complexity of

the program, the volume of records involved, and the need for the reviewers to assist the Comptroller's Office with some special audits. The reviews are now completed and draft handwritten findings have been submitted to the TDLTC director. There have been insufficient staff (given the volume of work) available within TDLTC to compile these findings into an acceptable report.

TDLTC and the Division of Mental Retardation Services (DMRS) are currently working with the Centers for Medicare and Medicaid Services (CMS) technical assistance consultants to develop a comprehensive quality assurance system. Staff from TDLTC and DMRS is meeting regularly with and without representatives from the CMS consultant group to complete this project. A technical assistance contract has been developed, a draft initial report has been issued, and a work plan with time frames has been developed. Utilization review will be a part of the comprehensive quality assurance program. Utilization Review is noted in the Infrastructure Development and Corrective Action Plan.

In addition, DMRS is currently testing a Utilization Review tool for select services. The tool is being tested in reviewing randomly selected files of 25 individuals receiving behavior services and 25 individuals receiving therapy or nutrition services through the Arlington Waiver. The results will be available in late March 2003. This tool/process will be evaluated for use in both waiver programs.

## **Pharmacy**

We concur. TennCare has developed a Request for Proposal (RFP) to secure the services of a vendor that could perform fraud, waste and abuse audits of pharmacy claims data. This vendor would be required to perform computer audits, desk audits and onsite audits of every pharmacy provider every year. This audit process will identify waste, fraud and abuse in both the provider community (pharmacists and physicians) and among enrollees. This contractor would work closely with TennCare, the TBI and the TennCare Program Integrity Unit to share and integrate information regarding overuse or abuse of the pharmacy program. If the funds become available, this RFP will be released, evaluated and a contract awarded this calendar year. TennCare has announced its intention to develop a single statewide drug formulary and the fraud/abuse contractor will be able to more easily monitor all of TennCare's pharmacy expenditures when that occurs.

## **Auditor's Comment**

Regarding the comments by the TennCare Division of Long-Term Care, it is not clear from management's comments with which part(s) of the finding management does not concur.

<b>Finding Number</b>	02-DFA-36
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**The TennCare Management Information System lacks the necessary flexibility and internal control**

**Finding**

As noted in four previous audits, 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 \$6.2 billion federal/state health care reform program effectively and efficiently. Management partially concurred with the prior finding and indicated it has begun preparations for implementing a new TennCare Management Information System. Management also stated that the "current work schedule calls for the RFP to be released on February 28, 2002." According to the Director of Information Systems, the RFP was released on April 22, 2002. According to Information Systems (IS) staff, the implementation of a new TCMIS is to occur in 2003 and is a top project for the Bureau of TennCare.

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 organization, behavioral health organizations, and the state's nursing homes rather than developing and enhancing internal control of the system. This has contributed to a number of other findings in this report.

**Recommendation**

The Director of TennCare should continue to 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 system's internal control to prevent or recover erroneous payments. TennCare should ensure that an updated system is implemented timely that more effectively supports TennCare's operations.

## **Management's Comment**

We concur. TennCare Information Systems contracted with EDS to design, test, implement, and maintain a modern, efficient replacement TennCare Management Information System (TCMIS). The new TCMIS, which is scheduled to become fully operational by October 2003, will be a highly sophisticated, feature-rich system centered on a strong, Medicaid-specific relational data model which divides the application into components so that they process on different networked computers, leveraging the true power of client/server architecture.

The new TennCare system will employ modern graphic capabilities and native Windows-based features that only a true graphical user interface (GUI) can provide. Features such as pull-down menus, tabs, and buttons will be programmed for users in each individual application. These features will simplify the windows' uses and reduce the learning curve for new users, which is a significant concern in the new system.

The new TCMIS will be based on a true client/server design utilizing industry-leading Sun servers. The applications will take advantage of the client/server platform capabilities that yield such benefits as concurrent processing and load balancing in a readily scalable environment.

Preliminary testing on the new system indicates that it will effectively solve the shortcomings evident in the current system. The new system will provide for all current functionality plus additional enhanced reporting, tracking, and fraud detection capabilities. This new system will have a vastly superior database as a foundation, which will allow for more expeditious access to any necessary information.

Access to information will be one of the strengths of the new TCMIS. The new system will employ a standard Structured Query Language (SQL) data access methodology. The online application will allow users to query key information using multiple parameters, which will bring extensive flexibility from online information access to users.

The new TCMIS will feature Sun Microsystems servers running Sun Solaris UNIX with server applications coded in ANSI Standard C. Other functions and servers that support the various TCMIS functions will connect off this solid foundation.

In the interim, TennCare has implemented various financial ad-hoc monitoring reports for both the fiscal and program integrity units.

<b>Finding Number</b>	02-DFA-37
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Material Weakness
<b>Compliance Requirement</b>	Other
<b>Questioned Costs</b>	None

**Management has misrepresented the corrective action taken regarding controls over access to the TennCare Management Information System**

**Finding**

As noted in the four previous audits, 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 ensuring, but did not ensure that, adequate TennCare Management Information System (TCMIS) access controls were in place during 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 are critical to the integrity and performance of the TennCare program. Good security controls provide access to data and transaction screens on 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.

**Justification Forms Not Obtained for Existing Users**

The lack of authorization forms was first reported in an audit finding for the year ended June 30, 1998. Management then responded that a new security authorization form was being developed. However, in the audit report for the year ended June 30, 1999, we reported that system users still did not have authorization forms. In response to that finding management responded that action had been taken in July 1999 to resolve the issue. However, in the 2000 audit report our finding stated that while authorization forms were being completed by new users beginning in July 1999, no forms had been obtained from existing users. At that time TennCare’s security administrator stated that forms were not obtained for all existing users because she was not instructed to obtain these forms. In response to that finding, management stated that they would continue their efforts to ensure that proper access forms are obtained for all TennCare and other users who require interaction with the TennCare system. However, in the

2001 audit report we indicated that authorization forms still had not been obtained for all existing users outside the Bureau of TennCare.

Management concurred with this portion of the audit finding for year ended June 30, 2001, and stated that staff was “currently obtaining justification from users in the Department of Human Services (DHS).” However, once again TennCare has misrepresented the corrective action which has been taken. In fact, our testwork revealed that justification forms have not been obtained for any of the more than 1600 DHS employees who have access to TCMIS.

Access to TCMIS is controlled by Resource Access Control Facility (RACF) software, which prohibits unauthorized access to confidential information and system transactions. The TennCare security administrator in the Division of Information Systems is responsible for implementing RACF, as well as other, system security procedures; for assigning a “username” (“RACF User ID”); and establishing at least one “user group” for all TennCare Bureau and TCMIS contractor users. RACF controls access by allowing each member of a user group to access a set of transaction screens. Not requiring users outside the Bureau of TennCare to sign justification forms makes it more difficult to monitor and control 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.

#### Unnecessary Access to TCMIS

In the audit report for the year ended June 30, 1998, we reported that users in the default group had access to at least 44 TCMIS transaction screens, some of which were not necessary for the performance of each user’s job duties. Management responded that a review was being done of the user groups to verify that the types of transactions for all groups were as needed and that changes would be made as needed.

In the audit report for the year ended June 30, 1999, it appeared that the previous problem had been corrected, but that users in the default group had the ability to update at least two screens. Management sent a work request to the contractor in August 1999 to make corrections. An audit finding in the 2000 report indicated that the problems had still not been corrected. Management’s response indicated they were still awaiting corrective action by the contractor.

In the 2001 audit report we indicated that unauthorized access to one screen was still permitted.

Management concurred with this portion of that audit finding and requested Electronic Data Systems (EDS) (the contractor hired to operate and maintain the TCMIS) to restrict unnecessary access to TCMIS. However, during the audit period, there was still a problem with access to one screen. User access testwork revealed that auditors and users in TennCare’s default group could obtain unauthorized access and inappropriately add or change information regarding an enrollee’s application for the TennCare/Medicaid program. Thus, it appears that management has not ensured that transactions are protected against unauthorized users making changes. Management did correct this problem after we brought it to their attention.

### Security Administration Not Centralized

In the audit report for the year ended June 30, 1998, it was first reported that security administration was not centralized. Both security administrators at the Department of Health and at the Bureau of TennCare could give users access to TCMIS. In response to the finding management agreed that it was necessary for the Security Administrator to be centralized. The audit report for the year ended June 30, 1999, indicated that the Security Administrator for the Department of Health was still giving access independent of TennCare's Security Administrator. Management responded that "effective immediately, only the TennCare Security Administrator can now authorize access to TCMIS." However, the 2000 audit indicated that management's response to the prior audit finding was incorrect and that the situation remained the same. Management then responded that "Centralization of TCMIS security under TennCare Information Systems' security administrator was implemented as of November 3, 2000." The 2001 audit indicated that an attempt had been made to correct the situation by removing the TCMIS transactions from the Department of Health's default group. However, the removal interrupted the ability of users in the Department of Health to perform their TennCare responsibilities. As a result, the transaction screens were added to the default group once again and no other attempt to correct the problem had been made.

Management partially concurred with this portion of the audit finding for the year ended June 30, 2001, and stated that TennCare, the Department of Health, and the Department of Human Services (DHS) were currently in negotiations "to develop a no-cost inter-departmental contract that will include enhanced procedures to control access to the TCMIS." TennCare corrected the problem with the Department of Health Security Administrator granting access. However, as of December 17, 2002, the contract has not been developed, and the security administrator for DHS continues to have the ability to add users to TennCare user groups without notifying TennCare's security administrator. Furthermore, as noted earlier in the finding, neither TennCare nor the DHS security administrator obtained justification forms for users added to these groups. In addition, TennCare did not monitor the activities of the DHS security administrator as they relate to TennCare. When access to TCMIS is decentralized, it is more difficult to monitor and control.

### Dataset Modifications Not Monitored and Access not Documented (This portion of the finding has not been reported in previous years.)

Auditor inquiry determined that TennCare does not monitor EDS programmers with TCMIS access to production datasets. Production datasets are computer files used by TCMIS that contain critical information about enrollees. When making system changes, sometimes it is necessary for an EDS programmer to change information in a production dataset. TennCare, however, does not monitor the changes made by the programmers to ensure changes are made correctly and are authorized.

Testwork also revealed that TennCare has not maintained documentation of state employees who have access to TCMIS datasets. Management stated that the Director or a manager in the Division of Information Systems must first approve a request for access to a dataset before access is granted; however, testwork revealed that this approval is not documented. The 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.

### **Recommendation**

**Note: This is the same basic recommendation we have made for the four previous audits.**

The Director of TennCare and the TennCare security administrator should ensure that the authorization forms are obtained for all current and future users who have access to TCMIS, including users who have dataset access. Access levels for all TCMIS 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. Formal monitoring procedures should be developed to monitor all TCMIS dataset activity and the DHS security administrator's activity as it relates to any TCMIS security issues.

### **Management's Comment**

We do not concur. TennCare Information Systems has worked with the Department of Human Services to ensure that signed agreements are obtained for all users. However, the agreement between the agencies has not been signed. We will continue to work with DHS to get the contract in place and/or obtain copies of all signed agreements that DHS currently possesses.

### **Rebuttal**

Despite management's refusal to acknowledge the problem, significant deficiencies existed in controls over access to TCMIS during the audit period. Indeed, because management has continuously failed to fully acknowledge these deficiencies and to take appropriate corrective actions, this finding is being repeated for the fifth consecutive year. As stated in the finding, our testwork revealed that justification forms have not been obtained for any of the more than 1600 DHS employees who have access to TCMIS.

Management's comments did not address the following recommendations:

- Access levels for all TCMIS 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.
- Formal monitoring procedures should be developed to monitor all TCMIS dataset activity and the DHS security administrator's activity as it relates to any TCMIS security issues.

<b>Finding Number</b>	02-DFA-38
<b>CFDA Number</b>	93.778
<b>Program Name</b>	Medicaid Cluster
<b>Federal Agency</b>	Department of Health and Human Services
<b>State Agency</b>	Department of Finance and Administration
<b>Grant/Contract No.</b>	05-0105TN5028; 05-0205TN5028
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Special Tests and Provisions
<b>Questioned Costs</b>	None

**TennCare has not established a coordinated program for ADP risk analysis and system security review**

**Finding**

As noted in the preceding five 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). The prior audit addressed two specific areas where TennCare did not comply with the federal regulations related to ADP risk analysis and system security review:

- TennCare’s policies and procedures did not address all the areas required by the Office of Management and Budget (OMB) Circular A-133 and the *Code of Federal Regulations* (CFR), Title 45, Subtitle A, Part 95, Section 621.
- TennCare did not conduct the required system security reviews on a biennial basis.

Management concurred in part with the prior audit finding and stated that “TennCare management has made a written request to CMS [Centers for Medicare and Medicaid Services] for written verification that the current TennCare Business Continuity and Contingency Plan (BCCP) meets all federal requirements and guidelines for security.” Management prepared a written request dated February 11, 2002, but as of June 26, 2002, CMS has not responded to the request. Management also stated that a TennCare Security Procedures manual was “currently under development” and that “TennCare management is currently in the process of developing an ADP risk analysis document and matrix.” In addition, management drafted an “Information Systems Internal Security Manual” and an “Information Systems Security Handbook.” However, as of June 26, 2002, neither of the documents have been approved and placed in operation.

The Bureau has relied on the Department of Finance and Administration’s Office of Information Resources (OIR) for security of TCMIS. According to OIR’s policy number one, agency management is to “provide for an agency administrative review of security standards, procedures and guidelines in light of technical, environmental, procedural, or statutory changes which may occur.” However, the Bureau has not complied with all federal regulations, which require establishing a comprehensive program for ADP risk analysis and system security review.

According to OMB Circular A-133 and the *Code of Federal Regulations*, Title 45, Subtitle A, Part 95, Section 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 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." Furthermore, "The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review." However, testwork revealed that TennCare did not conduct the required system security reviews on a biennial basis.

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
- 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

The prior audit noted four specific areas the existing policies did not address:

- Physical security
- Equipment security
- Telecommunications security
- Personnel security

Management has a draft of new policies and procedures that address these requirements. However, these policies have not been implemented.

### **Recommendation**

The Director of TennCare should ensure that the Director of Information Systems promptly implements the newly drafted procedures for ADP risk analysis and system security review. Once procedures are in place, the Director of TennCare should monitor the procedures implemented and ensure that the appropriate actions have been taken. In addition, the Director should ensure that TennCare performs the required system security reviews on a biennial basis. Otherwise, the Director of TennCare should obtain, and provide to us, documentation of concurrence by CMS of TennCare's actions as a valid ADP risk analysis and system security review.

### **Management's Comment**

We concur. Although we believed that the BCCP (Business Contingency Continuity Plan) fulfilled all federal requirements, CMS has not replied to our request for clarification of this issue. Therefore, TennCare Information Systems developed a comprehensive ADP security audit plan document, which was provided to the Comptroller's auditors in October 2002. This plan covers all aspects of ADP security audits according to federal requirements and has been reviewed and approved by TennCare Information Systems management. The on-site security inspection and audit check is scheduled to begin April 4, 2003.

In addition, the Information Systems Security Handbook was completed and distributed in July 2002. This handbook addresses policies over physical, equipment, telecommunications and personnel security as discussed in the audit finding, as well as other requirements.

<b>Finding Number</b>	02-UTS-01
<b>CFDA Number</b>	Various
<b>Program Name</b>	Research and Development Cluster
<b>Federal Agency</b>	Various
<b>State Agency</b>	University of Tennessee
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Equipment and Real Property Management
<b>Questioned Costs</b>	None

**Failure to properly record serial numbers and tag numbers for federal equipment**

**Finding**

The university's equipment records are maintained on its accounting system, the Integrated R/3 Information System (IRIS). For 21 of 40 equipment items tested which were purchased with federal research and development funds during the year ended June 30, 2002 (53%), the serial number of the item was not entered in the system. For 15 of the 40 items tested (38%), the tag number was not entered in the system.

The university's *Fiscal Policy* requires that departments "promptly tag equipment and record the tag (inventory) numbers into the accounting system."

Office of Management and Budget Circular A-110, .34f, requires that "equipment records shall be maintained accurately and shall include . . . [the] manufacturer's serial number, model number, federal stock number, national stock number, or other identification number."

Under the university's new IRIS accounting system, equipment items are initially entered in the system during the requisition process. Later, when assets are received, departmental personnel enter the serial number and the tag number for each asset. According to university personnel, departmental staff members are failing to enter this information.

Without the prompt recording of serial numbers and tag numbers on the university's equipment system, the university will lack adequate information to properly safeguard and control its equipment assets.

**Recommendation**

The university should make revisions to its IRIS accounting system or take other steps to ensure that departmental personnel are consistently entering serial numbers and tag numbers on the university's equipment system.

### **Management's Comment**

We concur. The controller's office will institute a procedure to identify equipment items without serial numbers and tag numbers, and will send a letter to each department asking that the serial number and/or tag number be added to the asset record.

<b>Finding Number</b>	02-UTS-02
<b>CFDA Number</b>	Various
<b>Program Name</b>	Research and Development Cluster
<b>Federal Agency</b>	Various
<b>State Agency</b>	University of Tennessee
<b>Grant/Contract No.</b>	Various
<b>Finding Type</b>	Reportable Condition and Noncompliance
<b>Compliance Requirement</b>	Allowable Costs/Cost Principles
<b>Questioned Costs</b>	None

**Effort certification reports were not completed on a timely basis**

**Finding**

As reported in the previous two audits, effort certification reports were not always completed on a timely basis. The university uses after-the-fact effort certification forms to document the distribution of payroll costs to sponsored agreements. This type of certification is required of all salaried personnel whenever a portion of their salary is charged to a grant or contract account through the university's payroll system. Until December 31, 2001, the university distributed forms either for each academic term or on a monthly basis to applicable staff. The forms were submitted by departmental personnel to a campus business office for review and then forwarded to the university-wide controller's office. Campus business office personnel made any necessary adjustments to the distribution of payroll cost. From the university-wide controller's office, the forms were forwarded to data entry, where the information from the forms was entered into the university's effort certification audit system. In this system, a record was kept of the forms received and those not received, and a record was kept of significant unresolved payroll distribution variances (greater than 5%). As information was entered, the system automatically checked to make sure that any necessary payroll adjustments had been made. The forms were then filed in the controller's office.

As of December 10, 2002, for the six-month period ending December 31, 2001, 538 of the effort certification reports distributed (11%) had not been returned to the controller's office. These reports had not been submitted to the controller's office by departmental or campus business office personnel or had never been completed by departmental personnel. In addition, based on effort reports that were processed, there were 503 significant unresolved payroll distribution variances at December 10, 2002.

Effort certification forms for the fall 2001 semester at the Knoxville, Chattanooga, and Martin campuses were not distributed until April 2002, and effort certification forms for the fall 2001 quarter at the Memphis campus were not distributed until May 2002. However, federal regulations require that effort reports be prepared at least every six months.

Office of Management and Budget (OMB) Circular A-21, Section J.8, states:

Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed. . . . For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months.

Salary transfer vouchers (Form T-17) are prepared by departmental personnel whenever actual certified time or effort on a grant or contract varies by 5% or more from the percentage of estimated salary charged. Therefore, the failure to prepare effort certification forms on a timely basis and to conduct timely reviews could lead to incorrect charges to federal programs. In addition, if supporting effort reports are never submitted, federal payroll costs are not documented as required per OMB A-21.

As of January 1, 2002, the university began to use a different method of effort certification. The university implemented a Web site in connection with its new accounting system, the Integrated R/3 Information System (IRIS). Effort certification is now performed online on a monthly basis, and necessary transfer vouchers are automatically routed to department heads. The addition of the new Web site and information system has greatly improved both the timeliness and the rate of return of effort reports.

### **Recommendation**

The outstanding effort certification forms for the 2002 fiscal year should be submitted, and any necessary transfer vouchers should be prepared. The significant payroll distribution variances should be resolved.

### **Management's Comment**

We concur. The controller's office will work with the campus business offices to get all forms returned and prepare any necessary salary transfer voucher.



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# **Auditee's Section**

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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, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Unclustered Programs</b>				
<b>Department of Agriculture</b>				
<b>Direct Programs</b>				
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research		\$ 2,258,078.49
10.025	Agriculture	Plant and Animal Disease, Pest Control, and Animal Care	\$ 436,174.99	
10.025	University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care	27,076.56	463,251.55
10.064	Agriculture	Forestry Incentives Program		1,693.00
10.153	Agriculture	Market News		4,500.00
10.163	Agriculture	Market Protection and Promotion	\$ 21,515.05	
10.163	University of Tennessee	Market Protection and Promotion	3,219.55	24,734.60
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants		55,204.96
10.202	Tennessee Wildlife Resources Agency	Cooperative Forestry Research		20,000.00
10.206	University of Tennessee	Grants for Agricultural Research_Competitive Research Grants		19,361.87
10.216	Tennessee State University	1890 Institution Capacity Building Grants		165,704.49
10.217	University of Tennessee	Higher Education Challenge Grants		25,555.99
10.220	Tennessee State University	Higher Education Multicultural Scholars Program	\$ 9,000.00	
10.220	University of Tennessee	Higher Education Multicultural Scholars Program	30,000.00	39,000.00
10.302	Tennessee State University	Initiative for Future Agriculture and Food Systems	\$ 23,427.25	
10.302	University of Tennessee	Initiative for Future Agriculture and Food Systems	76,301.15	99,728.40
10.443	Tennessee State University	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers		18,027.70
10.500	Tennessee State University	Cooperative Extension Service	\$ 2,254,813.01	
10.500	University of Tennessee	Cooperative Extension Service	7,181,652.61	9,436,465.62
10.550	Agriculture	Food Donation (Noncash Award)		27,769.00
10.557	Health	Special Supplemental Nutrition Program for Women, Infants, and Children		93,109,195.43
10.558	Human Services	Child and Adult Care Food Program		36,356,663.42
10.560	Agriculture	State Administrative Expenses for Child Nutrition	\$ 194,509.17	
10.560	Education	State Administrative Expenses for Child Nutrition	1,382,064.74	
10.560	Human Services	State Administrative Expenses for Child Nutrition	916,910.93	2,493,484.84
10.565	Health	Commodity Supplemental Food Program	\$ 979,775.70	
10.565	Health	Commodity Supplemental Food Program (Noncash Award)	3,296,214.00	4,275,989.70
10.570	Commission on Aging	Nutrition Services Incentive		2,176,796.00
10.572	Health	WIC Farmers' Market Nutrition Program (FMNP)		53,759.94
10.574	Education	Team Nutrition Grants		37,326.74
10.576	Health	Senior Farmer's Market Nutrition Program		346,602.44
10.652	Agriculture	Forestry Research		219,293.93

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
10.664	Agriculture	Cooperative Forestry Assistance		\$ 6,938,460.00	
10.664	Tennessee Technological University	Cooperative Forestry Assistance		<u>12,648.27</u>	6,951,108.27
10.769	University of Tennessee	Rural Business Enterprise Grants		\$ 13.50	
10.769	Walters State Community College	Rural Business Enterprise Grants		<u>36,000.00</u>	36,013.50
10.773	State	Rural Business Opportunity Grants		\$ 5,000.00	
10.773	Tennessee State University	Rural Business Opportunity Grants		<u>4,180.00</u>	9,180.00
10.855	University of Tennessee	Distance Learning and Telemedicine Loans and Grants			737,890.23
10.902	University of Tennessee	Soil and Water Conservation			11,273.10
10.950	Agriculture	Agricultural Statistics Reports			42,654.18
N/A	Tennessee State University	USDA/1890 National Scholars Program	16-12-5268		7,673.28
N/A	Tennessee State University	Agroforestry Workshop	69-7482-1-772Y		1,271.00
N/A	Tennessee State University	Programming Environment & Training Using Systems Engineering Prin.	RBS-0026		35,181.51
N/A	Tennessee State University	Promoting & Enhancing Entrepreneurship & Small Business Development	RBS-99-34		34,443.77
N/A	University of Tennessee	USDA FS OOCR11330144189	R041076057		17,038.02
N/A	University of Tennessee	USDA Market Place of Ideas	R054101003		29,159.91
N/A	University of Tennessee	USDA-Rural Develop-Buonocore	R104025019		13,228.80
N/A	University of Tennessee	USDA 90CSATN1-150-Fin Security- Poling	R124210003		825.24
N/A	University of Tennessee	Rural Utilities SV-Reach-Greer	R125310012		137,828.64
N/A	University of Tennessee	2001 Healthy Homes Initiatives-Keel	R125310029		<u>2,239.51</u>
<b>Subtotal Direct Programs</b>				<u>\$</u>	<u>159,795,197.07</u>
<b>Passed Through Mississippi State University</b>					
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R125320021	\$	170.91
<b>Passed Through North Carolina State University</b>					
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R125110005		7,879.08
10.303	University of Tennessee	Integrated Programs	R125110007		4,629.31
10.500	University of Tennessee	Cooperative Extension Service	R122001043	\$ 2,217.76	
10.500	University of Tennessee	Cooperative Extension Service	R122001044	<u>1,593.91</u>	3,811.67
<b>Passed Through Mississippi State University</b>					
10.250	University of Tennessee	Agricultural and Rural Economic Research	R125310010		19,900.00
<b>Passed Through Texas Agriculture Extension</b>					
10.303	University of Tennessee	Integrated Programs	R124110023		40,820.87
<b>Passed Through Texas A &amp; M University</b>					
10.500	Tennessee State University	Cooperative Extension Service	2001-49200-01238		137.50
<b>Passed Through Texas A&amp;M Research Extension Center</b>					
10.500	University of Tennessee	Cooperative Extension Service	R124110027		8,854.68

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through University of Georgia</b>				
10.500	University of Tennessee	Cooperative Extension Service	R124110026	90.84
<b>Passed Through Alabama Agricultural and Mechanical University</b>				
N/A	Tennessee State University	Southern Agbiotech Consortium for Underserved Communities	00-52100-9616	16,503.46
<b>Passed Through Kentucky State University</b>				
N/A	Tennessee State University	Safe Meat Production	43-3A94-0-8009	2,103.00
<b>Subtotal Pass-Through Programs</b>				<u>\$ 104,901.32</u>
<b>Subtotal Department of Agriculture</b>				<u>\$ 159,900,098.39</u>
<b>Department of Commerce</b>				
<b>Direct Programs</b>				
11.303	University of Tennessee	Economic Development_Technical Assistance		\$ 22,152.34
11.312	University of Tennessee	Research and Evaluation Program		608.48
11.552	University of Tennessee	Technology Opportunities		150,897.72
11.609	University of Tennessee	Measurement and Engineering Research and Standards		2,077,698.65
<b>Subtotal Department of Commerce</b>				<u>\$ 2,251,357.19</u>
<b>Department of Defense</b>				
<b>Direct Programs</b>				
12.002	University of Tennessee	Procurement Technical Assistance For Business Firms		\$ 333,550.62
12.106	University of Tennessee	Flood Control Projects		2,750.00
12.112	Finance and Administration	Payments to States in Lieu of Real Estate Taxes		524,734.00
12.113	Environment and Conservation	State Memorandum of Agreement Program for the Reimbursement of Technical Services		282,861.37
12.400	Military	Military Construction, National Guard		6,226,190.84
12.401	Military	National Guard Military Operations and Maintenance (O&M) Projects		14,165,900.88
N/A	Education	Troops to Teachers Memorandum of Agreement	N/A	45,802.06
N/A	Tennessee State University	AFROTC - Uniform Commutation Fund	DET-790	26,959.49
N/A	University of Tennessee	IPA-AF/AEDC Davis	N029801009	190,320.10
N/A	University of Tennessee	IPA-AF/AFOSR Harwell	N029801010	250,773.11
N/A	University of Tennessee	AF F40600-00-D-0001-0022 Vakili	R024342020	6,904.89
N/A	University of Tennessee	Army MIPR-Fmly Asst Coor 2001	R125510003	38,545.75
N/A	University of Tennessee	Army MIPR 2002-Barte	R125510009	39,288.73
N/A	University of Tennessee	Army MIPR Family Assist Program 2002	R125510011	38,735.77
N/A	University of Tennessee	Army MIPR07-Fmly Employ Asst-2002	R125510012	15,702.34
N/A	University of Tennessee	Army MIPR08-Fmly Readiness 2002	R125510013	15,561.26
N/A	University of Tennessee	Army MIPR02-Relocation Office 2002	R125510014	41,787.93
N/A	University of Tennessee	Army MIPR03-Drug & Alcohol 2002	R125510015	90,819.69
N/A	University of Tennessee	Army MIPR05-Cons Affairs/Financial 2002	R125510016	17,752.86

**State of Tennessee**  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
N/A	University of Tennessee	Army MIPR09-Cons Affairs/Edu	R125510017	41,536.83
N/A	University of Tennessee	Army MIPR01-Family Asst. Coord 2002	R125510018	7,230.34
N/A	University of Tennessee	Army MIPR04-Except Fmly Member 2002	R125510019	9,325.79
<b>Subtotal Direct Programs</b>				<b>\$ 22,413,034.65</b>
<b>Passed Through San Diego State University Foundation</b>				
N/A	University of Memphis	Student Support Services	N66001-96-D-0046	\$ 67,668.23
<b>Subtotal Pass-Through Programs</b>				<b>\$ 67,668.23</b>
<b>Subtotal Department of Defense</b>				<b>\$ 22,480,702.88</b>

**Department of Housing and Urban Development**

**Direct Programs**

14.228	Economic and Community Development	Community Development Block Grants/State's Program		\$ 35,387,029.88	
14.228	Military	Community Development Block Grants/State's Program		214,470.65	\$ 35,601,500.53
14.231	Human Services	Emergency Shelter Grants Program			1,299,032.34
14.235	University of Tennessee	Supportive Housing Program			98,545.55
14.239	Tennessee Housing Development Agency	HOME Investment Partnerships Program			13,112,709.59
14.241	Health	Housing Opportunities for Persons with AIDS			652,081.63
14.401	Human Rights Commission	Fair Housing Assistance Program_ State and Local			326,048.00
14.511	East Tennessee State University	Community Outreach Partnership Center Program		\$ 111,223.31	
14.511	University of Memphis	Community Outreach Partnership Center Program		56,939.94	
14.511	University of Tennessee	Community Outreach Partnership Center Program		26,242.78	194,406.03
14.512	University of Memphis	Community Development Work-Study Program		\$ 45,827.14	
14.512	University of Tennessee	Community Development Work-Study Program		90,089.89	135,917.03
14.520	Tennessee State University	Historically Black Colleges and Universities Program			118,925.98
14.871	Tennessee Housing Development Agency	Section 8 Housing Choice Vouchers			25,531,967.95
N/A	East Tennessee State University	Interest Subsidies	CH-TENN-132D	\$ 49,526.00	
N/A	East Tennessee State University	Interest Subsidies	CH-TENN-144D	45,110.00	
N/A	Tennessee Technological University	Interest Subsidies	0-76104	34,586.00	129,222.00
N/A	University of Tennessee	Sutherland Village Apartments	K010006111		206,078.00
N/A	University of Tennessee	HUD-Community Outreach Ctr 00	R041078068		84,340.32
<b>Subtotal Direct Programs</b>					<b>\$ 77,490,774.95</b>
<b>Passed Through City of Knoxville</b>					
14.244	Pellissippi State Technical Community College	Empowerment Zones Program	C-01-0032	\$ 19,923.26	
14.244	Pellissippi State Technical Community College	Empowerment Zones Program	C-01-0061	267,954.72	

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
14.244	Pellissippi State Technical Community College	Empowerment Zones Program	C-01-0062	190,434.88
14.244	Pellissippi State Technical Community College	Empowerment Zones Program	C-02-0177	28,879.02 \$ 507,191.88
<b>Passed Through Douglas Cheerokee Economic Authority</b>				
14.250	Tennessee State University	Rural Housing and Economic Development	RH-00TNI0184	921.56
<b>Passed Through Metropolitan Development and Housing Agency</b>				
14.866	Tennessee State University	Demolition and Revitalization of Severely Distressed Public Housing	TN-43URD00SI199	33,057.74
<b>Subtotal Pass-Through Programs</b>				<u>\$ 541,171.18</u>
<b>Subtotal Department of Housing and Urban Development</b>				<u>\$ 78,031,946.13</u>
<b>Department of the Interior</b>				
<b>Direct Programs</b>				
15.252	Environment and Conservation	Abandoned Mine Land Reclamation (AMLR) Program		\$ 1,428,235.45
15.608	Environment and Conservation	Fish and Wildlife Management Assistance		1,584.76
15.615	Environment and Conservation	Cooperative Endangered Species Conservation Fund		\$ 416,466.75
15.615	Tennessee Wildlife Resources Agency	Cooperative Endangered Species Conservation Fund		271,364.96 687,831.71
15.616	Tennessee Wildlife Resources Agency	Clean Vessel Act		<u>76,872.67</u>
15.617	Tennessee Wildlife Resources Agency	Wildlife Conservation and Appreciation		33,053.94
15.623	Tennessee Wildlife Resources Agency	North American Wetlands Conservation Fund		1,000,000.00
15.626	Tennessee Wildlife Resources Agency	Hunter Education and Safety Program		882,204.00
15.805	University of Tennessee	Assistance to State Water Resources Research Institutes		10,099.91
15.808	Environment and Conservation	U.S. Geological Survey_Research and Data Acquisition		\$ 12,499.29
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition		35,749.13 48,248.42
15.810	Environment and Conservation	National Cooperative Geologic Mapping Program		<u>38,685.88</u>
15.904	Environment and Conservation	Historic Preservation Fund Grants-In- Aid		706,706.27
15.916	Middle Tennessee State University	Outdoor Recreation_Acquisition, Development and Planning		50,801.00
N/A	Tennessee Wildlife Resources Agency	Big South Fork Gauging Station	1443-CA-5130-98-001	15,000.00
N/A	Tennessee Wildlife Resources Agency	Lilly Bridge Gauging Station	1443-CA-5640-97-001	13,800.00
N/A	Tennessee Wildlife Resources Agency	Propagation and Reintroduction of Endangered Mussels	1448-40181-98-G-070	\$ 50,000.00
N/A	Tennessee Wildlife Resources Agency	Propagation and Reintroduction of Endangered Mussels	1448-40181-G-070	28,500.00 78,500.00
N/A	University of Tennessee	USDI NPS-1443 CA 5000 99 07 Keller	R041011086	<u>9,381.82</u>
N/A	University of Tennessee	Ntl Fish & Wild Fdn Fresh Water	R054017004	5,206.37
N/A	University of Tennessee	National Fish & Wildlife Service Yr 3	R054017005	<u>4,951.51</u>

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Subtotal Direct Programs</b>				<b>\$ 5,091,163.71</b>
<b>Passed Through Southern Appalachian Man and the Biosphere</b>				
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R012540087	\$ 159,230.50
<b>Subtotal Pass-Through Programs</b>				<b>\$ 159,230.50</b>
<b>Subtotal Department of the Interior</b>				<b>\$ 5,250,394.21</b>

<b>Department of Justice</b>
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<b>Direct Programs</b>				
16.007	Military	State Domestic Preparedness Equipment Support Program		\$ 426,597.95
16.523	Children's Services	Juvenile Accountability Incentive Block Grants	\$ (1,238,790.94)	
16.523	Commission on Children and Youth	Juvenile Accountability Incentive Block Grants	2,602,549.00	1,363,758.06
16.540	Commission on Children and Youth	Juvenile Justice and Delinquency Prevention_Allocation to States		1,357,436.00
16.548	Commission on Children and Youth	Title V_Delinquency Prevention Program		760,634.00
16.549	Commission on Children and Youth	Part E_State Challenge Activities		133,112.00
16.550	Tennessee Bureau of Investigation	State Justice Statistics Program for Statistical Analysis Centers		39,087.80
16.554	Finance and Administration	National Criminal History Improvement Program (NCHIP)		737,129.16
16.575	Finance and Administration	Crime Victim Assistance		7,966,324.96
16.576	Treasury	Crime Victim Compensation		2,070,000.00
16.579	Finance and Administration	Byrne Formula Grant Program		8,985,882.57
16.580	Finance and Administration	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		68,679.43
16.586	Correction	Violent Offender Incarceration and Truth in Sentencing Incentive Grants		251,256.89
16.588	Finance and Administration	Violence Against Women Formula Grants		2,498,800.62
16.589	Finance and Administration	Rural Domestic Violence and Child Victimization Enforcement Grant Program	\$ 73,814.40	
16.589	University of Tennessee	Rural Domestic Violence and Child Victimization Enforcement Grant Program	146,960.65	220,775.05
16.592	Finance and Administration	Local Law Enforcement Block Grants Program		449,582.50
16.593	Finance and Administration	Residential Substance Abuse Treatment for State Prisoners		1,409,522.67
16.597	Safety	Motor Vehicle Theft Protection Act Program		101,269.70
16.609	Finance and Administration	Community Prosecution and Project Safe Neighborhoods		24,681.03
16.610	Tennessee Bureau of Investigation	Regional Information Sharing Systems		4,143,942.00
16.615	Tennessee State University	Public Safety Officers' Educational Assistance		85,183.97
16.710	East Tennessee State University	Public Safety Partnership and Community Policing Grants	\$ 81,541.55	
16.710	Middle Tennessee State University	Public Safety Partnership and Community Policing Grants	38,463.71	

**State of Tennessee  
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<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>	
16.710	Safety	Public Safety Partnership and Community Policing Grants		249,010.00	
16.710	Walters State Community College	Public Safety Partnership and Community Policing Grants		18,402.08	387,417.34
16.727	Children's Services	Enforcing Underage Drinking Laws Program			378,351.18
16.729	University of Tennessee	Drug-Free Communities Support Program Grants			60,597.76
N/A	Southwest Tennessee Community College	Training for Prisoners-FCI Instruction Contract	J128C-165		2,009.81
N/A	Southwest Tennessee Community College	Training for Prisoners-Federal Prison Camp	J128C-190		9,724.95
N/A	Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	2001-92	\$ 478,400.77	
N/A	Tennessee Bureau of Investigation	Governor's Task Force on Marijuana Eradication	2002-90	155,768.57	634,169.34
N/A	University of Tennessee	US Dept Of Justice Cops	R047227001		54,714.95
N/A	University of Tennessee	US Dept Justice-LEIC2000-Taylr	R131010036		415,485.47
N/A	University of Tennessee	US Dept Of Justice-Jump Start	R044060014		55,661.81
<b>Subtotal Direct Programs</b>					<b>\$ 35,091,788.97</b>
<b>Passed Through Memphis Area Legal Services</b>					
16.588	University of Memphis	Violence Against Women Formula Grants	N/A	\$	79.13
<b>Passed Through Rutherford County Government</b>					
16.592	Middle Tennessee State University	Local Law Enforcement Block Grants Program	994901		12,140.29
<b>Passed Through American Association of Motor Vehicle Administrators</b>					
16.597	Safety	Motor Vehicle Theft Protection Act Program	NMVTIS-TN1		51,781.35
<b>Passed Through City of Knoxville</b>					
16.710	University of Tennessee	Public Safety Partnership and Community Policing Grants	R131010038		84,346.75
<b>Subtotal Pass-Through Programs</b>					<b>\$ 148,347.52</b>
<b>Subtotal Department of Justice</b>					<b>\$ 35,240,136.49</b>

**Department of Labor**

**Direct Programs**

17.002	Labor and Workforce Development	Labor Force Statistics		\$	1,359,978.60
17.005	Labor and Workforce Development	Compensation and Working Conditions			101,986.26
17.201	University of Tennessee	Registered Apprenticeship and Other Training			91.16
17.203	Labor and Workforce Development	Labor Certification for Alien Workers			250,426.00
17.225	Labor and Workforce Development	Unemployment Insurance			667,367,012.62
17.235	Commission on Aging	Senior Community Service Employment Program			1,905,506.31
17.245	Labor and Workforce Development	Trade Adjustment Assistance_ Workers			24,216,049.73
17.253	Southwest Tennessee Community College	Welfare-to-Work Grants to States and Localities			4,077,171.01

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
17.257	Labor and Workforce Development	One-Stop Career Center Initiative		236,599.15
17.261	Education	Employment and Training Administration Pilots, Demonstrations, and Research Projects		\$ 347,304.65
17.261	Tennessee State University	Employment and Training Administration Pilots, Demonstrations, and Research Projects		47,758.13
17.503	Labor and Workforce Development	Occupational Safety and Health_State Program		2,877,091.86
17.504	Labor and Workforce Development	Consultation Agreements		930,387.82
17.600	Labor and Workforce Development	Mine Health and Safety Grants		165,047.06
17.802	Labor and Workforce Development	Veterans' Employment Program		51,302.00
N/A	University of Tennessee	US DOL - Greenberg - 01	R010445012	74,858.47
<b>Subtotal Direct Programs</b>				<b>\$ 704,008,570.83</b>
<b>Passed Through Workforce Essentials, Incorporated</b>				
17.261	University of Memphis	Employment and Training Administration Pilots, Demonstrations, and Research Projects	N/A	\$ 4,597.53
<b>Passed Through City of Memphis</b>				
17.262	University of Memphis	Employment and Training Administration Evaluations	N15835	95,533.56
<b>Subtotal Pass-Through Programs</b>				<b>\$ 100,131.09</b>
<b>Subtotal Department of Labor</b>				<b>\$ 704,108,701.92</b>
<b>Department of State</b>				
<b>Direct Programs</b>				
19.406	Tennessee State University	College and University Affiliations Program		\$ 31,871.36
<b>Subtotal Direct Programs</b>				<b>\$ 31,871.36</b>
<b>Passed Through National Association of Foreign Student Advisers: Association of International Educators</b>				
19.420	University of Memphis	Cooperative Grants	N/A	\$ 4,350.00
<b>Passed Through United Negro College Fund</b>				
N/A	Tennessee State University	Linkage Grant-Human Resources and Curriculum Development	TELP-031104	49,002.59
<b>Subtotal Pass-Through Programs</b>				<b>\$ 53,352.59</b>
<b>Subtotal Department of State</b>				<b>\$ 85,223.95</b>
<b>Department of Transportation</b>				
<b>Direct Programs</b>				
20.005	Tennessee Wildlife Resources Agency	Boating Safety Financial Assistance		\$ 971,358.00
20.106	Transportation	Airport Improvement Program		5,131,075.35

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
20.215	Tennessee State University	Highway Training and Education		24,885.53
20.218	Safety	National Motor Carrier Safety		2,645,352.85
20.219	Environment and Conservation	Recreational Trails Program		444,432.22
20.505	Transportation	Federal Transit_Metropolitan Planning Grants		930,474.95
20.509	Transportation	Formula Grants for Other Than Urbanized Areas		7,000,709.70
20.516	Transportation	Job Access_Reverse Commute		1,324,848.23
20.700	Tennessee Regulatory Authority	Pipeline Safety		172,684.93
20.703	Military	Interagency Hazardous Materials Public Sector Training and Planning Grants		275,778.60
N/A	University of Tennessee	FHA-DTFH61-98-T-56003-Trng Prg	R012515048	110,700.00
N/A	University of Tennessee	FHA-DTFH61-98-T-56004-Zacharia	R012515055	17,594.56
N/A	University of Tennessee	FHA-DTFH61-99-T-56006-Wrk Zone	R012515080	24,845.95
N/A	University of Tennessee	FHA-DTFH61-99-T-56014 ITS	R012516003	13,211.89
N/A	University of Tennessee	FHWA DTFH61-97-D-00056 ITS- Zacharia	R012516097	84,297.90
N/A	University of Tennessee	FHWA DTFH61-01-T-56036 Everett	R012517009	14,360.24
N/A	University of Tennessee	FHWA DTFH61-01-T-56040 Everett	R012517010	63,827.48
N/A	University of Tennessee	FHWA-Eisenhower Fellowship	R012517011	7,000.00
N/A	University of Tennessee	FHWA DTFH61-02-T-56033 Everett	R012517020	769.72
<b>Subtotal Direct Programs</b>				<u>\$ 19,258,208.10</u>
<b>Passed Through South Carolina State University</b>				
20.215	Tennessee State University	Highway Training and Education	DTFH61-01-X-00097	\$ 6,064.50
20.215	Tennessee State University	Highway Training and Education	DTFH61-99-X-00013	16,409.42
<b>Subtotal Pass-Through Programs</b>				<u>\$ 22,473.92</u>
<b>Subtotal Department of Transportation</b>				<u>\$ 19,280,682.02</u>
<b>Appalachian Regional Commission</b>				
<b>Direct Programs</b>				
23.001	University of Tennessee	Appalachian Regional Development (See individual Appalachian Programs)		\$ 113,515.81
23.002	Economic and Community Development	Appalachian Area Development		1,040,714.12
23.011	Economic and Community Development	Appalachian State Research, Technical Assistance, and Demonstration Projects		253,939.33
<b>Subtotal Appalachian Regional Commission</b>				<u>\$ 1,408,169.26</u>
<b>Equal Employment Opportunity Commission</b>				
<b>Direct Programs</b>				
30.001	Human Rights Commission	Employment Discrimination _Title VII of the Civil Rights Act of 1964		\$ 175,000.00
<b>Subtotal Equal Employment Opportunity Commission</b>				<u>\$ 175,000.00</u>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>General Services Administration</b>				
<b>Direct Programs</b>				
39.003	General Services	Donation of Federal Surplus Personal Property (Noncash Award)		\$ 3,730,664.31
<b>Subtotal General Services Administration</b>				<b>\$ 3,730,664.31</b>
<b>National Aeronautics and Space Administration</b>				
<b>Direct Programs</b>				
43.001	Middle Tennessee State University	Aerospace Education Services Program		\$ 63,037.07
43.001	Tennessee State University	Aerospace Education Services Program		36,792.36 \$ 99,829.43
43.002	Tennessee State University	Technology Transfer		\$ 54,657.50
43.002	University of Tennessee	Technology Transfer		22,918.44 77,575.94
N/A	University of Tennessee	IPA-NASA-Askew	N029801008	24,330.27
N/A	University of Tennessee	NASA NAG5-12134 Greenberg/Muir	R010445015	345.70
N/A	University of Tennessee	NAG5-107904 Taylor	R011042082	12,500.00
N/A	University of Tennessee	NASA NGT5-50206 Saylor	R012580041	294.04
N/A	University of Tennessee	NASA Presr Tchr Enhnan Benson00	R041511003	103,063.30
<b>Subtotal Direct Programs</b>				<b>\$ 317,938.68</b>
<b>Passed Through University of Alabama</b>				
43.001	Middle Tennessee State University	Aerospace Education Services Program	00-075	\$ 15,911.20
<b>Passed Through Vanderbilt University</b>				
43.002	Tennessee State University	Technology Transfer	NGT5-40074	53,399.19
<b>Subtotal Pass-Through Programs</b>				<b>\$ 69,310.39</b>
<b>Subtotal National Aeronautics and Space Administration</b>				<b>\$ 387,249.07</b>
<b>National Foundation of Arts and the Humanities</b>				
<b>Direct Programs</b>				
45.024	University of Memphis	Promotion of the Arts_Grants to Organizations and Individuals		\$ 1,023.86
45.024	University of Tennessee	Promotion of the Arts_Grants to Organizations and Individuals		5,639.73 \$ 6,663.59
45.026	Tennessee Arts Commission	Promotion of the Arts_Leadership Initiatives		573,600.00
45.149	University of Tennessee	Promotion of the Humanities_Division of Preservation		105,895.30
45.163	University of Tennessee	Promotion of the Humanities_Seminars and Institutes		94,156.78
45.310	State	State Library Program		2,936,316.97
45.312	Austin Peay State University	Institute of Museum and Library Services_National Leadership Grants		\$ 2,358.00
45.312	University of Tennessee	Institute of Museum and Library Services_National Leadership Grants		168,438.23 170,796.23
<b>Subtotal National Foundation of Arts and the Humanities</b>				<b>\$ 3,887,428.87</b>

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>National Science Foundation</b>				
<b>Direct Programs</b>				
47.041	University of Tennessee	Engineering Grants		\$ 112,590.11
47.049	Tennessee State University	Mathematical and Physical Sciences		\$ 273,618.13
47.049	Tennessee Technological University	Mathematical and Physical Sciences		24,987.00
47.049	University of Tennessee	Mathematical and Physical Sciences		105,760.33
47.074	University of Tennessee	Biological Sciences		404,365.46
47.076	Austin Peay State University	Education and Human Resources		(72.72)
47.076	East Tennessee State University	Education and Human Resources		\$ 9,929.69
47.076	Jackson State Community College	Education and Human Resources		3,682.77
47.076	Middle Tennessee State University	Education and Human Resources		119,229.61
47.076	Nashville State Technical Institute	Education and Human Resources		238,218.97
47.076	Pellissippi State Technical Community College	Education and Human Resources		281,835.92
47.076	Tennessee State University	Education and Human Resources		75,367.34
47.076	Tennessee Technological University	Education and Human Resources		1,057,635.32
47.076	University of Tennessee	Education and Human Resources		35,426.76
47.078	University of Tennessee	Polar Programs		790,226.10
N/A	University of Memphis	Intergovernmental Personnel Assignment	REC-0203843-001	82,258.09
N/A	University of Tennessee	NSF LPA-0001391 Garritano	R170130008	133,187.82
<b>Subtotal Direct Programs</b>				<u>\$ 3,412,227.06</u>
<b>Passed Through Kentucky Science and Technology Corporation</b>				
47.076	University of Tennessee	Education and Human Resources	R011804057	\$ (12,355.97)
47.076	University of Tennessee	Education and Human Resources	R011804064	(47,315.98)
47.076	University of Tennessee	Education and Human Resources	R011804086	94,837.41
				<u>\$ 35,165.46</u>
<b>Passed Through Kirkwood Community College</b>				
47.076	Jackson State Community College	Education and Human Resources	DUE-0101507	12,512.17
<b>Passed Through Lemoyne-Owen College</b>				
47.076	University of Memphis	Education and Human Resources	HRD-9553315	18,048.58
<b>Passed Through Lima Technical College</b>				
47.076	Chattanooga State Technical Community College	Education and Human Resources	DUE-0003065	3,120.00
<b>Passed Through Metropolitan Government of Nashville and Davidson County</b>				
47.076	Tennessee State University	Education and Human Resources	ESR-0084-891	221,312.41
<b>Subtotal Pass-Through Programs</b>				<u>\$ 290,158.62</u>
<b>Subtotal National Science Foundation</b>				<u>\$ 3,702,385.68</u>
<b>Small Business Administration</b>				
<b>Direct Programs</b>				
59.037	Tennessee Board of Regents	Small Business Development Center		\$ 1,432,393.21
59.037	University of Memphis	Small Business Development Center		212,268.61
<b>Subtotal Small Business Administration</b>				<u>\$ 1,644,661.82</u>

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Tennessee Valley Authority</b>				
<b>Direct Programs</b>				
62.004	Pellissippi State Technical Community College	Tennessee Valley Region_Economic Development		\$ 30,242.80
62.004	Tennessee State University	Tennessee Valley Region_Economic Development		525.00 \$ 30,767.80
N/A	Economic and Community Development	Manufacturing Means Jobs Initiative	00006326	20,000.00
N/A	Environment and Conservation	TVA Ocoee Trust Fund	TV-63501A	419,350.97
N/A	Military	TVA Equipment Funding	Contract # 73571A	232,753.99
N/A	Tennessee State University	Weekend Academy	99BB4-250691	57,632.46
N/A	University of Tennessee	TVA TV-80101V Field Prac 92-93	R011082095	36,302.14
N/A	University of Tennessee	TVA TV77105A Supp#12 Bunting97	R011083070	37,384.20
N/A	University of Tennessee	TVA-SAMAB	R012540065	152,918.94
N/A	University of Tennessee	TVA Rel# 1387498 Bell	R012540075	446.74
N/A	University of Tennessee	TVA-Watershed Imprv-Gangaware	R012550086	10,517.00
N/A	University of Tennessee	TVA 99998950 Rel# 21Gangaware	R012550090	20,323.79
N/A	University of Tennessee	TVA Student Prg Engineering 00	R041302019	46,585.71
<b>Subtotal Tennessee Valley Authority</b>				<b>\$ 1,064,983.74</b>

**Department of Veterans' Affairs**

<b>Direct Programs</b>				
64.015	Tennessee State Veterans' Homes Board	Veterans State Nursing Home Care		\$ 3,934,404.43
64.022	East Tennessee State University	Veterans Home Based Primary Care		991,987.07
64.101	Veterans Affairs	Burial Expenses Allowance for Veterans		290,550.00
64.124	Tennessee Higher Education Commission	All-Volunteer Force Educational Assistance		196,464.10
N/A	University of Memphis	Support of the Veteran's Services Office	N/A	38,060.79
<b>Subtotal Department of Veterans' Affairs</b>				<b>\$ 5,451,466.39</b>

**Environmental Protection Agency**

<b>Direct Programs</b>				
66.001	Environment and Conservation	Air Pollution Control Program Support		\$ 910,459.19
66.032	Environment and Conservation	State Indoor Radon Grants		173,192.17
66.419	Environment and Conservation	Water Pollution Control_State and Interstate Program Support		63,565.18
66.432	Environment and Conservation	State Public Water System Supervision		957,836.73
66.454	Environment and Conservation	Water Quality Management Planning		1,941,259.29
66.458	Environment and Conservation	Capitalization Grants for State Revolving Funds		5,045,285.31
66.460	Agriculture	Nonpoint Source Implementation Grants		2,935,955.74
66.461	Environment and Conservation	Wetlands Grants		54,141.29
66.463	Environment and Conservation	Water Quality Cooperative Agreements		40,650.15
66.467	University of Tennessee	Wastewater Operator Training Grant Program (Technical Assistance)		29,691.91
66.468	Environment and Conservation	Capitalization Grants for Drinking Water State Revolving Fund		9,025,580.45

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
66.600	University of Tennessee	Environmental Protection Consolidated Grants_Program		42,809.26
66.605	Agriculture	Performance Partnership Grants		538,721.03
66.606	Environment and Conservation	Surveys, Studies, Investigations and Special Purpose Grants		60,876.49
66.607	University of Tennessee	Training and Fellowships for the Environmental Protection Agency		57,381.37
66.608	Environment and Conservation	State Information Grants		33,727.09
66.651	University of Tennessee	Innovative Community Partnership		22,582.86
66.707	Environment and Conservation	TSCA Title IV State Lead Grants_Certification of Lead- Based Paint Professionals		296,043.78
66.708	Environment and Conservation	Pollution Prevention Grants Program		57,816.84
66.801	Environment and Conservation	Hazardous Waste Management State Program Support		2,094,094.96
66.802	Environment and Conservation	Superfund State, Political Subdivision, and Indian Tribe Site_Specific Cooperative		246,681.33
66.804	Environment and Conservation	State and Tribal Underground Storage Tanks Program		175,656.96
66.805	Environment and Conservation	Leaking Underground Storage Tank_Trust Fund		1,463,891.50
66.809	Environment and Conservation	Superfund State and Indian Tribe Core Program_Cooperative		612,960.69
<b>Subtotal Environmental Protection Agency</b>				<b>\$ 26,880,861.57</b>

**Department of Energy**

**Direct Programs**

81.041	Economic and Community Development	State Energy Program		\$ 732,290.72
81.042	Human Services	Weatherization Assistance for Low-Income Persons		2,766,172.58
81.049	University of Tennessee	Office of Science Financial Assistance Program		715,203.57
81.086	University of Tennessee	Conservation Research and Development		146,040.44
81.092	Environment and Conservation	Environmental Restoration		1,650,813.37
81.114	University of Tennessee	University Nuclear Science and Reactor Support		111,225.12
81.502	Environment and Conservation	Miscellaneous Federal Activities Actions	\$ 1,909,343.06	
81.502	Military	Miscellaneous Federal Activities Actions	782,638.15	
81.502	Pellissippi State Technical Community College	Miscellaneous Federal Activities Actions	36,028.42	2,728,009.63
N/A	Economic and Community Development	Petroleum Violation Escrow-Exxon	N/A	210,779.37
N/A	Economic and Community Development	Petroleum Violation Escrow-Stripper	N/A	1,124,296.44
N/A	Tennessee State University	Department of Energy Chair of Excellence Professorship	DE-FG02-94EW11428	211,525.77
N/A	Tennessee Wildlife Resources Agency	Oak Ridge Wildlife Management Area	Reordoer-3-97-0702	64,397.50
N/A	University of Tennessee	DOE-DE-FG07-01ER62718-Sepaniak	R011025060	40,901.54
N/A	University of Tennessee	DOE-DE FC02-01ER25465-Scidac	R011033037	72,018.06
N/A	University of Tennessee	DOE DE-AC26-01NT41305-Pinnaduwege	R011065048	63,258.00
N/A	University of Tennessee	DOE DE-AC26-01NT41309 Hamel	R011373096	68,168.64
N/A	University of Tennessee	DOE Impact-Murray 2002	R011493055	9,922.35
N/A	University of Tennessee	TN Reg Sci & Math Summit IV-Fed	R011804075	124.59

**State of Tennessee  
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For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
N/A	University of Tennessee	JIEE-EC2 Secretariat-Fed Labs	R012540019	17,263.50
<b>Subtotal Direct Programs</b>				<b>\$ 10,732,411.19</b>
<b>Passed Through American Chemical Society</b>				
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011024030	\$ 21,894.48
<b>Passed Through Lawrence Berkeley National Laboratory</b>				
N/A	University of Tennessee	Nuclear Engineering	R011382037	8,238.38
<b>Passed Through Lawrence Livermore National Laboratory</b>				
N/A	University of Tennessee	Univ CA LLNL ASCI 3 Dongarra	R011033045	35,771.61
<b>Passed Through UT-Battelle Limited Liability Company</b>				
N/A	University of Tennessee	Oak Ridge National Laboratories	B0199BTTL	9,759,042.84
<b>Subtotal Pass-Through Programs</b>				<b>\$ 9,824,947.31</b>
<b>Subtotal Department of Energy</b>				<b>\$ 20,557,358.50</b>

<b>Federal Emergency Management Agency</b>
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**Direct Programs**

83.012	Military	Hazardous Materials Assistance Program		\$ 4,961.69
83.105	Economic and Community Development	Community Assistance Program_State Support Services Element (CAP-SSSE)		19,885.17
83.536	Military	Flood Mitigation Assistance		130,099.81
83.541	Labor and Workforce Development	Disaster Unemployment Assistance		46,493.60
83.544	Military	Public Assistance Grants		7,713,536.98
83.547	Commerce and Insurance	First Responder Counter-Terrorism Training Assistance		32,244.41
83.548	Military	Hazard Mitigation Grant		3,267,410.52
83.551	Military	Project Impact_Building Disaster Resistant Communities		8,703.39
83.552	Military	Emergency Management Performance Grants		2,755,236.72
83.557	Military	Pre-Disaster Mitigation		9,560.75
N/A	University of Memphis	Companion Websites for Degrees at a Distance Program	EME-2000-CA-0319	4,767.00
<b>Subtotal Federal Emergency Management Agency</b>				<b>\$ 13,992,900.04</b>

<b>Department of Education</b>
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**Direct Programs**

84.002	Labor and Workforce Development	Adult Education_State Grant Program		\$ 11,509,794.76
84.010	Education	Title I Grants to Local Educational Agencies		142,049,605.49
84.011	Education	Migrant Education_State Grant Program		403,077.91
84.013	Education	Title I Program for Neglected and Delinquent Children		597,258.76

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
84.024	East Tennessee State University	Early Education for Children with Disabilities		137,829.02
84.029	University of Tennessee	Special Education_Personnel Development and Parent Training		906.46
84.031	Northeast State Technical Community College	Higher Education_Institutional Aid	\$ 15,483.22	
84.031	Tennessee State University	Higher Education_Institutional Aid	4,920,001.26	4,935,484.48
84.032	Tennessee Student Assistance Corporation	Federal Family Education Loans (Guaranty Agencies)		63,807,824.29
84.048	Education	Vocational Education_Basic Grants to States		17,676,343.77
84.069	Tennessee Student Assistance Corporation	Leveraging Educational Assistance Partnership		999,125.00
84.116	Chattanooga State Technical Community College	Fund for the Improvement of Postsecondary Education	\$ 2,142.32	
84.116	East Tennessee State University	Fund for the Improvement of Postsecondary Education	89,562.49	
84.116	University of Tennessee	Fund for the Improvement of Postsecondary Education	70,493.00	162,197.81
84.126	Human Services	Rehabilitation Services_Vocational Rehabilitation Grants to States		67,838,382.79
84.129	University of Memphis	Rehabilitation Long-Term Training	\$ 76,409.76	
84.129	University of Tennessee	Rehabilitation Long-Term Training	285,106.54	361,516.30
84.141	University of Tennessee	Migrant Education_High School Equivalency Program		388,725.49
84.153	Tennessee State University	Business and International Education Projects		33,827.29
84.154	State	Public Library Construction and Technology Enhancement		214,149.82
84.158	Education	Secondary Education and Transitional Services for Youth with Disabilities		31,774.23
84.160	University of Tennessee	Training Interpreters for Individuals who are Deaf and Individuals who are Deaf-Blind		137,772.05
84.162	Education	Immigrant Education		707,099.30
84.169	Human Services	Independent Living_State Grants		350,628.21
84.177	Human Services	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind		255,370.26
84.181	Education	Special Education_Grants for Infants and Families with Disabilities		7,145,382.31
84.184	University of Tennessee	Safe and Drug-Free Schools and Communities_National Programs		520,361.95
84.185	Education	Byrd Honors Scholarships		756,000.00
84.186	Education	Safe and Drug-Free Schools and Communities_State Grants		7,736,982.39
84.187	Human Services	Supported Employment Services for Individuals with Severe Disabilities		692,928.00
84.194	Education	Bilingual Education Support Services		83,999.47
84.195	University of Tennessee	Bilingual Education_Professional Development		59.22
84.196	Education	Education for Homeless Children and Youth		509,672.80
84.200	Middle Tennessee State University	Graduate Assistance in Areas of National Need		122,004.01
84.213	Education	Even Start_State Educational Agencies		2,923,140.88
84.215	Education	Fund for the Improvement of Education		281,459.83
84.216	Education	Capital Expenses		27,986.87
84.224	Human Services	Assistive Technology	\$ 272,446.90	
84.224	Mental Health and Developmental Disabilities	Assistive Technology	315.00	272,761.90

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
84.243	Education	Tech-Prep Education		2,053,822.26
84.257	University of Tennessee	National Institute for Literacy		247,473.14
84.264	University of Tennessee	Rehabilitation Training_Continuing Education		325,494.00
84.265	Human Services	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training		50,607.18
84.276	Education	Goals 2000_State and Local Education Systemic Improvement		8,269,174.94
84.278	Education	School to Work Opportunities		4,501,285.50
84.281	Education	Eisenhower Professional Development State Grants	\$ 4,770,669.47	
84.281	Tennessee Higher Education Commission	Eisenhower Professional Development State Grants	1,115,259.39	
84.281	Walters State Community College	Eisenhower Professional Development State Grants	10,998.89	5,896,927.75
84.298	Education	Innovative Education Program Strategies		6,609,992.97
84.314	Education	Even Start_Statewide Family Literacy Program		177,390.38
84.318	Education	Technology Literacy Challenge Fund Grants		9,675,502.72
84.324	University of Tennessee	Special Education_Research and Innovation to Improve Services and Results for Children with Disabilities		522,989.10
84.325	Tennessee State University	Special Education_Personnel Preparation to Improve Services and Results for Children with Disabilities	\$ 223,257.69	
84.325	University of Tennessee	Special Education_Personnel Preparation to Improve Services and Results for Children with Disabilities	357,584.33	580,842.02
84.326	Education	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		122,993.12
84.330	Education	Advanced Placement Program		265,132.66
84.332	Education	Comprehensive School Reform Demonstration		2,054,147.37
84.334	Dyersburg State Community College	Gaining Early Awareness and Readiness for Undergraduate Programs	\$ 494,827.26	
84.334	University of Tennessee	Gaining Early Awareness and Readiness for Undergraduate Programs	887,028.31	1,381,855.57
84.335	East Tennessee State University	Child Care Access Means Parents in School	\$ 84,879.90	
84.335	University of Tennessee	Child Care Access Means Parents in School	68,386.80	153,266.70
84.336	Education	Teacher Quality Enhancement Grants	\$ 378,477.66	
84.336	University of Tennessee	Teacher Quality Enhancement Grants	983,727.70	1,362,205.36
84.338	Education	Reading Excellence		91,086.86
84.340	Education	Class Size Reduction		27,673,027.62
84.342	East Tennessee State University	Preparing Tomorrow's Teachers to Use Technology	\$ 219,451.07	
84.342	Tennessee Technological University	Preparing Tomorrow's Teachers to Use Technology	245,769.26	
84.342	University of Tennessee	Preparing Tomorrow's Teachers to Use Technology	335,373.45	800,593.78
84.346	Education	Occupational and Employment Information State Grants		111,211.35
84.348	Education	Title I Accountability Grants		436,955.99

**State of Tennessee  
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<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>	
84.353	Nashville State Technical Institute	Tech-Prep Demonstration Grants			12,563.97
N/A	Roane State Community College	Veterans Administration Reporting Fees	N/A		1,267.00
N/A	University of Tennessee	DEG H078A60007 Post & Sec RV2 98	R011880035		586,350.13
<b>Subtotal Direct Programs</b>					<b>\$ 407,635,592.56</b>
<b>Passed Through University of Rochester</b>					
84.116	University of Tennessee	Fund for the Improvement of Postsecondary Education	R011810014	\$	12,432.35
<b>Passed Through Council of Chief State School Officers</b>					
84.215	Education	Fund for the Improvement of Education	R215U960011-00	\$	6,033.53
84.215	Education	Fund for the Improvement of Education	R215U960011-01		10,770.83
<b>Passed Through University of New Orleans</b>					
84.215	University of Memphis	Fund for the Improvement of Education	R215K010219		23,252.37
84.336	University of Memphis	Teacher Quality Enhancement Grants	R215K000018		2,500.28
<b>Passed Through Harvard University</b>					
84.309	University of Tennessee	National Institute on Postsecondary Education, Libraries, and Lifelong Learning	R011804023		21,695.79
<b>Passed Through Vanderbilt University</b>					
84.325	Tennessee State University	Special Education_Personnel Preparation to Improve Services and Results for Children with Disabilities	H325A000097-01	\$	11,867.10
84.325	Tennessee State University	Special Education_Personnel Preparation to Improve Services and Results for Children with Disabilities	H325A000097-02		16,054.54
84.334	Middle Tennessee State University	Gaining Early Awareness and Readiness for Undergraduate Programs	15564-S2		12,419.60
84.342	Middle Tennessee State University	Preparing Tomorrow's Teachers to Use Technology	P342A990348		48,512.73
<b>Passed Through Memphis City Schools</b>					
84.334	University of Memphis	Gaining Early Awareness and Readiness for Undergraduate Programs	N/A		230,538.69
<b>Passed Through University of Western Kentucky</b>					
84.336	Middle Tennessee State University	Teacher Quality Enhancement Grants	01-0654	\$	58,197.12
84.336	Middle Tennessee State University	Teacher Quality Enhancement Grants	WKU 523361-00-01		38,727.70
84.336	Middle Tennessee State University	Teacher Quality Enhancement Grants	WKU 523361-00-00		1,591.60
					98,516.42

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through VSA Arts</b>				
84.351	Middle Tennessee State University	Arts in Education	N/A	(3,274.27)
<b>Subtotal Pass-Through Programs</b>				<u>\$ 491,319.96</u>
<b>Subtotal Department of Education</b>				<u>\$ 408,126,912.52</u>
<b>Department of Health and Human Services</b>				
<b>Direct Programs</b>				
93.006	Health	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program		\$ 186,310.19
93.041	Commission on Aging	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation		83,247.00
93.042	Commission on Aging	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals		233,940.00
93.043	Commission on Aging	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services		329,457.00
93.048	Commission on Aging	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects		94,825.13
93.052	Commission on Aging	Nation Family Caregiver Support		1,228,415.00
93.104	Mental Health and Developmental Disabilities	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		1,167,452.06
93.110	Health	Maternal and Child Health Federal Consolidated Programs	\$ 383,816.05	
93.110	Mental Health and Developmental Disabilities	Maternal and Child Health Federal Consolidated Programs	42,616.64	
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs	68,930.16	495,362.85
93.116	Health	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	<u>888,126.60</u>	
93.121	University of Tennessee	Oral Diseases and Disorders Research		37,085.48
93.124	University of Tennessee	Nurse Anesthetist Traineeships		30,607.00
93.130	Health	Primary Care Services_Resource Coordination and Development		92,494.96
93.150	Mental Health and Developmental Disabilities	Projects for Assistance in Transition from Homelessness (PATH)		328,308.00
93.178	East Tennessee State University	Nursing Workforce Diversity		83,069.72
93.197	Health	Childhood Lead Pisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children		160,752.64
93.211	University of Tennessee	Rural Telemedicine Grants		259,552.73
93.217	Health	Family Planning_Services		5,402,618.45
93.226	University of Tennessee	Research on Healthcare Costs, Quality and Outcomes		314,443.88

**State of Tennessee  
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For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
93.230	Mental Health and Developmental Disabilities	Consolidated Knowledge Development and Application (KD&A) Program		\$ 491,197.96
93.230	University of Tennessee	Consolidated Knowledge Development and Application (KD&A) Program		131,700.25
93.234	Health	Traumatic Brain Injury_State Demonstration Grant Program		205,198.28
93.235	Health	Abstinence Education		635,724.73
93.238	Health	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement		294,300.00
93.241	Health	State Rural Hospital Flexibility Program		600,627.02
93.251	Health	Universal Newborn Hearing Screening		17,333.86
93.253	University of Tennessee	Poison Control Stabilization and Enhancement Grants		11,626.82
93.268	Health	Immunization Grants	\$ 2,453,986.66	
93.268	Health	Immunization Grants (Noncash Award)	15,273,722.12	17,727,708.78
93.279	University of Tennessee	Drug Abuse Research Programs		38,363.14
93.282	University of Tennessee	Mental Health National Research Service Awards for Research Training		1,385.11
93.283	Health	Centers for Disease Control and Prevention_Investigations and Technical Assistance		4,260,634.31
93.358	East Tennessee State University	Advanced Education Nursing Traineeships	\$ 72,320.00	
93.358	Tennessee State University	Advanced Education Nursing Traineeships	10,204.00	
93.358	University of Tennessee	Advanced Education Nursing Traineeships	165,646.68	248,170.68
93.359	East Tennessee State University	Basic Nurse Education and Practice Grants		557,132.48
93.556	Children's Services	Promoting Safe and Stable Families		4,274,882.96
93.558	Human Services	Temporary Assistance for Needy Families		204,745,797.67
93.563	Human Services	Child Support Enforcement		35,732,837.59
93.566	Human Services	Refugee and Entrant Assistance_State Administered Programs		1,135,562.00
93.568	Human Services	Low-Income Home Energy Assistance		20,139,599.93
93.569	Human Services	Community Services Block Grant		11,571,430.52
93.571	Human Services	Community Services Block Grant		72,581.40
93.576	Human Services	Discretionary Awards_Community Food and Nutrition		236,718.72
93.584	Human Services	Refugee and Entrant Assistance_Targeted Assistance		654,249.05
93.585	Human Services	Empowerment Zones Program		846,518.75
93.586	Court System	State Court Improvement Program		175,276.44
93.590	Children's Services	Community-Based Family Resource and Support Grants		581,710.57
93.600	Education	Head Start	\$ 86,267.17	
93.600	Tennessee State University	Head Start	1,198,405.20	1,284,672.37
93.603	Children's Services	Adoption Incentive Payments		128,259.67
93.630	Mental Health and Developmental Disabilities	Developmental Disabilities Basic Support and Advocacy Grants		1,452,369.45
93.631	Mental Health and Developmental Disabilities	Developmental Disabilities Projects of National Significance		113,941.00
93.632	University of Tennessee	University Centers for Excellence in Developmental Disabilities Education, Research, and Service		685.91

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
93.643	Children's Services	Children's Justice Grants to States		253,095.28
93.645	Children's Services	Child Welfare Services_State Grants		3,959,862.30
93.647	Human Services	Social Services Research and Demonstration		73,920.76
93.648	University of Tennessee	Child Welfare Services Training Grants		783,584.48
93.652	Children's Services	Adoption Opportunities		15,016.71
93.658	Children's Services	Foster Care_Title IV-E		25,715,157.84
93.659	Children's Services	Adoption Assistance		10,302,571.93
93.667	Human Services	Social Services Block Grant		14,759,267.22
93.669	Children's Services	Child Abuse and Neglect State Grants		407,869.50
93.671	Finance and Administration	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes		1,583,284.02
93.674	Children's Services	Chafee Foster Care Independent Living		1,638,873.35
93.767	Finance and Administration	State Children's Insurance Program		6,385,004.50
93.779	Commission on Aging	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	\$ 229,423.66	
93.779	Finance and Administration	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		36,202.14
93.779	Mental Health and Developmental Disabilities	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,664.25	267,290.05
93.822	East Tennessee State University	Health Careers Opportunity Program	\$ 76,009.59	
93.822	Tennessee State University	Health Careers Opportunity Program	(354.78)	
93.822	University of Tennessee	Health Careers Opportunity Program	392,446.62	468,101.43
93.837	University of Tennessee	Heart and Vascular Diseases Research		242,083.49
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research		106,930.81
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders		145,326.29
93.856	University of Tennessee	Microbiology and Infectious Diseases Research		73,201.80
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training		1,422.85
93.867	University of Tennessee	Vision Research		9,750.88
93.879	East Tennessee State University	Medical Library Assistance		58,554.72
93.880	Tennessee State University	Minority Access to Research Careers		393,441.10
93.884	East Tennessee State University	Grants for Residency Training in General Internal Medicine and/or General Pediatrics		463,946.00
93.895	East Tennessee State University	Grants for Faculty Development in Family Medicine		88,233.61
93.896	East Tennessee State University	Predoctoral Training in Primary Care (Family Medicine, General Internal Medicine/General Pediatrics)		12,382.82
93.912	Health	Rural Health Outreach and Rural Network Development Program		7,779.63
93.913	Health	Grants to States for Operation of Offices of Rural Health		74,021.51
93.917	Health	HIV Care Formula Grants		9,712,698.06
93.919	Health	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs		638,315.68

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
93.938	Education	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems			427,320.56
93.940	Health	HIV Prevention Activities_Health Department Based			3,603,729.25
93.944	Health	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance			684,008.88
93.945	Health	Assistance Programs for Chronic Disease Prevention and Control			152,249.88
93.958	Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services			7,209,732.36
93.959	Health	Block Grants for Prevention and Treatment of Substance Abuse			29,015,922.68
93.977	Health	Preventive Health Services_Sexually Transmitted Diseases Control Grants			2,281,837.06
93.984	East Tennessee State University	Academic Administrative Units in Primary Care		\$ 27,692.92	
93.984	University of Tennessee	Academic Administrative Units in Primary Care		80,743.93	108,436.85
93.988	Health	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems			204,373.28
93.991	Health	Preventive Health and Health Services Block Grant			1,904,311.12
93.994	Health	Maternal and Child Health Services Block Grant to the States			10,245,087.79
N/A	Tennessee State University	Grants Writing Workshop for Historically Black Colleges and Universities	HCFA-01-0245		24,925.20
N/A	University of Tennessee	DHHS T21MC00100 Guinn	R042851010		385.42
<b>Subtotal Direct Programs</b>					<u>\$ 454,287,575.06</u>
<b>Passed Through University of North Carolina</b>					
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs	R011216028	\$ 8,547.78	
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs	R011216030	86,804.88	\$ 95,352.66
<b>Passed Through Vanderbilt University</b>					
93.110	Tennessee State University	Maternal and Child Health Federal Consolidated Programs	5MCJ-000217-41-0	\$ 36,362.92	
93.110	Tennessee State University	Maternal and Child Health Federal Consolidated Programs	5T773M000050-03	30,484.00	
93.110	Tennessee State University	Maternal and Child Health Federal Consolidated Programs	5T83MC00008-47	(4.00)	
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs	R014030014	42,818.87	109,661.79
<b>Passed Through Wake Forest University</b>					
93.110	University of Tennessee	Maternal and Child Health Federal Consolidated Programs	R073366091		11,931.01

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Passed Through Meharry Medical College</b>					
93.192	Tennessee State University	Quentin N. Burdick Programs for Rural Interdisciplinary Training	5D36 HP10050-03	\$	1,490.37
93.192	Volunteer State Community College	Quentin N. Burdick Programs for Rural Interdisciplinary Training	5D36 HP10050-08		3,666.69
93.960	Tennessee State University	Special Minority Initiatives	2R25 GM5179-03		43,958.27
93.969	Tennessee State University	Geriatric Education Centers	5D31 AH70061-04		7,946.46
<b>Passed Through University of Kentucky</b>					
93.262	University of Tennessee	Occupational Safety and Health Research Grants	R073640049		653.17
<b>Passed Through National Collegiate Athletic Association</b>					
93.570	Tennessee State University	Community Services Block Grant_ Discretionary Awards	01-264	\$	10,920.89
93.570	Tennessee State University	Community Services Block Grant_ Discretionary Awards	93-150		5,022.01
93.570	Tennessee State University	Community Services Block Grant_ Discretionary Awards	NYSP-02		67,010.24
N/A	Tennessee State University	National Youth Sports Program - Girls Sport Clinic	00-691		4,938.01
<b>Passed Through National Youth Sports Corporation</b>					
93.570	Middle Tennessee State University	Community Services Block Grant_ Discretionary Awards	03-084	\$	16,019.82
93.570	University of Memphis	Community Services Block Grant_ Discretionary Awards	NYSPF 02-189		34,617.33
93.570	University of Memphis	Community Services Block Grant_ Discretionary Awards	NYSPF 189		47,134.16
<b>Passed Through University of South Florida</b>					
93.630	University of Tennessee	Developmental Disabilities Basic Support and Advocacy Grants	R011202010		36,841.65
<b>Passed Through Advocates for Human Potential, Incorporated</b>					
93.958	Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services	N/A		2,929.00
<b>Subtotal Pass-Through Programs</b>					<u>\$ 500,093.53</u>
<b>Subtotal Department of Health and Human Services</b>					<u>\$ 454,787,668.59</u>
<b>Corporation for National and Community Service</b>					
<b>Direct Programs</b>					
94.003	Finance and Administration	State Commissions		\$	221,155.11
94.004	Education	Learn and Serve America_School and Community Based Programs		\$	326,372.49
94.004	Finance and Administration	Learn and Serve America_School and Community Based Programs			221,911.60
94.006	East Tennessee State University	AmeriCorps		\$	3,000.00
94.006	Finance and Administration	AmeriCorps			2,161,070.17
94.006	Roane State Community College	AmeriCorps			909.62
94.006	Southwest Tennessee Community College	AmeriCorps			64,475.65

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
94.007	East Tennessee State University	Planning and Program Development Grants		\$	2,248.32
94.007	Finance and Administration	Planning and Program Development Grants		163,189.23	165,437.55
94.009	Finance and Administration	Training and Technical Assistance			99,270.31
94.013	Education	Volunteers in Service to America			665,860.59
<b>Subtotal Direct Programs</b>				<b>\$</b>	<b>3,929,463.09</b>
<b>Passed Through Lemoyne-Owen College</b>					
94.007	University of Memphis	Planning and Program Development Grants	N/A	\$	3,051.13
<b>Subtotal Pass-Through Programs</b>				<b>\$</b>	<b>3,051.13</b>
<b>Subtotal Corporation for National and Community Service</b>				<b>\$</b>	<b>3,932,514.22</b>
<b>Other Federal Assistance</b>					
<b>Agency for International Development</b>					
<b>Passed Through American Council on Education</b>					
N/A	Tennessee State University	Developing Business Management Capacities for 1890 Institution Building Grants Private Sector Development in L'viv Ukraine	HNE-A-00-97-00059-00	\$	35,994.88
<b>Subtotal Agency for International Development</b>				<b>\$</b>	<b>35,994.88</b>
<b>Office of National Drug Control Policy</b>					
<b>Passed Through Laurel County Fiscal Court</b>					
N/A	Alcoholic Beverage Commission	Appalachia High Intensity Drug Trafficking Area	I8PAPP501-17	\$	55,363.03
N/A	District Attorneys General Conference	Appalachia High Intensity Drug Trafficking Area	I1PAPP501	112,182.05	
N/A	District Attorneys General Conference	Appalachia High Intensity Drug Trafficking Area	I2PAPP501	40,970.82	
N/A	Safety	Appalachia High Intensity Drug Trafficking Area	I1PAPP501	126,207.32	
N/A	Safety	Appalachia High Intensity Drug Trafficking Area	I1PAPP501-CVE	36,905.76	
N/A	Safety	Appalachia High Intensity Drug Trafficking Area	I2PAPP501	68,578.23	
N/A	Safety	Appalachia High Intensity Drug Trafficking Area	I2PAPP501-CVE	21,643.27	
N/A	Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	I0PAPP501	391.72	
N/A	Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	I1PAPP501	312,489.31	
N/A	Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	I2PAPP501	274,619.86	\$ 1,049,351.37
<b>Subtotal Office of National Drug Control Policy</b>				<b>\$</b>	<b>1,049,351.37</b>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Postal Service</b>				
<b>Direct Programs</b>				
N/A	University of Tennessee	US Postal Svc-0103612-Kress	R011361013	\$ 2,424.77
N/A	University of Tennessee	USPS/Deat 51259301 - Kress	R011361015	19,491.65
<b>Subtotal Postal Service</b>				<b>\$ 21,916.42</b>
<b>Corporation for Public Broadcasting</b>				
<b>Direct Programs</b>				
N/A	University of Tennessee	Corp Public Broad-CSG 99	R045815037	\$ 148.93
N/A	University of Tennessee	Corp Public Broad-CSG 01	R045815040	9,732.18
N/A	University of Tennessee	Corp Public Broad-CSG 02	R045815041	104,874.48
N/A	University of Tennessee	Corp Public Broad-CSG 2001	R170471001	28,860.43
N/A	University of Tennessee	Corp Public Broad-CSG 2002	R170471002	116,358.28
<b>Subtotal Corporation for Public Broadcasting</b>				<b>\$ 259,974.30</b>
<b>State Justice Institute</b>				
<b>Direct Programs</b>				
N/A	Court System	Promoting Justice Through Professional Development	SJI-02-E-004	\$ 14,522.00
N/A	University of Memphis	Institute for Faculty Excellence in Judicial Education	SJI-01-N-202	101,157.58
N/A	University of Memphis	Leadership Institute in Judicial Education-2001	SJI-91-N-021-000-1	\$ 82,290.34
N/A	University of Memphis	Leadership Institute in Judicial Education-2002	SJI-91-N-021-002-1	83,449.99
<b>Subtotal State Justice Institute</b>				<b>\$ 281,419.91</b>
<b>Subtotal Other Federal Assistance</b>				<b>\$ 1,648,656.88</b>
<b>Total Unclustered Programs</b>				<b>\$ 1,978,008,124.64</b>
<b>Research and Development Cluster</b>				
<b>Department of Agriculture</b>				
<b>Direct Programs</b>				
10.001	East Tennessee State University	Agricultural Research_Basic and Applied Research	58-1235-9-066	\$ 11,832.76
10.001	Tennessee State University	Agricultural Research_Basic and Applied Research	58-6612-9-026	(5,400.75)
10.001	University of Memphis	Agricultural Research_Basic and Applied Research	5864081098	10,112.30
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R111016093	(17.22)
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R111415072	36,578.74
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R111416009	174,523.65
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R111416019	4,550.68
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R111616035	4,433.95

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R112615078	7,753.83	
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R112817098	23,042.87	
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R112818011	2,123.78	
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R112818036	57,230.49	
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R112818037	64,527.04	
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R118315007	2,880.89	
10.001	University of Tennessee	Agricultural Research_Basic and Applied Research	R118315009	11,523.84	\$ 405,696.85
10.200	Tennessee State University	Grants for Agricultural Research, Special Research Grants	95-38818-1354	\$ 460.08	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R111016082	66,200.50	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112015063	85,265.36	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112015075	(882.64)	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112218054	27,348.56	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112218095	205,567.36	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112219034	148,485.41	532,444.63
10.202	University of Tennessee	Cooperative Forestry Research	E111008	\$ 720,254.01	
10.202	University of Tennessee	Cooperative Forestry Research	R011084022	(75,448.39)	
10.202	University of Tennessee	Cooperative Forestry Research	R041078067	(15,619.23)	
10.202	University of Tennessee	Cooperative Forestry Research	R112218069	1,060.36	
10.202	University of Tennessee	Cooperative Forestry Research	R112218071	26,769.06	657,015.81
10.203	University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act	E110105		5,859,927.63
10.205	Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University	00-CREN-08915	\$ 144,507.83	
10.205	Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University	2001-33100-08915	706,882.90	
10.205	Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University	2002-33100-08915	1,111,122.55	1,962,513.28
10.206	East Tennessee State University	Grants for Agricultural Research_Compertitive Research Grants	98-35204-6636	\$ 34,063.80	
10.206	East Tennessee State University	Grants for Agricultural Research_Compertitive Research Grants	98-35301-6514	1,233.63	
10.206	Tennessee State University	Grants for Agricultural Research_Compertitive Research Grants	99-35208-8326	4,564.23	
10.206	Tennessee Technological University	Grants for Agricultural Research_Compertitive Research Grants	99-35102-8523	47,000.54	
10.206	University of Tennessee	Grants for Agricultural Research_Compertitive Research Grants	R011013097	81,835.23	
10.206	University of Tennessee	Grants for Agricultural Research_Compertitive Research Grants	R011013098	29,668.99	
10.206	University of Tennessee	Grants for Agricultural Research_Compertitive Research Grants	R011018043	120.00	
10.206	University of Tennessee	Grants for Agricultural Research_Compertitive Research Grants	R011018059	64,118.52	
10.206	University of Tennessee	Grants for Agricultural Research_Compertitive Research Grants	R011022020	8,084.91	

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R011025021		65,152.09
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R011086014		114,895.84
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R012580098		35,216.38
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R073018028		7,686.74
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R111216004		11,255.61
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R111415091		40,225.36
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R111415092		85,392.93
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R111616008		37,058.04
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R112217080		(595.99)
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R112415050		(19.73)
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R112415054		71,159.94
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R112415071		23,668.84
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R112615073		8,442.02
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R112817092		33,696.66
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R112818024		37,383.51
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R181730080		23,437.57
10.206	University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	R181736070		(34,176.77)
10.207	University of Tennessee	Animal Health and Disease Research	E111610		86,592.79
10.216	Tennessee State University	1890 Institution Capacity Building Grants	00-38814-9505	\$	54,776.99
10.216	Tennessee State University	1890 Institution Capacity Building Grants	00-38820-9523		21,320.18
10.216	Tennessee State University	1890 Institution Capacity Building Grants	2001-38814-11468		20,284.07
10.216	Tennessee State University	1890 Institution Capacity Building Grants	95-38814-1719		172.60
10.216	Tennessee State University	1890 Institution Capacity Building Grants	98-38814-6236		86,973.59
10.216	Tennessee State University	1890 Institution Capacity Building Grants	98-38814-6238		91,339.05
10.216	Tennessee State University	1890 Institution Capacity Building Grants	98-38814-6239		46,211.07
10.216	Tennessee State University	1890 Institution Capacity Building Grants	99-38814-8201		98,937.29
10.216	Tennessee State University	1890 Institution Capacity Building Grants	99-38814-8362		59,141.35
10.217	University of Tennessee	Higher Education Challenge Grants	R011115010	\$	(1,486.82)
10.217	University of Tennessee	Higher Education Challenge Grants	R181741001		40,644.72
10.219	University of Tennessee	Biotechnology Risk Assessment Research	R111017004		3,393.79
10.224	University of Tennessee	Fund for Rural America_Research, Education, and Extension Activities	R124110013		11,810.12

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
10.250	University of Tennessee	Agricultural and Rural Economic Research	R011216031	\$	17,206.51
10.250	University of Tennessee	Agricultural and Rural Economic Research	R111215072		(209.06)
10.302	Tennessee State University	Initiative for Future Agriculture and Food Systems	2001-52100-11212	\$	24,483.59
10.302	Tennessee State University	Initiative for Future Agriculture and Food Systems	2001-52101-11409		87,969.01
10.302	University of Tennessee	Initiative for Future Agriculture and Food Systems	R024337020		34,400.62
10.302	University of Tennessee	Initiative for Future Agriculture and Food Systems	R111216013		(358.87)
10.302	University of Tennessee	Initiative for Future Agriculture and Food Systems	R111216015		166,294.92
10.303	University of Tennessee	Integrated Programs	R110178006		8,394.19
10.652	Tennessee Technological University	Forestry Research	00-CS-11081001-12A	\$	15,522.62
10.652	Tennessee Technological University	Forestry Research	SRS00-CA-11330138-072		3,484.23
10.652	University of Tennessee	Forestry Research	R011007057		230.64
10.652	University of Tennessee	Forestry Research	R011080011		17,612.53
10.652	University of Tennessee	Forestry Research	R011080020		2,374.54
10.652	University of Tennessee	Forestry Research	R011083090		27,754.32
10.652	University of Tennessee	Forestry Research	R011086034		28,877.80
10.652	University of Tennessee	Forestry Research	R112218064		138.00
10.652	University of Tennessee	Forestry Research	R112218066		(1,239.59)
10.652	University of Tennessee	Forestry Research	R112218070		308.94
10.652	University of Tennessee	Forestry Research	R112218073		1,089.53
10.652	University of Tennessee	Forestry Research	R112218075		2,748.59
10.652	University of Tennessee	Forestry Research	R112218084		1,260.76
10.652	University of Tennessee	Forestry Research	R112218085		(10,242.38)
10.652	University of Tennessee	Forestry Research	R112218088		1,027.37
10.652	University of Tennessee	Forestry Research	R112218089		25,259.96
10.652	University of Tennessee	Forestry Research	R112218091		81,712.93
10.652	University of Tennessee	Forestry Research	R112219014		17,000.00
10.652	University of Tennessee	Forestry Research	R112219015		38,847.88
10.652	University of Tennessee	Forestry Research	R112219019		29,956.31
10.652	University of Tennessee	Forestry Research	R112219022		29,535.59
10.652	University of Tennessee	Forestry Research	R112219024		117,269.30
10.652	University of Tennessee	Forestry Research	R112219026		24,189.77
10.652	University of Tennessee	Forestry Research	R112219027		17,930.26
10.652	University of Tennessee	Forestry Research	R112219033		26,217.58
10.652	University of Tennessee	Forestry Research	R112219036		1,700.07
10.652	University of Tennessee	Forestry Research	R112219046		13,621.58
10.652	University of Tennessee	Forestry Research	R112219047		12,568.09
10.652	University of Tennessee	Forestry Research	R112219050		2,385.54
10.652	University of Tennessee	Forestry Research	R112219052		3,638.38
10.652	University of Tennessee	Forestry Research	R112818034		11,250.28
10.664	University of Tennessee	Cooperative Forestry Assistance	R111216012	\$	33,130.02
10.664	University of Tennessee	Cooperative Forestry Assistance	R112218090		40,166.20
10.962	University of Tennessee	International Training_Foreign Participant	R073252050	\$	(1,258.84)
10.962	University of Tennessee	International Training_Foreign Participant	R073621070		9,997.78
10.962	University of Tennessee	International Training_Foreign Participant	R111815015		10,653.36
N/A	University of Tennessee	USDA FS 01-CS-11080400-013 Harden	R011038081		1,498.09
N/A	University of Tennessee	USDA 00-CS-11080000-003 Etmier	R011086016		4.84
N/A	University of Tennessee	USDA FS 00CA11242343075 Winist	R112219000		1,370.56
N/A	University of Tennessee	USDA-FS 02CS11083130010 YR 2-Schlarbaum	R112219038		8,070.59

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
N/A	University of Tennessee	USDA FS-Song Bird#2-Buehler	R112219048		3,782.05
N/A	University of Tennessee	USDA FS 02CR11330128070-Hopper	R112219049		766.33
<b>Subtotal Direct Programs</b>					<b>\$ 11,858,671.19</b>
<b>Passed Through North Carolina State University</b>					
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112817090	\$ (359.00)	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112818002	9,121.47	\$ 8,762.47
<b>Passed Through South Dakota State University</b>					
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R110115035		403.66
<b>Passed Through University of Arkansas</b>					
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112818009		(2,380.74)
<b>Passed Through University of Florida</b>					
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R111016083		58,384.85
10.664	University of Tennessee	Cooperative Forestry Assistance	R112818010		16,096.02
<b>Passed Through University of Georgia</b>					
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112615077	\$ 9,660.10	
10.200	University of Tennessee	Grants for Agricultural Research, Special Research Grants	R112818023	5,360.31	15,020.41
<b>Passed Through Southern Regional Aquaculture Center</b>					
10.206	University of Memphis	Grants for Agricultural Research_Competitive Research Grants	N/A		4,751.22
<b>Passed Through Mississippi State University</b>					
10.250	Tennessee State University	Agricultural and Rural Economic Research	43-3AEM-8-80044		25,132.05
<b>Passed Through University of Missouri</b>					
10.302	University of Tennessee	Initiative for Future Agriculture and Food Systems	R112219008		238,963.70
<b>Passed Through Virginia Polytechnic Institute and State University</b>					
10.302	University of Tennessee	Initiative for Future Agriculture and Food Systems	R111216030		133.30
<b>Subtotal Pass-Through Programs</b>					<b>\$ 365,266.94</b>
<b>Subtotal Department of Agriculture</b>					<b>\$ 12,223,938.13</b>

**State of Tennessee**  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Department of Commerce</b>					
<b>Direct Programs</b>					
11.303	University of Memphis	Economic Development_Technical Assistance	04-66-04660	\$	31.95
11.303	University of Memphis	Economic Development_Technical Assistance	04-66-04863		100,873.25
11.303	University of Memphis	Economic Development_Technical Assistance	04-66-05096		5,261.58
					\$ 106,166.78
11.609	University of Tennessee	Measurement and Engineering Research and Standards	R011317017	\$	30,482.31
11.609	University of Tennessee	Measurement and Engineering Research and Standards	R011318002		51,817.80
					82,300.11
N/A	University of Tennessee	NIST 43NANB010680-Bartmess	R011025029		6,415.27
<b>Subtotal Department of Commerce</b>					<b>\$ 194,882.16</b>

<b>Department of Defense</b>					
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<b>Direct Programs</b>					
12.300	Tennessee State University	Basic and Applied Scientific Research	DAAE07-01-C-L065	\$	53,867.52
12.300	Tennessee State University	Basic and Applied Scientific Research	DAAE07-98-C-0029		(178.24)
12.300	Tennessee State University	Basic and Applied Scientific Research	DACW42-01-P-0097		7,967.46
12.300	Tennessee State University	Basic and Applied Scientific Research	DACW62-00-H0001		66,385.93
12.300	Tennessee State University	Basic and Applied Scientific Research	DCA100-00-D4001		225,100.83
12.300	Tennessee State University	Basic and Applied Scientific Research	N00014-98-1-0754		357,301.59
12.300	Tennessee State University	Basic and Applied Scientific Research	N00014-99-1-0753		116,315.11
12.300	Tennessee State University	Basic and Applied Scientific Research	N00014-99-1-0968		216,382.97
12.300	Tennessee Technological University	Basic and Applied Scientific Research	DACW39-99-P-0393		2,147.66
12.300	Tennessee Technological University	Basic and Applied Scientific Research	DACW42-01-P-0445		9,500.00
12.300	Tennessee Technological University	Basic and Applied Scientific Research	N000014-02-1-0612		13,128.36
12.300	University of Memphis	Basic and Applied Scientific Research	N00014-00-1-0559		31,368.06
12.300	University of Memphis	Basic and Applied Scientific Research	N00014-00-1-0667		40,344.74
12.300	University of Memphis	Basic and Applied Scientific Research	N00014-98-1-0332		184,763.77
12.300	University of Memphis	Basic and Applied Scientific Research	N00014-99-1-0721		867.03
12.300	University of Memphis	Basic and Applied Scientific Research	N61339-01-C-1006		197,257.96
12.300	University of Tennessee	Basic and Applied Scientific Research	R011030019		(3,893.25)
12.300	University of Tennessee	Basic and Applied Scientific Research	R011033034		254,656.73
12.300	University of Tennessee	Basic and Applied Scientific Research	R011035083		(14,121.87)
12.300	University of Tennessee	Basic and Applied Scientific Research	R011063088		(697.09)
12.300	University of Tennessee	Basic and Applied Scientific Research	R011063093		(128.88)
12.300	University of Tennessee	Basic and Applied Scientific Research	R011065020		250,000.00
12.300	University of Tennessee	Basic and Applied Scientific Research	R011343080		(144.01)
12.300	University of Tennessee	Basic and Applied Scientific Research	R011344032		138.24
12.300	University of Tennessee	Basic and Applied Scientific Research	R011373072		23,762.71
12.300	University of Tennessee	Basic and Applied Scientific Research	R073035059		2,711.84
					\$ 2,034,805.17
12.420	Southwest Tennessee Community College	Military Medical Research and Development	DAAD19-99-1-0357	\$	4,989.56
12.420	University of Memphis	Military Medical Research and Development	DAMD17-02-1-0248		22,417.33
12.420	University of Tennessee	Military Medical Research and Development	R011344070		23,669.49
12.420	University of Tennessee	Military Medical Research and Development	R073014030		62,327.16
12.420	University of Tennessee	Military Medical Research and Development	R073018044		19,046.28
12.420	University of Tennessee	Military Medical Research and Development	R073256037		49,603.41

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>	
12.420	University of Tennessee	Military Medical Research and Development	R073256051	68,635.32	
12.420	University of Tennessee	Military Medical Research and Development	R111616037	19,994.49	
12.420	University of Tennessee	Military Medical Research and Development	R181741009	24,698.26	295,381.30
12.431	Tennessee State University	Basic Scientific Research	DAAD-19-01-0-074	\$ 41,165.16	
12.431	University of Memphis	Basic Scientific Research	DAAD19-01-1-0584	805.82	
12.431	University of Tennessee	Basic Scientific Research	R011309036	(3,200.32)	
12.431	University of Tennessee	Basic Scientific Research	R024351017	95,409.76	134,180.42
12.800	University of Memphis	Air Force Defense Research Sciences Program	F33615-01-C-1985	\$ 23,642.08	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R011025034	11,766.41	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R011343096	14,767.15	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R011344063	154,284.16	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024351021	(392.97)	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024351030	56,953.66	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024352010	31,891.44	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024354044	57,843.81	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024356026	(4,491.67)	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024356027	(2,613.03)	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024357072	195,149.99	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024357090	(5,242.69)	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024357094	144,599.99	
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R024357096	29,685.00	707,843.33
12.901	University of Tennessee	Mathematical Sciences Grants Program	R011054007		7,460.00
12.910	University of Memphis	Research and Technology Development	F33615-01-C-1900	\$ 180,534.95	
12.910	University of Tennessee	Research and Technology Development	R011344067	296,063.88	476,598.83
N/A	Tennessee State University	Drawings, and Transient Heat Performance Analysis for Portable Heater System for Launch Tube Maintenance	N00030-02-M-0601		1,274.00
N/A	Tennessee Technological University	Development of Regional Guidebook for Evaluating the Functions of Wetlands	F40650-00-C-0042		26,849.13
N/A	Tennessee Technological University	Naval Postgraduate School	NPS (91)		19,761.93
N/A	University of Memphis	Intergovernmental Personnel Assignment	CEMVM-ED-H		84,488.74
N/A	University of Memphis	Immunity-Based Intrusion Detection System	F30602-00-2-0514MOD4		209,431.74
N/A	University of Tennessee	DOD-Williams-Tuckaleechee Seis	R011042046		11,453.14
N/A	University of Tennessee	Army Stir Wadsworth 01	R011241053		30,749.00
N/A	University of Tennessee	Army DAAH01-00-C-0185 Bradley	R011344054		8,470.76
N/A	University of Tennessee	Army DSG60-02-1-000 QI	R011344077		2,050.03
N/A	University of Tennessee	DEF LOG-SPO410-99-D-0006 Dicer	R012516002		166,250.08

**State of Tennessee  
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For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
N/A	University of Tennessee	DARPA-NBCH1020006-White	R012545003	24,787.98
N/A	University of Tennessee	AF F40600-00-D-0001-0018 Bomar	R024312020	13,910.17
N/A	University of Tennessee	AF F40600-00-D-0001-0016 Collins	R024315020	14,751.04
N/A	University of Tennessee	AF F40600-00-D-0001-0021 Collins	R024315021	8,856.78
N/A	University of Tennessee	AF F40600-00-D-0001-0019 Flandro	R024320020	13,492.76
N/A	University of Tennessee	AF F40600-00-D-0001-0014 Keefer	R024325020	32,947.81
N/A	University of Tennessee	AF F40600-00-D-0001-0015 McCay	R024331005	296,071.35
N/A	University of Tennessee	AF F40600-00-D-0001-0017 Merkle	R024332021	20,497.66
N/A	University of Tennessee	F40600-00-D-0001-0020	R024332022	18,561.83
N/A	University of Tennessee	Army-Helicptr Orient-Stellar	R024354042	15,347.70
N/A	University of Tennessee	AF-AEDC F40600-00-D-0001(0013) Collins	R024354046	31,368.85
N/A	University of Tennessee	Army Grant DAMD17-01-1-0830	R073621082	40,526.52
N/A	University of Tennessee	ONR #SP010302D0014 Coranet- Weiss	R112015082	6,017.51
N/A	University of Tennessee	Army Corps-Grassland Birds	R112218076	42,193.53
<b>Subtotal Direct Programs</b>				<u>\$ 4,796,379.09</u>
<b>Passed Through American Superconductor Corporation</b>				
12.300	University of Tennessee	Basic and Applied Scientific Research	R011344045	\$ (216.17)
<b>Passed Through Florida Institute of Technology</b>				
12.300	University of Tennessee	Basic and Applied Scientific Research	R011033035	173,637.61
<b>Passed Through Pennsylvania State University</b>				
12.300	University of Tennessee	Basic and Applied Scientific Research	R024351028	45,799.99
<b>Passed Through University of Mississippi</b>				
12.300	University of Memphis	Basic and Applied Scientific Research	00-06-071	\$ 129,267.70
12.300	University of Memphis	Basic and Applied Scientific Research	01-01-061	112,562.73
12.300	University of Memphis	Basic and Applied Scientific Research	01-06-061	<u>436,679.11</u>
				678,509.54
<b>Passed Through University of Notre Dame</b>				
12.300	University of Tennessee	Basic and Applied Scientific Research	R012580080	1,446.27
<b>Passed Through University of Pittsburg</b>				
12.300	University of Memphis	Basic and Applied Scientific Research	400428ADDENDUM#1	\$ 32,514.06
12.300	University of Memphis	Basic and Applied Scientific Research	400428-1	<u>222,339.55</u>
				254,853.61
<b>Passed Through Meharry Medical College</b>				
12.420	East Tennessee State University	Military Medical Research and Development	980717FJ136	29,455.70
<b>Passed Through Battelle</b>				
12.431	University of Memphis	Basic Scientific Research	DAAH04-96-C-0086	33,777.06
<b>Passed Through Nichols Research Corporation</b>				
12.431	University of Tennessee	Basic Scientific Research	R011031056	\$ 50,176.75
12.431	University of Tennessee	Basic Scientific Research	R011031057	<u>48,375.22</u>
				98,551.97
<b>Passed Through University of Florida</b>				
12.431	University of Memphis	Basic Scientific Research	UF-EIES-0214005-UME	2,145.14

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>
<b>Passed Through University of Missouri-Columbia</b>				
12.431	University of Memphis	Basic Scientific Research	01111141-1	17,933.39
<b>Passed Through University of South Alabama</b>				
12.431	University of Memphis	Basic Scientific Research	02-020183-01	12,595.49
<b>Passed Through Yale University</b>				
12.431	University of Tennessee	Basic Scientific Research	R011063057	(2,285.85)
<b>Passed Through Environmental Elements Corporation</b>				
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R011344016	1,532.61
<b>Passed Through Texas Tech University</b>				
12.800	University of Tennessee	Air Force Defense Research Sciences Program	R011373082	8,239.16
<b>Passed Through Duke University</b>				
12.910	University of Tennessee	Research and Technology Development	R011344050	56,244.60
<b>Passed Through Academy of Applied Science</b>				
N/A	Tennessee State University	Research and Engineering Apprentice Program	DAAH04-93-G-0163	5,268.31
<b>Passed Through American Ordnance, Limited Liability Company</b>				
N/A	University of Memphis	Mammal Inventory	DAA09-98-G0012	6,560.06
N/A	University of Memphis	Whitetailed Deer Assessment	DAA09-98-G0012	7,626.53
N/A	University of Memphis	Wildlife Project 2001-2002	P.O. T-01-2609	4,678.82
<b>Passed Through BWXT Y-12, Limited Liability Company</b>				
N/A	Tennessee State University	Technical Support to the Minority Educational Institutions Technology Partnership	DE-AC05-000R22800	27,598.27
<b>Passed Through CACI Technologies, Incorporated</b>				
N/A	University of Tennessee	CACI Tech 031-01-S-0086 Peterson	R011344065	58,826.45
<b>Passed Through Dynamic Structures and Materials, Limited Liability Company</b>				
N/A	Tennessee Technological University	Miniature Compliant Spatial Parallel Manipulators	DASG60-01-C-0074	24,995.72
N/A	Tennessee Technological University	Miniature Compliant Spatial Parallel Manipulators	TTU050100	224.13
<b>Subtotal Pass-Through Programs</b>				<b>\$ 1,547,998.41</b>
<b>Subtotal Department of Defense</b>				<b>\$ 6,344,377.50</b>

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Department of Housing and Urban Development</b>				
<b>Direct Programs</b>				
N/A	University of Tennessee	HUD B-01-SP-TN-0758 Murray	R011493044	\$ 9,439.39
<b>Subtotal Department of Housing and Urban Development</b>				<b>\$ 9,439.39</b>

<b>Department of the Interior</b>				
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<b>Direct Programs</b>				
15.608	Tennessee Technological University	Fish and Wildlife Management Assistance	1448-40181-99-G-055	\$ 3,436.75
15.608	University of Tennessee	Fish and Wildlife Management Assistance	R112218067	105.43
15.608	University of Tennessee	Fish and Wildlife Management Assistance	R112218078	33,341.48
				<b>\$ 36,883.66</b>
15.807	University of Memphis	Earthquake Hazards Reduction Program	00HQGR0008	\$ 337.40
15.807	University of Memphis	Earthquake Hazards Reduction Program	00HQGR0031	50,093.49
15.807	University of Memphis	Earthquake Hazards Reduction Program	00HQGR0077	66,472.81
15.807	University of Memphis	Earthquake Hazards Reduction Program	01HQAG0010 REV 2	390,164.23
15.807	University of Memphis	Earthquake Hazards Reduction Program	01HQGR0024 REV 1	10,838.54
15.807	University of Memphis	Earthquake Hazards Reduction Program	01HQGR0052	39,312.82
15.807	University of Memphis	Earthquake Hazards Reduction Program	01HQGR0063	19,621.73
15.807	University of Memphis	Earthquake Hazards Reduction Program	02HQGR0004	4,043.01
15.807	University of Memphis	Earthquake Hazards Reduction Program	02HQGR0025	13,244.56
15.807	University of Memphis	Earthquake Hazards Reduction Program	02HQGR0029	10,573.31
15.807	University of Memphis	Earthquake Hazards Reduction Program	02HQGR0053	14,747.25
15.807	University of Memphis	Earthquake Hazards Reduction Program	02HQGR0077	8,546.49
				<b>627,995.64</b>
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#32	\$ 34,529.76
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#34	40,317.22
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#36	7,205.47
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#37	464.35
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#38	401.23
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#39	1,731.65
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#40	1,172.64
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#41	11,700.05
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#42	6,929.45

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<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#43	33,217.27	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#44	18,149.31	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#45	10,334.42	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#46	39,538.18	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#47	2,260.34	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#48	17,636.69	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#49	304.63	
15.808	Tennessee Technological University	U.S. Geological Survey_Research and Data Acquisition	WO#50	5,862.80	
15.808	University of Memphis	U.S. Geological Survey_Research and Data Acquisition	00HQAG0100	48,487.93	
15.808	University of Memphis	U.S. Geological Survey_Research and Data Acquisition	01HQAG0205	35,370.47	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R011035076	(2,353.00)	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R011053068	119,075.42	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R011065010	13,372.31	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R011086003	2,576.89	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R011086033	75,161.63	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R012550079	2,411.57	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R012550088	18,756.71	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R012550092	12,382.72	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R111016092	53,685.54	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R111415088	629.98	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R112217081	33,252.62	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R112218003	40,533.08	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R112218052	(16.88)	
15.808	University of Tennessee	U.S. Geological Survey_Research and Data Acquisition	R112219040	11,863.52	696,945.97
15.809	University of Tennessee	National Spatial Data Infrastructure Cooperative Agreements Program	R016011056		354.95
15.810	University of Tennessee	National Cooperative Geologic Mapping Program	R011042083		12,399.67
15.904	East Tennessee State University	Historic Preservation Fund Grants-In-Aid	1443-CA-5140-98-007	\$ 74.70	
15.904	East Tennessee State University	Historic Preservation Fund Grants-In-Aid	1443-CA-5140-98-008	408.25	482.95
15.912	University of Memphis	National Historic Landmark	P5035010605		650.92
15.915	University of Memphis	Technical Preservation Services	H5580000463		20,507.36
15.916	East Tennessee State University	Outdoor Recreation_Acquisition, Development and Planning	1443-CA-5230-AO001	\$ 7,894.52	
15.916	Tennessee Technological University	Outdoor Recreation_Acquisition, Development and Planning	1443-CA-5460-98-012	5,707.91	

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
15.916	Tennessee Technological University	Outdoor Recreation_Acquisition, Development and Planning	1443-CA-5460-99-006	2,987.40	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R011086020	13,105.46	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R011334036	79,313.67	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R111016091	208.02	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R112218040	229.14	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R112218083	(213.57)	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R112218087	19,550.35	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R112218093	25,243.21	154,026.11
15.921	University of Tennessee	Rivers, Trails and Conservation Assistance	R011083085		138,407.88
15.926	Austin Peay State University	American Battlefield Protection	P5530000065		460.82
15.978	University of Memphis	Upper Mississippi River System Long Term Resource Monitoring Program	P570000020		517.91
N/A	University of Tennessee	NPS GSM-Table Mtn-Grissino-Mayer	R011038079		23,268.26
N/A	University of Tennessee	NIFC-EL Malpais Nm-Grissino-Mayer	R011038080		24,861.62
N/A	University of Tennessee	NPS P5460010082 Weltzin	R011086021		1,000.00
N/A	University of Tennessee	NPS GSM P5460010126 Nicholas	R011086039		7,407.95
N/A	University of Tennessee	US Geo-1445-CA09-95-0205-Smoot	R011334070		24,452.99
N/A	University of Tennessee	NCWRC-Hwy/Black Bears Hopper	R112218079		37,985.00
N/A	University of Tennessee	NPS-Oral History Trans Project-Hopper	R112219012		12,379.26
N/A	University of Tennessee	NPS 1443CA500099007-Mod 11-Hopper	R112219029		6,283.92
N/A	University of Tennessee	NPS 1443CA500099007-Mod 10-Hopper	R112219030		3,396.67
N/A	University of Tennessee	NPS 1443CA500099007-Mod 14-Clark	R112219031		13,097.79
N/A	University of Tennessee	NPS 1443CA500099007-Mod 12-Vanmanen	R112219035		3,174.83
N/A	University of Tennessee	USGS-Florida Panther Sites-Hopper	R112219051		5,108.06
<b>Subtotal Direct Programs</b>				<b>\$</b>	<b>1,852,050.19</b>
<b>Passed Through Indiana University</b>					
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R011241050	\$ 13,908.88	
15.916	University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	R011241056	9,161.51	\$ 23,070.39
<b>Passed Through Shiloh National Military Park</b>					
15.978	University of Memphis	Upper Mississippi River System Long Term Resource Monitoring Program	P570010025		6,218.56
<b>Subtotal Pass-Through Programs</b>				<b>\$</b>	<b>29,288.95</b>
<b>Subtotal Department of the Interior</b>				<b>\$</b>	<b>1,881,339.14</b>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Department of Justice</b>					
<b>Direct Programs</b>					
16.560	University of Memphis	National Institute of Justice Research, Evaluation, and Development Project Grants	1999-IJ-CX-K007	\$	34,263.06
16.560	University of Memphis	National Institute of Justice Research, Evaluation, and Development Project Grants	1999-WT-VX-0007		59,118.69
16.560	University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	R011076050	28,052.46	\$ 121,434.21
N/A	University of Memphis	Memphis Strategic Team Against Rape & Federal Assault - NIJ	2000-JN-FX-0002		9,484.23
N/A	University of Tennessee	FBI J-FBI-98-083 Birdwell	R011344013		408,238.32
<b>Subtotal Department of Justice</b>					<b>\$ 539,156.76</b>
<b>Department of Labor</b>					
<b>Direct Programs</b>					
17.002	University of Tennessee	Labor Force Statistics	R011404023	\$	532,479.14
17.503	University of Tennessee	Occupational Safety and Health_State Program	R011404024		142,730.57
<b>Subtotal Department of Labor</b>					<b>\$ 675,209.71</b>
<b>Department of Transportation</b>					
<b>Direct Programs</b>					
20.701	University of Tennessee	University Transportation Centers Program	R012514021	\$	(76,935.20)
20.701	University of Tennessee	University Transportation Centers Program	R012515096	842,288.34	\$ 765,353.14
N/A	University of Tennessee	FAA DTFA0200V14830 Winowich	R011373079		51,781.14
N/A	University of Tennessee	FHWA-DTFH61-00-P-00390 Everett	R012516055		15,288.17
N/A	University of Tennessee	FHWA-DTFH61-00-T-56023 Zach	R012516062		56,395.84
N/A	University of Tennessee	FHWA DTFH61-01-P-00335 Cooper	R012517004		59,098.58
N/A	University of Tennessee	FHWA DTFH61-01-P-00355 Chatterjee	R012517006		30,153.15
<b>Subtotal Direct Programs</b>					<b>\$ 978,070.02</b>
<b>Passed Through National Safe Skies Alliance</b>					
20.108	University of Tennessee	Aviation Research Grants	R011344048	\$	64,381.37
20.108	University of Tennessee	Aviation Research Grants	R011344049	70,535.88	\$ 134,917.25
<b>Subtotal Pass-Through Programs</b>					<b>\$ 134,917.25</b>
<b>Subtotal Department of Transportation</b>					<b>\$ 1,112,987.27</b>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Appalachian Regional Commission</b>				
<b>Direct Programs</b>				
23.001	East Tennessee State University	Appalachian Regional Development (See individual Appalachian Programs)	CO-12600C-A1	\$ 43,109.49
23.011	East Tennessee State University	Appalachian State Research, Technical Assistance, and Demonstration Projects	CO-12600D	64,273.64
N/A	University of Tennessee	ARC-Appal Higher Edu Network- Lashley	R011804101	61.24
N/A	University of Tennessee	ARC TN-14119-02 Shupp	R012611009	23,189.95
<b>Subtotal Appalachian Regional Commission</b>				<b>\$ 130,634.32</b>

<b>National Aeronautics and Space Administration</b>				
<b>Direct Programs</b>				
43.001	Austin Peay State University	Aerospace Education Services Program	H-35281D	\$ 4,024.02
43.001	East Tennessee State University	Aerospace Education Services Program	NAG5-10344	7,144.48
43.001	Middle Tennessee State University	Aerospace Education Services Program	NAG8-1486	6,466.58
43.001	Tennessee Technological University	Aerospace Education Services Program	H33930D	27,552.71
43.001	Tennessee Technological University	Aerospace Education Services Program	N00014-01-1-0909	60,376.88
43.001	Tennessee Technological University	Aerospace Education Services Program	NAG8-1631	34,354.49
43.001	Tennessee Technological University	Aerospace Education Services Program	NAG8-1749	16,893.10
43.001	Tennessee Technological University	Aerospace Education Services Program	NAG8-1793	22,826.37
43.001	Tennessee Technological University	Aerospace Education Services Program	NAG8-1794	65,591.84
43.001	Tennessee Technological University	Aerospace Education Services Program	NCC-223	117,289.89
43.001	Tennessee Technological University	Aerospace Education Services Program	NGT8-52883	21,088.50
43.001	Tennessee Technological University	Aerospace Education Services Program	NGT8-52911	21,380.16
43.001	University of Memphis	Aerospace Education Services Program	NAG5-9783	5,985.50
43.001	University of Memphis	Aerospace Education Services Program	NCC2-1244	179,957.12 \$ 590,931.64
43.002	Tennessee State University	Technology Transfer	NAG2-1419	\$ 70,854.42
43.002	Tennessee State University	Technology Transfer	NAG2-1473	105,356.11
43.002	Tennessee State University	Technology Transfer	NAG2-1530	21,570.72
43.002	Tennessee State University	Technology Transfer	NAG2-6052	67,524.73
43.002	Tennessee State University	Technology Transfer	NAG3-1797	5,735.77
43.002	Tennessee State University	Technology Transfer	NAG3-2244	(16,223.23)
43.002	Tennessee State University	Technology Transfer	NAG3-2471	63,365.92
43.002	Tennessee State University	Technology Transfer	NAG3-2577	900,337.62
43.002	Tennessee State University	Technology Transfer	NAG5-10896	121,548.30
43.002	Tennessee State University	Technology Transfer	NCC2-1205	13,800.00
43.002	Tennessee State University	Technology Transfer	NCC5-228	17,124.91
43.002	Tennessee State University	Technology Transfer	NCC5-511	1,099,960.22
43.002	Tennessee State University	Technology Transfer	NCC5-531	484,173.28
43.002	Tennessee State University	Technology Transfer	NCC5-96	6,509.24

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
43.002	University of Tennessee	Technology Transfer	R011042019	25,868.43	
43.002	University of Tennessee	Technology Transfer	R011042023	50,231.03	
43.002	University of Tennessee	Technology Transfer	R011042027	9,500.00	
43.002	University of Tennessee	Technology Transfer	R112817051	(17.56)	3,047,219.91
N/A	University of Memphis	Intergovernmental Personnel Assignment for Steve Hunter	253740113		77,117.24
N/A	University of Memphis	Landscape Hazard in Response to Short-term Climate Change	NAG5-7617-0004		50,554.12
N/A	University of Tennessee	NASA NAG5-8773 NHSE-Dongarra	R011030006		77,994.58
N/A	University of Tennessee	Jet Prop Lab Britt	R011041096		51,384.36
N/A	University of Tennessee	NASA NAG5-8726 Taylor 99-00	R011042045		21,491.88
N/A	University of Tennessee	NASA NAG5-8926 Britt	R011042051		17,795.97
N/A	University of Tennessee	NASA NAG5-9061 Britt	R011042053		30,057.86
N/A	University of Tennessee	NASA NGT5-50286 McSween-Trng	R011042060		21,373.32
N/A	University of Tennessee	NASA-NRA00-OSS-01 MDAP McSween	R011042068		21,304.96
N/A	University of Tennessee	NASA-Mars-Moersch - 01	R011042071		7,632.66
N/A	University of Tennessee	NASA NAG5-10414 Taylor 01-02	R011042072		66,821.26
N/A	University of Tennessee	NASA NAG5-10635 Moersch 02	R011042080		81,034.08
N/A	University of Tennessee	NASA NAG5-10666	R011042081		26,162.52
N/A	University of Tennessee	NASA Mars Paleolakes Moersch	R011042086		36,901.22
N/A	University of Tennessee	NASA NAG5-11567 McSween	R011042092		51,142.23
N/A	University of Tennessee	NASA NAG5-11744 McSween	R011042093		29,730.52
N/A	University of Tennessee	NASA NAG5-11558 Taylor	R011042094		5,409.64
N/A	University of Tennessee	JPL 1241129 Moersch	R011042097		2,063.04
N/A	University of Tennessee	JPL Moersch	R011042100		1,234.10
N/A	University of Tennessee	NASA NAG5-8405 Mezzacappa	R011060009		34,069.47
N/A	University of Tennessee	NASA NAG8-1442 Sanders See	R011063092		47,083.74
N/A	University of Tennessee	NASA NAG5-10582 Thonnard	R011065039		26,216.74
N/A	University of Tennessee	NASA JPL 1232806 Blalock	R011344068		67,421.77
N/A	University of Tennessee	JPL 1242010 Blalock	R011344084		4,774.06
N/A	University of Tennessee	NASA NAG1-2163 Lyne	R011373052		215.32
N/A	University of Tennessee	NASA NAG-1-2292 Riggins	R011373073		13.46
N/A	University of Tennessee	NASA NAG9-1123 Ntrn/Spcta Twins	R011382043		21,773.26
N/A	University of Tennessee	NASA NAG8-1669 Townsend	R011382054		50,714.91
N/A	University of Tennessee	NASA NAG9-1269 Bysn Mthd- Twnsd	R011382056		22,784.49
N/A	University of Tennessee	NASA NAG9-1080 Sayler	R012580052		156,299.22
N/A	University of Tennessee	NASA NAG5-8760 Sayler	R012580057		104,156.67
N/A	University of Tennessee	NASA NAG8-1568 Bunick	R012813076		122,842.01
N/A	University of Tennessee	NASA NAG8-1826 Bunick	R012813097		98,352.73
N/A	University of Tennessee	NASA-Glenn NAG3-2680 Merkle	R024332020		50,836.86
N/A	University of Tennessee	NASA-Ames NCC2-5493 Venke	R024343020		32,157.42
N/A	University of Tennessee	NASA NCC2-5413 Venkateswaran	R024351027		14,068.38

**Subtotal Direct Programs** \$ 5,169,137.62

**Passed Through Arizona State University**

43.001	University of Tennessee	Aerospace Education Services Program	R011042063	\$ (82.07)	
43.001	University of Tennessee	Aerospace Education Services Program	R011042064	8,128.61	\$ 8,046.54

**Passed Through Mid-South Engineering**

43.001	Tennessee State University	Aerospace Education Services Program	NAS1-20291		43.41
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**Passed Through Smithsonian Institution**

43.001	East Tennessee State University	Aerospace Education Services Program	GO2-3121X		15,646.27
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Passed Through Universities Space Research Association</b>					
43.001	Austin Peay State University	Aerospace Education Services Program	03482-02		4,174.32
<b>Passed Through University of Iowa</b>					
43.001	Middle Tennessee State University	Aerospace Education Services Program	4000073315/NAG5-8918		3,834.35
<b>Passed Through University of New Orleans Research and Technology Foundation</b>					
43.001	Tennessee Technological University	Aerospace Education Services Program	NCC8-223-S4	\$ 85,527.54	
43.001	Tennessee Technological University	Aerospace Education Services Program	NCC8-223-S5	113,578.19	199,105.73
<b>Passed Through Vanderbilt University</b>					
43.001	Austin Peay State University	Aerospace Education Services Program	15766-S1	\$ 5,890.13	
43.001	Tennessee Technological University	Aerospace Education Services Program	15766-S9	5,000.00	10,890.13
N/A	Middle Tennessee State University	Impact on Flooding in Tennessee	15766-S4		10,662.83
<b>Passed Through Cornell University</b>					
43.002	University of Tennessee	Technology Transfer	R011042073		9,806.13
<b>Passed Through Alabama A&amp;M University</b>					
N/A	University of Memphis	Weakly Ionized Gas Dynamics and Applications	NAG8-1808		26,684.08
<b>Passed Through Mississippi State University</b>					
N/A	Tennessee State University	Physics-Based Maneuvering Prediction of Commuter Aircraft	NAG2-1232		7,411.82
<b>Passed Through Quality Education for Minorities (QEM) Network</b>					
N/A	Tennessee State University	2001 NASA Sharp Plus Research Apprenticeship Program	NAG5-8886		28,119.92
<b>Subtotal Pass-Through Programs</b>				\$	324,425.53
<b>Subtotal National Aeronautics and Space Administration</b>				\$	5,493,563.15
<b>National Foundation of Arts and the Humanities</b>					
<b>Direct Programs</b>					
45.149	East Tennessee State University	Promotion of the Humanities_ Division of Preservation and Access	PA-23706-01	\$ 94,359.34	
45.149	East Tennessee State University	Promotion of the Humanities_ Division of Preservation and Access	PA-23833-00		2,378.75
45.149	East Tennessee State University	Promotion of the Humanities_ Division of Preservation and Access	PA-23890-01	5,000.00	\$ 101,738.09
45.161	University of Tennessee	Promotion of the Humanities_ Research	R011003081		231.43

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
45.302	University of Memphis	Museum Assessment Program	IM-10064-01	1,475.50
N/A	University of Tennessee	NEH FB-37169-01 Hiles	R011007064	47,241.42
<b>Subtotal Direct Programs</b>				<b>\$ 150,686.44</b>
<b>Passed Through National College Choreography Initiative</b>				
45.025	University of Memphis	Promotion of the Arts_Partnership Agreements	N/A	\$ 10,029.45
<b>Passed Through Central Michigan University</b>				
45.129	Middle Tennessee State University	Promotion of the Humanities_Federal/State Partnership	R014-01	500.00
<b>Passed Through University of Maryland</b>				
45.161	Middle Tennessee State University	Promotion of the Humanities_Research	N/A	1,937.73
<b>Subtotal Pass-Through Programs</b>				<b>\$ 12,467.18</b>
<b>Subtotal National Foundation of Arts and the Humanities</b>				<b>\$ 163,153.62</b>

**National Science Foundation**

**Direct Programs**

47.041	Middle Tennessee State University	Engineering Grants	ECS9988797	\$ 27,137.96
47.041	University of Tennessee	Engineering Grants	R011005037	8,445.01
47.041	University of Tennessee	Engineering Grants	R011005045	48,160.47
47.041	University of Tennessee	Engineering Grants	R011038072	1,137.76
47.041	University of Tennessee	Engineering Grants	R011063043	(114.33)
47.041	University of Tennessee	Engineering Grants	R011063097	59,495.77
47.041	University of Tennessee	Engineering Grants	R011305035	119,569.44
47.041	University of Tennessee	Engineering Grants	R011309018	33,946.65
47.041	University of Tennessee	Engineering Grants	R011311025	83,958.57
47.041	University of Tennessee	Engineering Grants	R011317035	79.77
47.041	University of Tennessee	Engineering Grants	R011317036	105,401.92
47.041	University of Tennessee	Engineering Grants	R011322055	16,023.11
47.041	University of Tennessee	Engineering Grants	R011322066	(1,138.53)
47.041	University of Tennessee	Engineering Grants	R011322078	43,958.88
47.041	University of Tennessee	Engineering Grants	R011334074	46,603.00
47.041	University of Tennessee	Engineering Grants	R011334077	5,855.54
47.041	University of Tennessee	Engineering Grants	R011344059	35,443.30
47.041	University of Tennessee	Engineering Grants	R011373055	16,429.21
47.041	University of Tennessee	Engineering Grants	R011373060	39,887.96
47.041	University of Tennessee	Engineering Grants	R011382068	2,609.97
47.041	University of Tennessee	Engineering Grants	R012580094	14,389.22
47.041	University of Tennessee	Engineering Grants	R012813071	17,562.50
47.041	University of Tennessee	Engineering Grants	R073036049	10.00
47.041	University of Tennessee	Engineering Grants	R073922003	10,356.75
				<b>\$ 735,209.90</b>
47.049	East Tennessee State University	Mathematical and Physical Sciences	AST-0073853	\$ 48,428.12
47.049	East Tennessee State University	Mathematical and Physical Sciences	CHE-9982500	(740.00)
47.049	East Tennessee State University	Mathematical and Physical Sciences	DMS-0122278	15,154.00
47.049	East Tennessee State University	Mathematical and Physical Sciences	DMS-0139291	59,359.97
47.049	Middle Tennessee State University	Mathematical and Physical Sciences	DMS-0070430	19,121.17
47.049	University of Memphis	Mathematical and Physical Sciences	CHE-9983664	30,708.41
47.049	University of Memphis	Mathematical and Physical Sciences	CHE-9983665	29,416.02
47.049	University of Memphis	Mathematical and Physical Sciences	CHE-9987775	27,820.98
47.049	University of Memphis	Mathematical and Physical Sciences	DMR-0079546	129,500.50
47.049	University of Memphis	Mathematical and Physical Sciences	DMS-0100577	30,549.96

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47.049	University of Memphis	Mathematical and Physical Sciences	DMS-0100686	4,550.00
47.049	University of Memphis	Mathematical and Physical Sciences	DMS-9801602	4,770.26
47.049	University of Memphis	Mathematical and Physical Sciences	DMS-9896286	1,547.49
47.049	University of Memphis	Mathematical and Physical Sciences	DMS-9970404	18,863.35
47.049	University of Memphis	Mathematical and Physical Sciences	DMS-9971212	39,848.44
47.049	University of Tennessee	Mathematical and Physical Sciences	R010151001	95,445.60
47.049	University of Tennessee	Mathematical and Physical Sciences	R011024027	83,798.23
47.049	University of Tennessee	Mathematical and Physical Sciences	R011024031	40,930.11
47.049	University of Tennessee	Mathematical and Physical Sciences	R011024085	85,794.17
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025001	38,435.28
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025018	83,592.30
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025022	134,931.02
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025024	104,352.64
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025027	132,526.28
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025044	74,734.40
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025073	155,531.13
47.049	University of Tennessee	Mathematical and Physical Sciences	R011025074	89.80
47.049	University of Tennessee	Mathematical and Physical Sciences	R011027038	90,127.70
47.049	University of Tennessee	Mathematical and Physical Sciences	R011027039	62,214.42
47.049	University of Tennessee	Mathematical and Physical Sciences	R011052002	9,325.16
47.049	University of Tennessee	Mathematical and Physical Sciences	R011052015	8,888.09
47.049	University of Tennessee	Mathematical and Physical Sciences	R011053004	19,703.68
47.049	University of Tennessee	Mathematical and Physical Sciences	R011053077	2,036.49
47.049	University of Tennessee	Mathematical and Physical Sciences	R011053080	9,946.72
47.049	University of Tennessee	Mathematical and Physical Sciences	R011053093	620.00
47.049	University of Tennessee	Mathematical and Physical Sciences	R011053094	20,031.97
47.049	University of Tennessee	Mathematical and Physical Sciences	R011053097	63,681.32
47.049	University of Tennessee	Mathematical and Physical Sciences	R011053099	43,192.85
47.049	University of Tennessee	Mathematical and Physical Sciences	R011054004	59,881.35
47.049	University of Tennessee	Mathematical and Physical Sciences	R011054005	28,343.58
47.049	University of Tennessee	Mathematical and Physical Sciences	R011060014	69,212.75
47.049	University of Tennessee	Mathematical and Physical Sciences	R011062096	1,457.20
47.049	University of Tennessee	Mathematical and Physical Sciences	R011063034	63,352.59
47.049	University of Tennessee	Mathematical and Physical Sciences	R011063039	(378.11)
47.049	University of Tennessee	Mathematical and Physical Sciences	R011063064	(13,600.29)
47.049	University of Tennessee	Mathematical and Physical Sciences	R011063072	590.76
47.049	University of Tennessee	Mathematical and Physical Sciences	R011063096	1,316.50
47.049	University of Tennessee	Mathematical and Physical Sciences	R011063099	20,808.31
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065003	16,177.12
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065004	61,502.99
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065009	64,903.21
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065011	26,970.35
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065024	60,445.77
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065025	128,206.34
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065043	20,940.72
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065045	39,680.12
47.049	University of Tennessee	Mathematical and Physical Sciences	R011065053	6,332.75
47.049	University of Tennessee	Mathematical and Physical Sciences	R011086025	115,708.32
47.049	University of Tennessee	Mathematical and Physical Sciences	R011315005	4,640.62
47.049	University of Tennessee	Mathematical and Physical Sciences	R011317059	87,990.29
47.049	University of Tennessee	Mathematical and Physical Sciences	R011317089	43,944.05
47.049	University of Tennessee	Mathematical and Physical Sciences	R011322080	182,979.20
47.049	University of Tennessee	Mathematical and Physical Sciences	R041025035	48,390.67
				2,958,625.19
47.050	Tennessee Technological University	Geosciences	OCE-9813542	\$ 24,137.79
47.050	University of Memphis	Geosciences	EAR-0001118	7,891.16
47.050	University of Memphis	Geosciences	EAR-0003720	40,197.81
47.050	University of Memphis	Geosciences	EAR-003438	22,282.70
47.050	University of Memphis	Geosciences	EAR-0121140	9,887.07
47.050	University of Memphis	Geosciences	EAR-0125565	3,619.78
47.050	University of Memphis	Geosciences	EAR-9803484	36,998.42
47.050	University of Memphis	Geosciences	OPP-0003834	44,117.04
47.050	University of Tennessee	Geosciences	R011015077	58,884.42
47.050	University of Tennessee	Geosciences	R011040079	25,559.14

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
47.050	University of Tennessee	Geosciences	R011042029	3.50
47.050	University of Tennessee	Geosciences	R011042040	15,746.38
47.050	University of Tennessee	Geosciences	R011042049	37,127.82
47.050	University of Tennessee	Geosciences	R011042065	14,875.22
47.050	University of Tennessee	Geosciences	R011042077	41,678.84
47.050	University of Tennessee	Geosciences	R011042078	32,804.79
47.050	University of Tennessee	Geosciences	R011042087	23,458.79
47.050	University of Tennessee	Geosciences	R011322086	182.38
47.050	University of Tennessee	Geosciences	R011334076	27,788.47
47.050	University of Tennessee	Geosciences	R012580069	16,208.82
47.050	University of Tennessee	Geosciences	R012580093	43,712.12
				527,162.46
47.070	University of Memphis	Computer and Information Science and Engineering	EIA-0130352	\$ 16,523.69
47.070	University of Memphis	Computer and Information Science and Engineering	IIS-0104251	56,715.26
47.070	University of Memphis	Computer and Information Science and Engineering	IIS-0133415	29,329.55
47.070	University of Memphis	Computer and Information Science and Engineering	IIS-0133948	13,841.61
47.070	University of Memphis	Computer and Information Science and Engineering	SBR-9720314	828.90
47.070	University of Tennessee	Computer and Information Science and Engineering	R010156002	1,658.51
47.070	University of Tennessee	Computer and Information Science and Engineering	R011030002	483,725.61
47.070	University of Tennessee	Computer and Information Science and Engineering	R011030007	16,598.68
47.070	University of Tennessee	Computer and Information Science and Engineering	R011030013	634,596.40
47.070	University of Tennessee	Computer and Information Science and Engineering	R011031065	1,768.70
47.070	University of Tennessee	Computer and Information Science and Engineering	R011031075	46,932.77
47.070	University of Tennessee	Computer and Information Science and Engineering	R011031090	17.65
47.070	University of Tennessee	Computer and Information Science and Engineering	R011031094	46,252.63
47.070	University of Tennessee	Computer and Information Science and Engineering	R011033018	122,829.66
47.070	University of Tennessee	Computer and Information Science and Engineering	R011033027	212,234.26
47.070	University of Tennessee	Computer and Information Science and Engineering	R011033030	3,308.19
47.070	University of Tennessee	Computer and Information Science and Engineering	R011033058	27,305.85
				1,714,467.92
47.074	East Tennessee State University	Biological Sciences	DEB-0080921	\$ 18,565.21
47.074	Tennessee Technological University	Biological Sciences	DBI-9970016	1,870.50
47.074	University of Memphis	Biological Sciences	DEB-9996016	4,011.25
47.074	University of Memphis	Biological Sciences	MCB-0049026	53,158.01
47.074	University of Memphis	Biological Sciences	MCB-0080345	61,535.69
47.074	University of Memphis	Biological Sciences	MCB-0224621	1,744.21
47.074	University of Tennessee	Biological Sciences	R011012013	(4,306.32)
47.074	University of Tennessee	Biological Sciences	R011012017	28,094.01
47.074	University of Tennessee	Biological Sciences	R011015080	2,411.40
47.074	University of Tennessee	Biological Sciences	R011015088	7,000.00
47.074	University of Tennessee	Biological Sciences	R011015090	44,397.23
47.074	University of Tennessee	Biological Sciences	R011018038	19,025.61
47.074	University of Tennessee	Biological Sciences	R011018047	38,765.48
47.074	University of Tennessee	Biological Sciences	R011018053	49,986.03
47.074	University of Tennessee	Biological Sciences	R011018058	96,203.74
47.074	University of Tennessee	Biological Sciences	R011018065	24,650.80

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
47.074	University of Tennessee	Biological Sciences	R011018069	32,562.22
47.074	University of Tennessee	Biological Sciences	R011022003	(8,443.00)
47.074	University of Tennessee	Biological Sciences	R011022013	1,730.15
47.074	University of Tennessee	Biological Sciences	R011022016	110.59
47.074	University of Tennessee	Biological Sciences	R011022022	76,828.81
47.074	University of Tennessee	Biological Sciences	R011022024	86,812.82
47.074	University of Tennessee	Biological Sciences	R011022029	109,527.00
47.074	University of Tennessee	Biological Sciences	R011022030	21,587.27
47.074	University of Tennessee	Biological Sciences	R011086009	101,399.99
47.074	University of Tennessee	Biological Sciences	R011086024	2,502.91
47.074	University of Tennessee	Biological Sciences	R011086027	55,936.29
47.074	University of Tennessee	Biological Sciences	R012580045	124,076.41
47.074	University of Tennessee	Biological Sciences	R073003057	2,475.75
47.074	University of Tennessee	Biological Sciences	R073004019	35,912.18
47.074	University of Tennessee	Biological Sciences	R073004031	43,579.64
47.074	University of Tennessee	Biological Sciences	R073036010	68,663.57
47.074	University of Tennessee	Biological Sciences	R073036064	81.93
47.074	University of Tennessee	Biological Sciences	R073297003	17,834.94
				1,220,292.32
47.075	East Tennessee State University	Social, Behavioral, and Economic Sciences	INT-9908542	\$ 3,969.95
47.075	University of Memphis	Social, Behavioral, and Economic Sciences	115311	6,641.39
47.075	University of Memphis	Social, Behavioral, and Economic Sciences	BCS-0126592	10,748.00
47.075	University of Memphis	Social, Behavioral, and Economic Sciences	INT-0077531	8,932.59
47.075	University of Memphis	Social, Behavioral, and Economic Sciences	SES-9977969	55,516.00
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011005024	35,913.88
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011005027	354.44
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011025003	8,936.20
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011025046	3,094.91
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011038063	20,638.99
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011053096	582.90
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011063094	8,378.08
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011065014	1,676.29
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011065051	5,533.88
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011080019	2,886.34
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011322049	(2,679.39)
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011373050	(16,429.21)
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011382009	6,140.96
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R012540046	20.60
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R105210044	13,789.49
				174,646.29
47.076	Tennessee State University	Education and Human Resources	HRD-9706268	\$ 1,162,502.16
47.076	Tennessee Technological University	Education and Human Resources	DGE-0228234	2,436.66
47.076	Tennessee Technological University	Education and Human Resources	DUE-9950762	38,770.87

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
47.076	Tennessee Technological University	Education and Human Resources	EHR-0091632	73,566.87	
47.076	University of Memphis	Education and Human Resources	DUE-0088534	31,769.93	
47.076	University of Memphis	Education and Human Resources	EEC-9912439	88,001.81	
47.076	University of Memphis	Education and Human Resources	REC-0106965	299,193.19	
47.076	University of Tennessee	Education and Human Resources	R011018052	48.00	
47.076	University of Tennessee	Education and Human Resources	R011022011	134.41	
47.076	University of Tennessee	Education and Human Resources	R011022021	63,475.67	
47.076	University of Tennessee	Education and Human Resources	R011033044	109,650.54	
47.076	University of Tennessee	Education and Human Resources	R011083099	2,078.14	
47.076	University of Tennessee	Education and Human Resources	R011303002	(53.85)	
47.076	University of Tennessee	Education and Human Resources	R011317080	223,116.44	
47.076	University of Tennessee	Education and Human Resources	R012615007	43,129.11	
47.076	University of Tennessee	Education and Human Resources	R073921035	313,589.29	2,451,409.24
47.078	University of Tennessee	Polar Programs	R011035078	\$ 441.06	
47.078	University of Tennessee	Polar Programs	R011080007	94,981.21	
47.078	University of Tennessee	Polar Programs	R011080013	3,464.36	
47.078	University of Tennessee	Polar Programs	R011080022	9,752.55	
47.078	University of Tennessee	Polar Programs	R011083056	(7,192.52)	
47.078	University of Tennessee	Polar Programs	R011086005	326,737.25	
47.078	University of Tennessee	Polar Programs	R011086032	5,848.56	434,032.47
<b>Subtotal Direct Programs</b>				\$	10,215,845.79
<b>Passed Through Cornell University</b>					
47.041	East Tennessee State University	Engineering Grants	36194-6589	\$	11,428.27
<b>Passed Through Johns Hopkins University</b>					
47.041	University of Tennessee	Engineering Grants	R011016013		815.76
<b>Passed Through State University of New York-Buffalo</b>					
47.041	University of Memphis	Engineering Grants	150-7145E MOD 4		5,520.28
<b>Passed Through University of Illinois</b>					
47.041	University of Memphis	Engineering Grants	98-268/20-4	\$	9,563.26
47.041	University of Memphis	Engineering Grants	98-268/2ED-2	21,835.83	
47.041	University of Memphis	Engineering Grants	98-268/2RR-4	29,498.61	
47.041	University of Memphis	Engineering Grants	98-268/2SG-1	25,067.28	
47.041	University of Memphis	Engineering Grants	98-268/2SG-2	9,712.33	
47.041	University of Memphis	Engineering Grants	98-268/2SG-3A	26,261.67	
47.041	University of Memphis	Engineering Grants	98-268/5HD-2A	70.83	
47.041	University of Memphis	Engineering Grants	98-268/5HD-4	12,076.09	
47.041	University of Memphis	Engineering Grants	98-268/5HD-5	31.30	134,117.20
47.050	University of Memphis	Geosciences	98-268/2RC-2	\$	23,377.21
47.050	University of Memphis	Geosciences	98-268/2ST-17	982.38	
47.050	University of Memphis	Geosciences	98-268/3GT-8B	9,101.14	
47.050	University of Memphis	Geosciences	98-268/3SG-6A	35,429.69	
47.050	University of Memphis	Geosciences	98-268/3SG-7	25,028.43	
47.050	University of Memphis	Geosciences	98-268/3SG-9	33,501.33	
47.050	University of Memphis	Geosciences	98-268/4SG-12	5,368.98	
47.050	University of Memphis	Geosciences	98-268/4ST-21	5,546.09	
47.050	University of Memphis	Geosciences	98-268/5E-1K	3,486.00	
47.050	University of Memphis	Geosciences	98-268/5SG-11	10,514.89	
47.050	University of Memphis	Geosciences	98-268/6HD-3	9,028.85	161,364.99
47.070	University of Tennessee	Computer and Information Science and Engineering	R011031071		26,019.47
47.076	University of Memphis	Education and Human Resources	2-5-28123		15,063.14

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through Bowling Green State University</b>				
47.050	University of Tennessee	Geosciences	R011042079	520.71
<b>Passed Through Oregon State University</b>				
47.050	University of Tennessee	Geosciences	R011015086	13,588.80
<b>Passed Through University of Arkansas</b>				
47.070	University of Memphis	Computer and Information Science and Engineering	SA021170	11,857.07
<b>Passed Through University of California</b>				
47.070	University of Tennessee	Computer and Information Science and Engineering	R011031089	\$ (2,133.58)
47.070	University of Tennessee	Computer and Information Science and Engineering	R011033007	(412.35)
47.070	University of Tennessee	Computer and Information Science and Engineering	R011033032	76,272.32
47.074	University of Tennessee	Biological Sciences	R011086029	<u>2,668.57</u>
<b>Passed Through Western Washington University</b>				
47.074	University of Tennessee	Biological Sciences	R011018066	6,845.48
<b>Passed Through Illinois Institute of Technology</b>				
47.075	East Tennessee State University	Social, Behavioral, and Economic Sciences	SA229-1001	16,692.47
<b>Passed Through National Research Council</b>				
47.075	University of Tennessee	Social, Behavioral, and Economic Sciences	R011025033	76.82
<b>Passed Through LeMoyne-Owen College</b>				
47.076	Tennessee State University	Education and Human Resources	HRD-9553315-03	182.20
<b>Passed Through San Diego State University Foundation</b>				
47.076	Tennessee Technological University	Education and Human Resources	52270A P1623 7803 211 JWC	48,066.57
<b>Passed Through University of Nevada</b>				
47.076	University of Memphis	Education and Human Resources	UNR-01-67	6,631.25
<b>Passed Through University of North Carolina-Greensboro</b>				
47.076	University of Memphis	Education and Human Resources	SRV01FXN-937	<u>15,000.00</u>
<b>Subtotal Pass-Through Programs</b>				<u>\$ 550,185.44</u>
<b>Subtotal National Science Foundation</b>				<u>\$ 10,766,031.23</u>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Tennessee Valley Authority</b>					
<b>Direct Programs</b>					
62.001	Tennessee Technological University	TVA Energy Research and Technology Applications	98R2A-235592-1494038	\$	14,915.71
62.001	Tennessee Technological University	TVA Energy Research and Technology Applications	98R2A-235952-99999155		25,471.98
62.001	Tennessee Technological University	TVA Energy Research and Technology Applications	98R2A-235952-99999155/2	\$	35,887.60
N/A	University of Tennessee	TVA TV-80103V Acd Enrch-Harden	R011038036		20,995.99
N/A	University of Tennessee	TVA REL# 1481226 Byerley	R011309047		9,590.00
N/A	University of Tennessee	TVA REL# 148225 Byerley	R011309048		9,590.00
N/A	University of Tennessee	TVA REL# 1495330 Lundin	R011317094		3,448.27
N/A	University of Tennessee	TVA REL# 1408197 Bennett	R011334059		8,574.55
N/A	University of Tennessee	TVA TV-73564A-Bose Peac	R011341098		7,045.11
N/A	University of Tennessee	TVA REL# 1375538 Birdwell	R011344036		443.21
N/A	University of Tennessee	TVA REL# 1380873 Birdwell	R011344037		455.63
N/A	University of Tennessee	TVA REL# 1437856 Miller	R011382055		10,581.01
N/A	University of Tennessee	TVA REL# 27-Dodds	R011382065		6,165.47
N/A	University of Tennessee	TVA REL# 29-Townsend	R011382067		5,073.46
N/A	University of Tennessee	Beach Erosion Control Projects	R011420093		35,682.60
N/A	University of Tennessee	TVA 99R2A-242850-Ladd 2000	R011436012		30,328.00
N/A	University of Tennessee	TVA-1438166 Forum Publication-McCarthy	R012531003		79,116.11
N/A	University of Tennessee	TVA 2ND Crk Task Force Gngwr	R012550085		5,497.50
N/A	University of Tennessee	TVA TV-96737V Wtr Ctr-Burhenn	R041001014		19,300.10
N/A	University of Tennessee	TVA-Intangible Assets-Jakus	R111216018		5,482.49
N/A	University of Tennessee	TVA-CO2-Ray	R111216019		28,068.53
N/A	University of Tennessee	TVA Landscape #2-Rogers	R112615075		24,701.78
<b>Subtotal Direct Programs</b>				\$	<u>386,415.10</u>
<b>Passed Through University of Kentucky</b>					
N/A	Tennessee State University	Estimating the Demand for Welfare Recipient Labor	TV-00619V	\$	859.57
<b>Subtotal Pass-Through Programs</b>				\$	<u>859.57</u>
<b>Subtotal Tennessee Valley Authority</b>				\$	<u>387,274.67</u>
<b>Department of Veterans' Affairs</b>					
<b>Direct Programs</b>					
64.022	East Tennessee State University	Veterans Home Based Primary Care	5USC-3371-3818	\$	24,474.18
64.022	East Tennessee State University	Veterans Home Based Primary Care	V621P-3780	\$	26,709.91
N/A	University of Memphis	Intergovernmental Personnel Assignment for Robin Cox	305601257		11,292.27
N/A	University of Memphis	Measurement and Prediction of Outcomes of Amplification	420780518	\$	58,595.44
N/A	University of Memphis	Measurement and Prediction of Outcomes of Amplification	305601257		40,242.44
N/A	University of Memphis	Measurement and Prediction of Outcomes of Amplification	541927548		11,290.93
N/A	University of Tennessee	Veterans Admin-Marks 00	R011007055		258.86
<b>Subtotal Department of Veterans' Affairs</b>				\$	<u>172,864.03</u>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Environmental Protection Agency</b>					
<b>Direct Programs</b>					
66.500	Tennessee Technological University	Environmental Protection Consolidated Research	1R-0302-NANX	\$	21,825.73
66.500	Tennessee Technological University	Environmental Protection Consolidated Research	GS09T02BHM3493		16,799.33
66.500	Tennessee Technological University	Environmental Protection Consolidated Research	R827111-01-2		121,005.22
66.500	University of Memphis	Environmental Protection Consolidated Research	CR-827884-01-0		29,962.69
66.500	University of Tennessee	Environmental Protection Consolidated Research	R011083078		48.00
66.500	University of Tennessee	Environmental Protection Consolidated Research	R012540069		26,291.54
66.600	University of Tennessee	Environmental Protection Consolidated Grants_Program	R012540010		(579.78)
66.606	University of Memphis	Surveys, Studies, Investigations and Special Purpose Grants	2W-0883-NATX	\$	1,640.19
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012531027		72,683.37
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012531030		77,454.01
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012537074		14,021.70
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012537075		343.26
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012537083		(347.44)
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012538009		(17.82)
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012538022		14,066.46
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R012538057		34,888.00
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R112615081		10,746.93
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R112817052		4,361.92
66.701	University of Tennessee	Toxic Substances Compliance Monitoring Cooperative Agreements	R012537029		721.91
66.807	University of Tennessee	Superfund Innovative Technology Evaluation Program	R013515066		174,049.28
N/A	University of Memphis	Boron Isotopic Study of Congo Road, PA, Groundwater	DAS R31013		3,600.19
N/A	University of Tennessee	EP1 2W0041NAEX Kincaid	R012531026		20,379.57
<b>Subtotal Direct Programs</b>					<b>\$ 643,944.26</b>
<b>Passed Through Water Environment Research Foundation</b>					
66.500	University of Tennessee	Environmental Protection Consolidated Research	R011334069	\$	48,900.34
<b>Passed Through University of New Hampshire</b>					
66.606	University of Tennessee	Surveys, Studies, Investigations and Special Purpose Grants	R011334050		13,660.38
<b>Subtotal Pass-Through Programs</b>					<b>\$ 62,560.72</b>
<b>Subtotal Environmental Protection Agency</b>					<b>\$ 706,504.98</b>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Nuclear Regulatory Commission</b>				
<b>Direct Programs</b>				
N/A	University of Tennessee	NRC DR-01-0124 Stewart	R013515075	\$ 21,459.39
<b>Subtotal Nuclear Regulatory Commission</b>				<b>\$ 21,459.39</b>

<b>Department of Energy</b>				
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<b>Direct Programs</b>				
81.049	East Tennessee State University	Office of Science Financial Assistance Program	DE-FG02-99ER20333	\$ 88,645.96
81.049	Middle Tennessee State University	Office of Science Financial Assistance Program	01-026	52,175.54
81.049	Middle Tennessee State University	Office of Science Financial Assistance Program	DE-FG05-86ER10293	9,409.25
81.049	Tennessee State University	Office of Science Financial Assistance Program	DE-FG02-98ER25368	35,314.49
81.049	Tennessee Technological University	Office of Science Financial Assistance Program	DE-FC07-99CH10975	106,804.38
81.049	Tennessee Technological University	Office of Science Financial Assistance Program	DE-FG02-89ER40530	29,809.59
81.049	Tennessee Technological University	Office of Science Financial Assistance Program	DE-FG02-92ER40694	4,033.49
81.049	Tennessee Technological University	Office of Science Financial Assistance Program	DE-FG02-96ER40955	58,836.97
81.049	Tennessee Technological University	Office of Science Financial Assistance Program	DE-FG02-96ER40990	61,172.32
81.049	Tennessee Technological University	Office of Science Financial Assistance Program	DE-FG02-97ER41024	7,607.32
81.049	University of Memphis	Office of Science Financial Assistance Program	DE-FG02-02ER15289	68,158.12
81.049	University of Memphis	Office of Science Financial Assistance Program	DE-FG02-97ER14811	44,560.10
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011012012	36,607.09
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011018060	51,440.91
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011022010	110,540.81
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011024039	4,541.11
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011024068	144,639.65
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011026035	693.77
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011026053	45,931.66
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011026072	76,176.17
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011026075	39,768.87
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011030000	(670.08)
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011031088	60,546.39
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011042014	(20,365.59)
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011062032	(11,150.81)

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<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011063044	132,550.01	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011063055	247,468.39	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011063056	196,950.81	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011063063	275,475.00	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011063078	31,628.93	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011065013	141,992.56	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011322024	40,463.00	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011322068	3,087.13	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R012580025	126.83	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R024390011	13,917.84	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R105210006	159,929.06	
81.049	University of Tennessee	Office of Science Financial Assistance Program	R112218068	(4,636.56)	\$ 2,344,180.48
81.086	University of Tennessee	Conservation Research and Development	R011317054	\$ (561.97)	
81.086	University of Tennessee	Conservation Research and Development	R011317084	87,489.71	
81.086	University of Tennessee	Conservation Research and Development	R012540082	71,785.61	158,713.35
81.104	University of Tennessee	Office of Science and Technology for Environmental Management	R011343043		498,703.20
81.114	University of Tennessee	University Nuclear Science and Reactor Support	R011381011		58,703.88
81.121	University of Tennessee	Nuclear Energy Research Initiative	R011382044		66,778.40
81.502	Roane State Community College	Miscellaneous Federal Activities Actions	DE-FG05-96OR22528		28,002.60
N/A	Tennessee Technological University	Quantitative Structure/Property Relationship (QSAR) for Binding Affinities	15572		31,076.00
N/A	University of Tennessee	DOE DE-FG05-91ER40627	R011065036		503,674.94
N/A	Tennessee Technological University	Long Term Excavatability of Flowable Fill Containing Coal Combustion Byproducts	98-166-TTU		22,182.90
N/A	University of Tennessee	DOE DE-AR26-97FT34315 Hamel98	R011373032		62,710.76
N/A	University of Tennessee	SANDIA NTL LAB PO20199 Kress	R011373091		50,272.37
N/A	University of Tennessee	DOE DE-FG03-00SF22168-Mynatt	R011382053		211,347.45
N/A	University of Tennessee	DOE-DEFC3601GO10618-Moschler	R112219009		12,912.57
<b>Subtotal Direct Programs</b>					<b>\$ 4,049,258.90</b>
<b>Passed Through Argonne National Laboratory</b>					
81.049	Middle Tennessee State University	Office of Science Financial Assistance Program	2F-00582	\$	15,907.82
<b>Passed Through Yale University</b>					
81.049	University of Tennessee	Office of Science Financial Assistance Program	R011317097		51,206.78

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through Bechtel BWXT Idaho, Limited Liability Company</b>				
N/A	University of Tennessee	Lockheed ID K98-178597 Miller	R011382051	208.48
<b>Passed Through Bechtel Jacobs Company, Limited Liability Company</b>				
N/A	University of Tennessee	Bechtel CA021FREL0024 Gross	R011086028	58,477.16
N/A	University of Tennessee	Bechtel CA021FREL0023 Gross	R011086038	1,671.52
N/A	University of Tennessee	Bechtel CA021FREL0022 Taylor	R011317096	30,670.72
N/A	University of Tennessee	Bechtel CA021FREL Peterson	R011344076	22,415.96
N/A	University of Tennessee	Bechtel CA021FREL0019 Shrieves	R011425089	1,106.55
N/A	University of Tennessee	Bechtel CA021FREL0025 Webster	R012531025	4,836.97
N/A	University of Tennessee	Bechtel Jacobs 63K-FYT71C	R012537032	6,931.38
N/A	University of Tennessee	Bechtel Jacobs 63K-FYT70C	R012537039	64.24
N/A	University of Tennessee	Bechtel CA021FREL0018 Webster	R012539070	58,369.74
N/A	University of Tennessee	Bechtel CA021FREL0021 Bell	R012540090	3,923.84
N/A	University of Tennessee	Bechtel CA021FREL0010 Aversa	R013515070	65,295.69
N/A	University of Tennessee	Bechtel CA021FREL0020 Dolislag	R013515074	81,811.87
<b>Passed Through Bechtel Nevada Corporation</b>				
N/A	University of Tennessee	Bechtel Nevada Corporation-Freeland	R111416005	23,263.80
<b>Passed Through FloureScience, Incorporated</b>				
N/A	Tennessee Technological University	A Development of On-Line Temperature Measurement Instrumentation	DE-FC26-98FT40686	3,952.04
<b>Passed Through Lawrence Livermore National Laboratory</b>				
N/A	University of Tennessee	Univ CA LLNL B523596 Dongarra	R011033063	2,732.36
<b>Passed Through Lockheed Martin Energy Research Corporation</b>				
N/A	Tennessee State University	Heat Pump Test Facility	19X-ST226	(7,028.56)
<b>Passed Through Lockheed Martin Energy Systems, Incorporated</b>				
N/A	University of Tennessee	Lockheed Martin	B0199LCMA	1,161,444.24
<b>Passed Through UT-Battelle, Limited Liability Company</b>				
N/A	Tennessee Technological University	Development of Software Tools for Engine Diagnostics	4000002177	(3,645.46)
N/A	Tennessee Technological University	Stoichiometric Effects in AB2 Laves Phases	4000005119	38,232.03
N/A	Tennessee Technological University	Aluminide Coatings for Power-Generation Applications	4000007035	69,729.38
N/A	Tennessee Technological University	Engine Exhaust Characterization	4000008764	49,065.20
N/A	Tennessee Technological University	A Novel Method for the Deposition of Polymer Coatings on Microcantilevers	4000015646	1,728.37
N/A	University of Memphis	Tennessee Mouse Consortium	4000001327	1,526.13
<b>Subtotal Pass-Through Programs</b>				<u>\$ 1,743,898.25</u>
<b>Subtotal Department of Energy</b>				<u>\$ 5,793,157.15</u>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Federal Emergency Management Agency</b>				
<b>Direct Programs</b>				
83.010	University of Memphis	National Fire Academy Educational Program	E334084Y	\$ 9,528.57
<b>Subtotal Federal Emergency Management Agency</b>				<b>\$ 9,528.57</b>
<b>Department of Education</b>				
<b>Direct Programs</b>				
84.031	Roane State Community College	Higher Education_Institutional Aid	P031A010610	\$ 16,301.33
84.116	Roane State Community College	Fund for the Improvement of Postsecondary Education	P116R980092	10,409.40
84.195	University of Tennessee	Bilingual Education_Professional Development	R041501044	147,491.97
84.220	University of Memphis	Centers for International Business Education	P220A990018	\$ 1,156.25
84.220	University of Memphis	Centers for International Business Education	P220A990018-00	86,324.57
84.220	University of Memphis	Centers for International Business Education	P220A990018-01	178,915.85
84.325	University of Memphis	Special Education_Personnel Preparation to Improve Services and Results for Children with Disabilities	HO29D60041	10,912.43
84.339	University of Tennessee	Learning Anytime Anywhere Partnerships	R015701004	540,203.29
<b>Subtotal Direct Programs</b>				<b>\$ 991,715.09</b>
<b>Passed Through University of Minnesota</b>				
84.024	East Tennessee State University	Early Education for Children with Disabilities	H024D970015	\$ 1,274.40
<b>Passed Through American String Teachers Association</b>				
84.116	University of Memphis	Fund for the Improvement of Postsecondary Education	N/A	6,112.82
<b>Passed Through LeMoyne-Owen College</b>				
84.120	Southwest Tennessee Community College	Minority Science and Engineering Improvement	0002-8707	7,414.03
<b>Passed Through Memphis City Schools</b>				
84.184	University of Memphis	Safe and Drug-Free Schools and Communities_National Programs	N/A	21,008.06
84.195	University of Memphis	Bilingual Education_Professional Development	CFDA#84.195B	34,243.58
<b>Passed Through Modern Red Schoolhouse Institute, Incorporated</b>				
84.215	Tennessee State University	Fund for the Improvement of Education	R215C000028	107,504.99
<b>Passed Through University of Maine</b>				
84.257	University of Tennessee	National Institute for Literacy	R011804084	219,356.12

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through CNA Corporation</b>				
84.302	University of Memphis	Regional Technology in Education Consortia	00-UOFM-1-0050	141,282.35
<b>Passed Through University of Utah</b>				
84.324	East Tennessee State University	Special Education_Research and Innovation to Improve Services and Results for Children with Disabilities	9912011	29,589.68
<b>Passed Through Virginia Commonwealth University</b>				
84.324	East Tennessee State University	Special Education_Research and Innovation to Improve Services and Results for Children with Disabilities	521686/PO P364549	\$ 31,643.33
84.324	East Tennessee State University	Special Education_Research and Innovation to Improve Services and Results for Children with Disabilities	522409/PO P465905	21,628.02
<b>Passed Through Management Planning Research Associates, Incorporated</b>				
84.336	University of Memphis	Teacher Quality Enhancement Grants	1935-184	8,246.42
<b>Passed Through Appalachia Educational Laboratory</b>				
N/A	University of Memphis	Formative Evaluation of School Reform Programs	RJ96006001	108,097.80
<b>Subtotal Pass-Through Programs</b>				<u>\$ 737,401.60</u>
<b>Subtotal Department of Education</b>				<u>\$ 1,729,116.69</u>
<b>National Archives and Records Administration</b>				
<b>Direct Programs</b>				
89.003	University of Tennessee	National Historical Publications and Records Grants	R011002000	\$ 3,676.55
89.003	University of Tennessee	National Historical Publications and Records Grants	R011003064	(6,266.52)
89.003	University of Tennessee	National Historical Publications and Records Grants	R011003073	13,565.21
89.003	University of Tennessee	National Historical Publications and Records Grants	R011003077	50,475.33
89.003	University of Tennessee	National Historical Publications and Records Grants	R011003078	64,053.25
<b>Subtotal National Archives and Records Administration</b>				<u>\$ 125,503.82</u>
<b>United States Institute of Peace</b>				
<b>Direct Programs</b>				
91.001	University of Tennessee	Unsolicited Grant Program	R073252020	<u>\$ 265.50</u>
<b>Subtotal United States Institute of Peace</b>				<u>\$ 265.50</u>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Department of Health and Human Services</b>					
<b>Direct Programs</b>					
93.103	Tennessee State University	Food and Drug Administration_ Research	FD-U-001950-01	\$	68,197.99
93.103	Tennessee State University	Food and Drug Administration_ Research	FD-U-001950-02		45,633.54
93.103	Tennessee State University	Food and Drug Administration_ Research	FD-U-002101-01		40,934.30
93.103	University of Tennessee	Food and Drug Administration_ Research	R073621010		67,632.89
93.103	University of Tennessee	Food and Drug Administration_ Research	R112015064	5,382.76	\$ 227,781.48
93.113	University of Memphis	Biological Response to Environmental Health Hazards	7 R01 ES08148-03		57,418.87
93.121	University of Tennessee	Oral Diseases and Disorders Research	R012580058	\$	133,898.15
93.121	University of Tennessee	Oral Diseases and Disorders Research	R073445053		43,455.14
93.121	University of Tennessee	Oral Diseases and Disorders Research	R073445054		210,137.87
93.121	University of Tennessee	Oral Diseases and Disorders Research	R073475039		16,987.68
93.173	East Tennessee State University	Research Related to Deafness and Communication Disorders	2 R15 DC02301	\$	5,150.39
93.173	Tennessee State University	Research Related to Deafness and Communication Disorders	1 K02 DC00180-01A1		66,665.87
93.173	University of Memphis	Research Related to Deafness and Communication Disorders	5 R01 DC00154-20		33,454.20
93.173	University of Tennessee	Research Related to Deafness and Communication Disorders	R011010024		29,752.53
93.173	University of Tennessee	Research Related to Deafness and Communication Disorders	R011010030		87,881.26
93.211	University of Tennessee	Rural Telemedicine Grants	R106903058	\$	3.72
93.211	University of Tennessee	Rural Telemedicine Grants	R106903061		79,942.35
93.213	East Tennessee State University	Research and Training in Complementary and Alternative Medicine	1 R21 AT00501		69,718.96
93.226	Tennessee State University	Research on Healthcare Costs, Quality and Outcomes	1 R24 HS11640-01	\$	92,117.02
93.226	University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	R073017097		207,458.17
93.226	University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	R073850034		35,087.05
93.230	University of Tennessee	Consolidated Knowledge Development and Application (KD&A) Program	R013010094		16,262.88
93.242	Tennessee State University	Mental Health Research Grants	1 R24 MH59748-01	\$	20,885.26
93.242	Tennessee State University	Mental Health Research Grants	1 R24 MH59748-02		33,405.65
93.242	Tennessee State University	Mental Health Research Grants	1 R24 MH59748-03		225,540.07
93.242	University of Tennessee	Mental Health Research Grants	R011016011		97,673.36
93.242	University of Tennessee	Mental Health Research Grants	R011018034		25,696.99
93.242	University of Tennessee	Mental Health Research Grants	R011069062		11,312.80
93.242	University of Tennessee	Mental Health Research Grants	R011210091		215,337.67
93.242	University of Tennessee	Mental Health Research Grants	R012813090		45,263.96
93.242	University of Tennessee	Mental Health Research Grants	R014030010		3,868.45
93.242	University of Tennessee	Mental Health Research Grants	R014030011		518,770.34
93.273	University of Memphis	Alcohol Research Programs	1 U01 AA13506-01	\$	23,993.18
93.273	University of Memphis	Alcohol Research Programs	1 U01 AA13509-01		156,773.07
93.273	University of Memphis	Alcohol Research Programs	1 U01 AA13515-01		119,527.47
93.273	University of Tennessee	Alcohol Research Programs	R073003005		49,925.28
93.273	University of Tennessee	Alcohol Research Programs	R073003049		41,602.37
93.273	University of Tennessee	Alcohol Research Programs	R073003050		31,469.79

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93.273	University of Tennessee	Alcohol Research Programs	R073003053		35,533.40
93.273	University of Tennessee	Alcohol Research Programs	R073003055		36,641.95
93.273	University of Tennessee	Alcohol Research Programs	R073003056		56,349.16
93.273	University of Tennessee	Alcohol Research Programs	R073004055		6,861.77
93.273	University of Tennessee	Alcohol Research Programs	R073004067		190.40
93.273	University of Tennessee	Alcohol Research Programs	R073004077		30,712.08
93.273	University of Tennessee	Alcohol Research Programs	R073024063		67,948.00
93.273	University of Tennessee	Alcohol Research Programs	R073036089		170,150.99
93.273	University of Tennessee	Alcohol Research Programs	R073632015		19,429.07
					847,107.98
93.279	University of Memphis	Drug Abuse Research Programs	1 R01 DA12532-04	\$	366,362.41
93.279	University of Tennessee	Drug Abuse Research Programs	R073004066		177.20
93.279	University of Tennessee	Drug Abuse Research Programs	R073024027		323,174.87
93.279	University of Tennessee	Drug Abuse Research Programs	R073024035		372,542.25
93.279	University of Tennessee	Drug Abuse Research Programs	R073024042		568,945.48
93.279	University of Tennessee	Drug Abuse Research Programs	R073024066		392,048.66
93.279	University of Tennessee	Drug Abuse Research Programs	R073024094		107,553.34
93.279	University of Tennessee	Drug Abuse Research Programs	R073237004		(7,561.77)
93.279	University of Tennessee	Drug Abuse Research Programs	R073281032		(3,276.94)
93.279	University of Tennessee	Drug Abuse Research Programs	R073281033		191,741.77
					2,311,707.27
93.281	University of Tennessee	Mental Health Research Career/ Scientist Development Awards	R073003009	\$	2,209,694.94
93.281	University of Tennessee	Mental Health Research Career/ Scientist Development Awards	R073003012		1,227,093.09
93.281	University of Tennessee	Mental Health Research Career/ Scientist Development Awards	R073004083		107,428.92
93.281	University of Tennessee	Mental Health Research Career/ Scientist Development Awards	R073024061		112,297.65
93.281	University of Tennessee	Mental Health Research Career/ Scientist Development Awards	R073024062		205,818.17
93.281	University of Tennessee	Mental Health Research Career/ Scientist Development Awards	R073024064		129,203.66
					3,991,536.43
93.306	University of Tennessee	Comparative Medicine	R073316081	\$	91,147.08
93.306	University of Tennessee	Comparative Medicine	R181741012		76,349.24
					167,496.32
93.333	University of Tennessee	Clinical Research	R073223034	\$	123,627.10
93.333	University of Tennessee	Clinical Research	R073252080		40,928.87
93.333	University of Tennessee	Clinical Research	R073303027		94,342.95
93.333	University of Tennessee	Clinical Research	R073371048		97,869.86
93.333	University of Tennessee	Clinical Research	R073445064		54,591.91
					411,360.69
93.361	East Tennessee State University	Nursing Research	1 R15 NR05249	\$	59,643.22
93.361	University of Tennessee	Nursing Research	R013010093		8,970.02
93.361	University of Tennessee	Nursing Research	R013011003		89,128.67
93.361	University of Tennessee	Nursing Research	R073850022		342,738.97
93.361	University of Tennessee	Nursing Research	R073850023		247,903.19
93.361	University of Tennessee	Nursing Research	R073850035		11,146.17
93.361	University of Tennessee	Nursing Research	R073860038		58,884.74
					818,414.98
93.371	East Tennessee State University	Biomedical Technology	1 S10 RR14697	\$	339.40
93.371	University of Tennessee	Biomedical Technology	R012580046		(279.02)
93.371	University of Tennessee	Biomedical Technology	R073260033		888,560.50
93.371	University of Tennessee	Biomedical Technology	R073281035		(3,557.75)
93.371	University of Tennessee	Biomedical Technology	R073380008		260,000.00
					1,145,063.13
93.375	Southwest Tennessee Community College	Minority Biomedical Research Support	1 R25 GM60180-01A1	\$	128,424.76
93.375	Tennessee State University	Minority Biomedical Research Support	2 S06 GM08092-24		4,820.07
93.375	Tennessee State University	Minority Biomedical Research Support	3 S06 GM08092-25		48,036.59

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93.375	Tennessee State University	Minority Biomedical Research Support	5 S06 GM08092-26	58,684.14	
93.375	Tennessee State University	Minority Biomedical Research Support	5 S06 GM08092-27	901,124.39	1,141,089.95
93.389	Tennessee State University	Research Infrastructure	3 P20 RR11808-05	\$ 548,445.45	
93.389	Tennessee State University	Research Infrastructure	5 P20 RR11808-04	272.34	
93.389	Tennessee State University	Research Infrastructure	5 P20 RR11808-05	233,099.78	781,817.57
93.390	East Tennessee State University	Academic Research Enhancement Award	1 R15 CA80769	\$ 44,485.86	
93.390	East Tennessee State University	Academic Research Enhancement Award	1 R15 GM57779	66.74	
93.390	East Tennessee State University	Academic Research Enhancement Award	1 R15 MH59158	13,780.89	
93.390	East Tennessee State University	Academic Research Enhancement Award	5 R15 EY11783	168.10	
93.390	East Tennessee State University	Academic Research Enhancement Award	5 R15 GM54337	476.50	
93.390	Tennessee State University	Academic Research Enhancement Award	7 R15 CA74354-02	29,036.11	
93.390	University of Memphis	Academic Research Enhancement Award	1 R15 AG16594-01	16,994.78	
93.390	University of Memphis	Academic Research Enhancement Award	1 R15 AR45297-01	16,689.80	
93.390	University of Memphis	Academic Research Enhancement Award	1 R15 DK54235-01	8,560.80	
93.390	University of Memphis	Academic Research Enhancement Award	1 R15 HL60589-01	214.54	
93.390	University of Tennessee	Academic Research Enhancement Award	R073631081	8,806.80	139,280.92
93.393	East Tennessee State University	Cancer Cause and Prevention Research	7 R01 CA86927	\$ 160,277.60	
93.393	University of Memphis	Cancer Cause and Prevention Research	1 R03 CA93143-01A1	11,390.49	
93.393	University of Tennessee	Cancer Cause and Prevention Research	R073921066	48,170.57	
93.393	University of Tennessee	Cancer Cause and Prevention Research	R181730081	90,221.16	
93.393	University of Tennessee	Cancer Cause and Prevention Research	R181740094	63,131.99	
93.393	University of Tennessee	Cancer Cause and Prevention Research	R181741007	155,512.11	
93.393	University of Tennessee	Cancer Cause and Prevention Research	R181741015	20,920.32	549,624.24
93.395	University of Tennessee	Cancer Treatment Research	R011024040	\$ (7,431.28)	
93.395	University of Tennessee	Cancer Treatment Research	R011025051	76,100.69	
93.395	University of Tennessee	Cancer Treatment Research	R073024016	12,931.44	
93.395	University of Tennessee	Cancer Treatment Research	R073037010	133,018.61	
93.395	University of Tennessee	Cancer Treatment Research	R073256047	109,278.65	
93.395	University of Tennessee	Cancer Treatment Research	R073621040	(93.14)	
93.395	University of Tennessee	Cancer Treatment Research	R073621067	37,519.83	
93.395	University of Tennessee	Cancer Treatment Research	R073921067	5.26	
93.395	University of Tennessee	Cancer Treatment Research	R105210018	250,081.22	
93.395	University of Tennessee	Cancer Treatment Research	R105210030	(6,739.86)	
93.395	University of Tennessee	Cancer Treatment Research	R105210034	163,259.73	767,931.15
93.396	University of Tennessee	Cancer Biology Research	R073024072	\$ 150,254.76	
93.396	University of Tennessee	Cancer Biology Research	R073298098	200,589.42	350,844.18

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93.397	University of Tennessee	Cancer Centers Support Grants	R073018024	\$	189,492.55
93.397	University of Tennessee	Cancer Centers Support Grants	R073226057		3,547.67
93.397	University of Tennessee	Cancer Centers Support Grants	R073921062		19,336.04
					212,376.26
93.399	University of Memphis	Cancer Control	1 R01 CA71348	\$	16,348.83
93.399	University of Tennessee	Cancer Control	R073237024		472,421.66
93.399	University of Tennessee	Cancer Control	R073281042		1,327.00
					490,097.49
93.577	University of Tennessee	Early Learning Fund	R024317021		4,290.68
93.779	Tennessee State University	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	20-P-90889/4-02		18,720.61
93.821	University of Tennessee	Cell Biology and Biophysics Research	R011015075	\$	160,779.91
93.821	University of Tennessee	Cell Biology and Biophysics Research	R012813069		22,758.78
93.821	University of Tennessee	Cell Biology and Biophysics Research	R073013091		144,848.51
93.821	University of Tennessee	Cell Biology and Biophysics Research	R073018004		53,661.98
93.821	University of Tennessee	Cell Biology and Biophysics Research	R073036081		86,073.13
93.821	University of Tennessee	Cell Biology and Biophysics Research	R073281028		328.79
93.821	University of Tennessee	Cell Biology and Biophysics Research	R105210022		39,311.46
					507,762.56
93.837	East Tennessee State University	Heart and Vascular Diseases Research	1 R01 HL71519	\$	63,910.03
93.837	East Tennessee State University	Heart and Vascular Diseases Research	2 R01 HL54633		178,800.28
93.837	East Tennessee State University	Heart and Vascular Diseases Research	5 R01 HL51314		266,462.35
93.837	East Tennessee State University	Heart and Vascular Diseases Research	5 R01 HL51859		123,465.30
93.837	East Tennessee State University	Heart and Vascular Diseases Research	5 R01 HL58140		146,376.17
93.837	East Tennessee State University	Heart and Vascular Diseases Research	5 R01 HL63070		131,643.34
93.837	University of Memphis	Heart and Vascular Diseases Research	1 R01 HL63216-01A2		185,622.88
93.837	University of Memphis	Heart and Vascular Diseases Research	1 R01 HL64050		141,898.44
93.837	University of Memphis	Heart and Vascular Diseases Research	1 R29 HL55531		19,795.07
93.837	University of Memphis	Heart and Vascular Diseases Research	1 U01 HL62662		115.25
93.837	University of Memphis	Heart and Vascular Diseases Research	2 R01 HL50723-10		249,664.35
93.837	University of Memphis	Heart and Vascular Diseases Research	3 R18 HL5347804-A1S1		40,498.38
93.837	University of Memphis	Heart and Vascular Diseases Research	5 R01 HL64050-03		94,826.29
93.837	University of Memphis	Heart and Vascular Diseases Research	5 U01 HL62662-03		285,403.52
93.837	University of Memphis	Heart and Vascular Diseases Research	5 R18 HL56626-04		503,106.97
93.837	University of Memphis	Heart and Vascular Diseases Research	5 R18 HL53478-06		432,376.15
93.837	University of Memphis	Heart and Vascular Diseases Research	5 U01 HL62662-03		74,220.43
93.837	University of Memphis	Heart and Vascular Diseases Research	5 U01 HL62662-04		298,894.58
93.837	University of Memphis	Heart and Vascular Diseases Research	5 U01 HL62662-04S1		72,348.62
93.837	University of Tennessee	Heart and Vascular Diseases Research	R011373100		41,505.49
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073018007		49,794.46
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073024026		241,675.17
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073024028		121,388.31
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073024033		131,423.22
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073024065		221,488.89
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036009		1,487.46
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036013		185,783.38
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036022		188.38
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036027		185,208.89
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036029		178,922.07
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036033		149,117.93
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036046		18,221.70
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036053		28,331.35
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036078		169,334.93
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073036085		137,728.23
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073037033		13,162.43
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073037034		11,186.28
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073222039		(18,553.75)
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073237079		179,204.60
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073237085		30,602.85
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073252025		29,901.38
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073311034		169,146.96
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073311037		114,393.86
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073621050		19,629.92
93.837	University of Tennessee	Heart and Vascular Diseases Research	R073621063		135,220.85
					5,854,923.64

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
93.838	University of Tennessee	Lung Diseases Research	R073036052	\$	100,887.89
93.838	University of Tennessee	Lung Diseases Research	R073222044		101,489.75
					202,377.64
93.839	University of Tennessee	Blood Diseases and Resources Research	R011018055	\$	123,936.42
93.839	University of Tennessee	Blood Diseases and Resources Research	R073036004		184,936.27
93.839	University of Tennessee	Blood Diseases and Resources Research	R073036037		12.54
93.839	University of Tennessee	Blood Diseases and Resources Research	R073366079		(5,029.35)
					303,855.88
93.846	University of Memphis	Arthritis, Musculoskeletal and Skin Diseases Research	1 R29 AR44809-01	\$	120,213.63
93.846	University of Memphis	Arthritis, Musculoskeletal and Skin Diseases Research	3 R29 AR44809-04S1		28,953.99
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073003008		68,938.95
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073013081		87,953.68
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073220097		152,844.77
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073223032		76,483.03
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332022		298,923.73
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332034		133,341.54
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332045		211,090.30
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332047		98,924.22
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332050		627,997.01
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332066		257,975.57
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332068		215,926.01
93.846	University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	R073332069		29,028.16
					2,408,594.59
93.847	East Tennessee State University	Diabetes, Endocrinology and Metabolism Research	1 R01 DK58071	\$	118,143.30
93.847	East Tennessee State University	Diabetes, Endocrinology and Metabolism Research	1 R15 DK52570		19,364.35
93.847	East Tennessee State University	Diabetes, Endocrinology and Metabolism Research	5 R21 DK57115		72,257.30
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	R073037019		200,701.05
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	R073252056		216,893.51
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	R073316053		606,471.48
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	R073321009		164,983.28
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	R073332048		251,586.54
					1,650,400.81
93.848	University of Memphis	Digestive Diseases and Nutrition Research	7 R01 DK53952-03	\$	52,981.36
93.848	University of Tennessee	Digestive Diseases and Nutrition Research	R073035092		132,144.24

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<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>	
93.848	University of Tennessee	Digestive Diseases and Nutrition Research	R073036034	310,334.08	
93.848	University of Tennessee	Digestive Diseases and Nutrition Research	R073036087	63,214.77	
93.848	University of Tennessee	Digestive Diseases and Nutrition Research	R073316066	618,762.84	1,177,437.29
93.849	University of Tennessee	Kidney Diseases, Urology and Hematology Research	R073256042	\$ 181,571.30	
93.849	University of Tennessee	Kidney Diseases, Urology and Hematology Research	R073316057	211,271.64	
93.849	University of Tennessee	Kidney Diseases, Urology and Hematology Research	R073316065	78,326.25	
93.849	University of Tennessee	Kidney Diseases, Urology and Hematology Research	R181740097	95,159.70	566,328.89
93.853	East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	1 R15 NS39272	\$ 14,957.34	
93.853	East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	1 R15 NS40265	57,511.56	
93.853	East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 R01 NS18710	123,408.54	
93.853	East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	5 R01 NS39646	196,143.43	
93.853	University of Memphis	Extramural Research Programs in the Neurosciences and Neurological Disorders	1 R15 NS35293-01	19,463.24	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R011015078	15,084.25	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073003026	493,464.42	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073003028	168,674.76	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073003048	23,817.47	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073003054	35,011.65	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004012	140,776.78	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004013	232,731.26	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004028	143,768.36	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004056	59,994.49	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004057	50,315.59	

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<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004058	1,973.15	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004065	127,452.80	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004068	69.10	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004080	158,154.38	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073004082	(1,769.24)	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073009094	71,495.48	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073009095	182,393.36	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073014003	74,833.23	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073036015	149,083.54	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073036080	161,426.60	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073279042	33,821.10	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073279047	47,124.36	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R073281040	226,216.77	
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R181741011	96,597.14	3,103,994.91
93.855	East Tennessee State University	Allergy, Immunology and Transplantation Research	1 R15 AI43310	\$ 20,539.02	
93.855	East Tennessee State University	Allergy, Immunology and Transplantation Research	1 R15 AI45549	25,622.02	
93.855	East Tennessee State University	Allergy, Immunology and Transplantation Research	7 K08 AI01478	62,112.55	
93.855	University of Tennessee	Allergy, Immunology and Transplantation Research	R011015085	5,399.26	
93.855	University of Tennessee	Allergy, Immunology and Transplantation Research	R073018027	157,133.83	270,806.68
93.856	East Tennessee State University	Microbiology and Infectious Diseases Research	1 R15 AI43391	\$ 48,389.10	
93.856	East Tennessee State University	Microbiology and Infectious Diseases Research	1 R21 AI45829	66,089.20	
93.856	East Tennessee State University	Microbiology and Infectious Diseases Research	5 R01 AI13446	258,064.41	
93.856	East Tennessee State University	Microbiology and Infectious Diseases Research	5 R29 AI40915	49,882.13	

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<b>CFDA #</b>	<b>State Grantee Agency</b>	<b>Program Name</b>	<b>Other Identifying #</b>	<b>Disbursement/Issues</b>		
93.856	University of Memphis	Microbiology and Infectious Diseases Research	1 R15 AI45984-01		30,893.83	
93.856	University of Memphis	Microbiology and Infectious Diseases Research	3 R15 AI45984-01S1		7,120.75	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R011015084		181,811.68	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R011018056		89,035.16	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073004050		144,633.05	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073017093		329.00	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073017098		142,450.37	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073018008		122,204.40	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073252022		217.89	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073321031		530,154.18	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073371033		152,684.81	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073621068		77,210.43	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R181736071		(9,148.71)	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R181736072		3,911.88	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R181736082		171,679.48	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R181736083		344,656.45	
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R181736085		2,114.12	2,414,383.61
93.859	East Tennessee State University	Pharmacology, Physiology, and Biological Chemistry Research	5 R01 GM53522	\$	233,305.27	
93.859	East Tennessee State University	Pharmacology, Physiology, and Biological Chemistry Research	5 R01 GM59578		97,108.75	
93.859	East Tennessee State University	Pharmacology, Physiology, and Biological Chemistry Research	5 R01 GM62121		139,657.72	
93.859	University of Tennessee	Pharmacology, Physiology, and Biological Chemistry Research	R073252023		32,933.39	
93.859	University of Tennessee	Pharmacology, Physiology, and Biological Chemistry Research	R073252031		20,372.18	523,377.31
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training	R011015071	\$	6,735.11	
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training	R011018039		113,433.21	
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training	R011018061		215,875.09	
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training	R011080023		113,706.39	
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training	R011083089		1,751.34	
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training	R073014008		153,452.01	
93.862	University of Tennessee	Genetics and Developmental Biology Research and Research Training	R073014022		103,184.49	708,137.64
93.864	Tennessee State University	Population Research	8 G11 HD34944-03		108,378.84	

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
93.865	Austin Peay State University	Center for Research for Mothers and Children	1 R15 HD35349-01A1	\$	25,929.87
93.865	University of Tennessee	Center for Research for Mothers and Children	R011069059		98,623.30
93.865	University of Tennessee	Center for Research for Mothers and Children	R073003037		163,378.19
93.865	University of Tennessee	Center for Research for Mothers and Children	R073004060		10,234.21
93.865	University of Tennessee	Center for Research for Mothers and Children	R073036063		(19.70)
93.865	University of Tennessee	Center for Research for Mothers and Children	R073221001		478,149.02
93.865	University of Tennessee	Center for Research for Mothers and Children	R073221087		257,924.82
93.865	University of Tennessee	Center for Research for Mothers and Children	R073222054		48,562.18
93.865	University of Tennessee	Center for Research for Mothers and Children	R073223129		770.40
93.865	University of Tennessee	Center for Research for Mothers and Children	R073227031		103,053.47
93.865	University of Tennessee	Center for Research for Mothers and Children	R073227088		249,538.54
93.865	University of Tennessee	Center for Research for Mothers and Children	R073228020		10,837.43
93.865	University of Tennessee	Center for Research for Mothers and Children	R073237023		15,259.88
					1,462,241.61
93.866	University of Memphis	Aging Research	1 R01 AG14738-01A2	\$	334,500.28
93.866	University of Memphis	Aging Research	5 R01 AG11230-07		7,095.49
93.866	University of Tennessee	Aging Research	R011016016		20,598.46
93.866	University of Tennessee	Aging Research	R011025000		29,091.92
93.866	University of Tennessee	Aging Research	R012813096		32,327.90
93.866	University of Tennessee	Aging Research	R073004097		126,900.68
93.866	University of Tennessee	Aging Research	R073236076		99,843.39
93.866	University of Tennessee	Aging Research	R073237060		299,370.60
93.866	University of Tennessee	Aging Research	R105210031		41,352.36
93.866	University of Tennessee	Aging Research	R105210049		219,785.55
93.866	University of Tennessee	Aging Research	R105210050		262,970.16
93.866	University of Tennessee	Aging Research	R105210051		27,785.35
					1,501,622.14
93.867	University of Tennessee	Vision Research	R073003010	\$	171,484.68
93.867	University of Tennessee	Vision Research	R073004023		0.01
93.867	University of Tennessee	Vision Research	R073004048		170.00
93.867	University of Tennessee	Vision Research	R073004074		260,026.22
93.867	University of Tennessee	Vision Research	R073004081		107,777.96
93.867	University of Tennessee	Vision Research	R073004088		178,312.07
93.867	University of Tennessee	Vision Research	R073013083		124,525.64
93.867	University of Tennessee	Vision Research	R073036062		163,622.26
93.867	University of Tennessee	Vision Research	R073279063		254,288.06
93.867	University of Tennessee	Vision Research	R073285054		(4,257.66)
93.867	University of Tennessee	Vision Research	R073285067		1,055.93
93.867	University of Tennessee	Vision Research	R073285079		264,516.50
93.867	University of Tennessee	Vision Research	R073285085		154,830.80
93.867	University of Tennessee	Vision Research	R073285096		123,898.32
93.867	University of Tennessee	Vision Research	R181736078		259,480.20
					2,059,730.99
93.919	East Tennessee State University	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	U57/CCU420134		153,556.65
93.934	University of Tennessee	Fogarty International Research Collaboration Award	R073014036		33,582.70
93.990	University of Tennessee	National Health Promotion	R073236031	\$	1,240,150.44
93.990	University of Tennessee	National Health Promotion	R073236061		693,887.00
					1,934,037.44

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
N/A	Tennessee State University	Healthcare Services and Expenditures for Adults with Psychiatric Disorders	00R305007	21,673.00
N/A	University of Tennessee	DHHS-CDC-R49CCR419777-GL Fox	R011210099	34,506.37
N/A	University of Tennessee	NTL LIB MED N01-LM-0-3503	R011344031	267,732.81
N/A	University of Tennessee	DHHS PO36921 Wasserman	R011373083	830.21
N/A	University of Tennessee	USPHS Grant NS-36860-02	R073004030	130,137.58
N/A	University of Tennessee	USPHS Grant CA-47555-11	R073955048	29,769.54
<b>Subtotal Direct Programs</b>				<b>\$ 44,189,869.32</b>
<b>Passed Through Meharry Medical College</b>				
93.004	Middle Tennessee State University	Cooperative Agreements to Improve the Health Status of Minority Populations	990728STS114	\$ 32,982.50
93.226	Tennessee State University	Research on Healthcare Costs, Quality and Outcomes	1 U18 HS11131-01	\$ 131,245.51
93.226	Tennessee State University	Research on Healthcare Costs, Quality and Outcomes	5 U18 HS11131-02	216,489.60
				<b>347,735.11</b>
<b>Passed Through Ohio State University Research Foundation</b>				
93.121	University of Tennessee	Oral Diseases and Disorders Research	R181730090	1,933.75
<b>Passed Through Kirkwood Community College</b>				
93.142	University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	R012531041	\$ 29,344.22
93.142	University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	R012539076	39,475.51
				<b>68,819.73</b>
<b>Passed Through University of Utah</b>				
93.173	University of Memphis	Research Related to Deafness and Communication Disorders	99-N-09/9805093-01	51,451.40
<b>Passed Through Northwestern University</b>				
93.226	University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	R070106004	5,658.21
93.395	East Tennessee State University	Cancer Treatment Research	0600-370-C347-ETSU	9,045.98
<b>Passed Through University of California</b>				
93.226	University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	R073227075	106,317.52
<b>Passed Through University of Kentucky</b>				
93.242	University of Tennessee	Mental Health Research Grants	R011084025	23,125.76
93.279	University of Tennessee	Drug Abuse Research Programs	R011084014	106,262.91
<b>Passed Through University of Illinois-Chicago</b>				
93.253	University of Tennessee	Poison Control Stabilization and Enhancement Grants	R070106006	12,649.03
<b>Passed Through Cornell University</b>				
93.279	University of Tennessee	Drug Abuse Research Programs	R073281025	194.74

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through University of Kentucky Research Foundation</b>				
93.279	East Tennessee State University	Drug Abuse Research Programs	UKRF4-63573-02-040	5,500.00
<b>Passed Through University of North Carolina</b>				
93.283	University of Tennessee	Centers for Disease Control and Prevention_ Investigations and Technical Assistance	R073366092	29,235.54
<b>Passed Through University of Pittsburgh</b>				
93.394	University of Tennessee	Cancer Detection and Diagnosis Research	R011344058	1,271.71
<b>Passed Through University of Texas</b>				
93.395	University of Tennessee	Cancer Treatment Research	R073621089	20,782.81
<b>Passed Through Cancer Therapy and Reseach Center</b>				
93.399	East Tennessee State University	Cancer Control	CA37429	10,846.71
<b>Passed Through University of Minnesota</b>				
93.837	University of Memphis	Heart and Vascular Diseases Research	H6636358101	\$ 19,631.83
93.837	University of Memphis	Heart and Vascular Diseases Research	H6636354102	<u>10,816.60</u>
				30,448.43
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R011015081	\$ (8,231.59)
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R011015087	<u>36,905.79</u>
				28,674.20
<b>Passed Through University of Miami</b>				
93.847	University of Tennessee	Diabetes, Endocrinology and Metabolism Research	R073220027	2,308.65
<b>Passed Through Vanderbilt University</b>				
93.849	University of Tennessee	Kidney Diseases, Urology and Hematology Research	R011018070	2,460.62
<b>Passed Through Science &amp; Engineering Services, Incorporated</b>				
93.853	University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	R105210039	(2,123.68)
<b>Passed Through Johns Hopkins University</b>				
93.856	University of Memphis	Microbiology and Infectious Diseases Research	PO#8105-49574-4	63,087.86
<b>Passed Through Pennsylvania State University</b>				
93.856	East Tennessee State University	Microbiology and Infectious Diseases Research	5P01AI37829	140,907.07
<b>Passed Through University of Mississippi</b>				
93.856	University of Tennessee	Microbiology and Infectious Diseases Research	R073632023	21,128.08

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through University of Michigan</b>				
93.866	University of Tennessee	Aging Research	R073003020	19,780.43
<b>Passed Through Wake Forest University</b>				
93.866	University of Tennessee	Aging Research	R073237088	13,172.90
<b>Passed Through Wayne State University</b>				
93.866	University of Memphis	Aging Research	WSU02014-A1	\$ 197.00
93.866	University of Memphis	Aging Research	WSU02014	6,062.09
<b>Subtotal Pass-Through Programs</b>				<u>\$ 1,159,917.06</u>
<b>Subtotal Department of Health and Human Services</b>				<u>\$ 45,349,786.38</u>
<b>Other Federal Assistance</b>				
<b>Agency for International Development</b>				
<b>Passed Through American Council on Education</b>				
N/A	Middle Tennessee State University	Sustainable Environmental Management of Informal Settlements in KwaZulu-Natal	HNE-A-00-97-00059-00	\$ 67,540.19
<b>Passed Through United Negro College Fund</b>				
N/A	Tennessee State University	United Negro College Fund- Amazonas Project	IDP-2000-G-2003	31,347.02
<b>Subtotal Agency for International Development</b>				<u>\$ 98,887.21</u>
<b>Federal Reserve System</b>				
<b>Direct Programs</b>				
N/A	University of Memphis	Federal Reserve Bank Project	536387	\$ 40,447.36
<b>Subtotal Federal Reserve System</b>				<u>\$ 40,447.36</u>
<b>Subtotal Other Federal Assistance</b>				<u>\$ 139,334.57</u>
<b>Total Research and Development Cluster</b>				<u>\$ 93,969,508.13</u>
<b>Student Financial Assistance Cluster</b>				
<b>Department of Education</b>				
<b>Direct Programs</b>				
84.007	Austin Peay State University	Federal Supplemental Educational Opportunity Grants		\$ 223,638.34
84.007	Chattanooga State Technical Community College	Federal Supplemental Educational Opportunity Grants		154,138.00
84.007	Cleveland State Community College	Federal Supplemental Educational Opportunity Grants		29,173.00
84.007	Columbia State Community College	Federal Supplemental Educational Opportunity Grants		96,665.00

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
84.007	Dyersburg State Community College	Federal Supplemental Educational Opportunity Grants		76,718.70
84.007	East Tennessee State University	Federal Supplemental Educational Opportunity Grants		556,832.00
84.007	Jackson State Community College	Federal Supplemental Educational Opportunity Grants		104,630.26
84.007	Middle Tennessee State University	Federal Supplemental Educational Opportunity Grants		498,229.50
84.007	Motlow State Community College	Federal Supplemental Educational Opportunity Grants		82,277.41
84.007	Nashville State Technical Institute	Federal Supplemental Educational Opportunity Grants		112,572.00
84.007	Northeast State Technical Community College	Federal Supplemental Educational Opportunity Grants		102,150.00
84.007	Pellissippi State Technical Community College	Federal Supplemental Educational Opportunity Grants		281,198.00
84.007	Roane State Community College	Federal Supplemental Educational Opportunity Grants		111,665.90
84.007	Southwest Tennessee Community College	Federal Supplemental Educational Opportunity Grants		267,825.57
84.007	Tennessee State University	Federal Supplemental Educational Opportunity Grants		1,124,178.14
84.007	Tennessee Technological University	Federal Supplemental Educational Opportunity Grants		268,935.75
84.007	University of Memphis	Federal Supplemental Educational Opportunity Grants		516,686.25
84.007	University of Tennessee	Federal Supplemental Educational Opportunity Grants		1,465,131.00
84.007	Volunteer State Community College	Federal Supplemental Educational Opportunity Grants		106,434.00
84.007	Walters State Community College	Federal Supplemental Educational Opportunity Grants		133,012.90
				\$ 6,312,091.72
84.032	Austin Peay State University	Federal Family Education Loans		\$ 16,825,008.88
84.032	Chattanooga State Technical Community College	Federal Family Education Loans		4,577,452.77
84.032	Cleveland State Community College	Federal Family Education Loans		796,840.00
84.032	Dyersburg State Community College	Federal Family Education Loans		579,779.98
84.032	East Tennessee State University	Federal Family Education Loans		35,506,785.39
84.032	Middle Tennessee State University	Federal Family Education Loans		40,517,478.62
84.032	Northeast State Technical Community College	Federal Family Education Loans		1,097,050.00
84.032	Pellissippi State Technical Community College	Federal Family Education Loans		2,635,746.00
84.032	Roane State Community College	Federal Family Education Loans		1,487,253.12
84.032	Tennessee Technological University	Federal Family Education Loans		535,198.00
84.032	University of Tennessee	Federal Family Education Loans		117,823,747.00
84.032	Volunteer State Community College	Federal Family Education Loans		1,970,190.00
84.032	Walters State Community College	Federal Family Education Loans		1,480,651.00
				225,833,180.76
84.033	Austin Peay State University	Federal Work-Study Program		\$ 291,469.77
84.033	Chattanooga State Technical Community College	Federal Work-Study Program		288,883.17
84.033	Cleveland State Community College	Federal Work-Study Program		59,732.28
84.033	Columbia State Community College	Federal Work-Study Program		71,813.38
84.033	Dyersburg State Community College	Federal Work-Study Program		75,144.83
84.033	East Tennessee State University	Federal Work-Study Program		606,119.48
84.033	Jackson State Community College	Federal Work-Study Program		104,982.23
84.033	Middle Tennessee State University	Federal Work-Study Program		753,162.32
84.033	Motlow State Community College	Federal Work-Study Program		125,674.29
84.033	Nashville State Technical Institute	Federal Work-Study Program		77,612.74

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
84.033	Northeast State Technical Community College	Federal Work-Study Program		141,199.49
84.033	Pellissippi State Technical Community College	Federal Work-Study Program		203,440.47
84.033	Roane State Community College	Federal Work-Study Program		148,963.09
84.033	Southwest Tennessee Community College	Federal Work-Study Program		530,757.89
84.033	Tennessee State University	Federal Work-Study Program		1,420,379.25
84.033	Tennessee Technological University	Federal Work-Study Program		386,314.90
84.033	University of Memphis	Federal Work-Study Program		641,959.23
84.033	University of Tennessee	Federal Work-Study Program		1,719,653.40
84.033	Volunteer State Community College	Federal Work-Study Program		45,187.59
84.033	Walters State Community College	Federal Work-Study Program		164,295.94
				7,856,745.74
84.038	Austin Peay State University	Federal Perkins Loan Program_ Federal Capital Contributions	\$	18,521.00
84.038	East Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions		227,898.00
84.038	Jackson State Community College	Federal Perkins Loan Program_ Federal Capital Contributions		8,173.00
84.038	Middle Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions		52,407.90
84.038	Tennessee Technological University	Federal Perkins Loan Program_ Federal Capital Contributions		91,159.00
84.038	University of Tennessee	Federal Perkins Loan Program_ Federal Capital Contributions		223,320.00
				621,478.90
84.063	Austin Peay State University	Federal Pell Grant Program	\$	6,143,409.22
84.063	Chattanooga State Technical Community College	Federal Pell Grant Program		6,299,300.25
84.063	Cleveland State Community College	Federal Pell Grant Program		2,352,097.00
84.063	Columbia State Community College	Federal Pell Grant Program		3,399,065.36
84.063	Dyersburg State Community College	Federal Pell Grant Program		2,891,098.17
84.063	East Tennessee State University	Federal Pell Grant Program		8,265,033.00
84.063	Jackson State Community College	Federal Pell Grant Program		4,660,329.81
84.063	Middle Tennessee State University	Federal Pell Grant Program		10,963,286.00
84.063	Motlow State Community College	Federal Pell Grant Program		3,730,602.17
84.063	Nashville State Technical Institute	Federal Pell Grant Program		3,711,410.30
84.063	Northeast State Technical Community College	Federal Pell Grant Program		4,183,150.85
84.063	Pellissippi State Technical Community College	Federal Pell Grant Program		5,365,993.37
84.063	Roane State Community College	Federal Pell Grant Program		5,983,960.68
84.063	Southwest Tennessee Community College	Federal Pell Grant Program		10,732,793.83
84.063	Tennessee State University	Federal Pell Grant Program		9,329,372.67
84.063	Tennessee Technological University	Federal Pell Grant Program		4,789,172.00
84.063	University of Memphis	Federal Pell Grant Program		12,449,726.00
84.063	University of Tennessee	Federal Pell Grant Program		18,395,462.30
84.063	Volunteer State Community College	Federal Pell Grant Program		3,782,617.00
84.063	Walters State Community College	Federal Pell Grant Program		5,961,169.40
				133,389,049.38
84.268	Motlow State Community College	Federal Direct Student Loans	\$	2,282,040.00
84.268	Tennessee State University	Federal Direct Student Loans		27,121,759.00
84.268	Tennessee Technological University	Federal Direct Student Loans		11,494,913.00
84.268	University of Memphis	Federal Direct Student Loans		52,266,654.00
				93,165,366.00
<b>Subtotal Department of Education</b>				<b>\$ 467,177,912.50</b>

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
<b>Department of Health and Human Services</b>					
<b>Direct Programs</b>					
93.925	East Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds		\$ 81,544.00	
93.925	Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds		122,504.00	
93.925	University of Memphis	Scholarships for Health Professions Students from Disadvantaged Backgrounds		82,536.00	
93.925	University of Tennessee	Scholarships for Health Professions Students from Disadvantaged Backgrounds		307,828.00	\$ 594,412.00
<b>Subtotal Department of Health and Human Services</b>					<u>\$ 594,412.00</u>
<b>Total Student Financial Assistance Cluster</b>					<u>\$ 467,772,324.50</u>
<b>Food Stamp Cluster</b>					
<b>Department of Agriculture</b>					
<b>Direct Programs</b>					
10.551	Human Services	Food Stamps (Noncash Award)			\$ 524,925,062.04
10.561	Human Services	State Administrative Matching Grants for Food Stamp Program		\$ 29,306,162.91	
10.561	Labor and Workforce Development	State Administrative Matching Grants for Food Stamp Program		3,144,009.37	32,450,172.28
<b>Subtotal Department of Agriculture</b>					<u>\$ 557,375,234.32</u>
<b>Total Food Stamp Cluster</b>					<u>\$ 557,375,234.32</u>
<b>Child Nutrition Cluster</b>					
<b>Department of Agriculture</b>					
<b>Direct Programs</b>					
10.553	Agriculture	School Breakfast Program		\$ 835,345.78	
10.553	Education	School Breakfast Program		<u>33,137,898.99</u>	\$ 33,973,244.77
10.555	Agriculture	National School Lunch Program		\$ 1,529,701.95	
10.555	Agriculture	National School Lunch Program (Noncash Award)		18,932,992.00	
10.555	Education	National School Lunch Program		<u>122,037,294.14</u>	142,499,988.09
10.556	Agriculture	Special Milk Program for Children			30,099.51
10.559	Human Services	Summer Food Service Program for Children			5,913,416.89
<b>Subtotal Department of Agriculture</b>					<u>\$ 182,416,749.26</u>
<b>Total Child Nutrition Cluster</b>					<u>\$ 182,416,749.26</u>

**State of Tennessee  
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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Emergency Food Assistance Cluster</b>				
<b>Department of Agriculture</b>				
<b>Direct Programs</b>				
10.568	Agriculture	Emergency Food Assistance Program (Administrative Costs)		\$ 1,104,506.94
10.569	Agriculture	Emergency Food Assistance Program (Food Commodities) (Noncash Award)		8,287,105.00
<b>Subtotal Department of Agriculture</b>				<u>\$ 9,391,611.94</u>
<b>Total Emergency Food Assistance Cluster</b>				<u>\$ 9,391,611.94</u>
<b>Schools and Roads Cluster</b>				
<b>Department of Agriculture</b>				
<b>Direct Programs</b>				
10.665	Finance and Administration	School and Roads_Grants to States		<u>\$ 516,836.60</u>
<b>Subtotal Department of Agriculture</b>				<u>\$ 516,836.60</u>
<b>Total Schools and Roads Cluster</b>				<u>\$ 516,836.60</u>
<b>Section 8 Project-Based Cluster</b>				
<b>Department of Housing and Urban Development</b>				
<b>Direct Programs</b>				
14.195	Tennessee Housing Development Agency	Section 8 Housing Assistance Payments Program_Special Allocations		\$ 97,496,794.03
14.856	Tennessee Housing Development Agency	Lower Income Housing Assistance Program_Section 8 Moderate Rehabilitation		89,547.00
<b>Subtotal Department of Housing and Urban Development</b>				<u>\$ 97,586,341.03</u>
<b>Total Section 8 Project-Based Cluster</b>				<u>\$ 97,586,341.03</u>
<b>CDBG - Entitlement and (HUD-Administered) Small Cities Cluster</b>				
<b>Department of Housing and Urban Development</b>				
<b>Passed Through City of Memphis</b>				
14.218	Tennessee State University	Community Development Block Grants/Entitlement Grants	B-00-MC-47-0006	\$ 2,074.38
14.218	Tennessee State University	Community Development Block Grants/Entitlement Grants	B-01-MC-47-0006	32,296.97
14.218	Tennessee State University	Community Development Block Grants/Entitlement Grants	B-02-MC-47-0006	9,619.50
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants	N15558	23,185.57

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants	N16075	3,962.19	
14.218	University of Memphis	Community Development Block Grants/Entitlement Grants	N16076	1,909.57	\$ 73,048.18
<b>Subtotal Department of Housing and Urban Development</b>					<b>\$ 73,048.18</b>
<b>Total CDBG - Entitlement and (HUD-Administered) Small Cities Cluster</b>					<b>\$ 73,048.18</b>
<b>Fish and Wildlife Cluster</b>					
<b>Department of the Interior</b>					
<b>Direct Programs</b>					
15.605	Tennessee Wildlife Resources Agency	Sport Fish Restoration			\$ 5,602,876.20
15.611	Tennessee Wildlife Resources Agency	Wildlife Restoration		\$ 5,000,480.10	
15.611	University of Tennessee	Wildlife Restoration		412.70	5,000,892.80
<b>Subtotal Department of the Interior</b>					<b>\$ 10,603,769.00</b>
<b>Total Fish and Wildlife Cluster</b>					<b>\$ 10,603,769.00</b>
<b>Employment Services Cluster</b>					
<b>Department of Labor</b>					
<b>Direct Programs</b>					
17.207	Labor and Workforce Development	Employment Service			\$ 11,702,884.08
17.801	Labor and Workforce Development	Disabled Veterans' Outreach Program (DVOP)			1,224,616.68
17.804	Labor and Workforce Development	Local Veterans' Employment Representative Program			1,419,764.13
<b>Subtotal Department of Labor</b>					<b>\$ 14,347,264.89</b>
<b>Total Employment Services Cluster</b>					<b>\$ 14,347,264.89</b>
<b>WIA Cluster</b>					
<b>Department of Labor</b>					
<b>Direct Programs</b>					
17.258	Labor and Workforce Development	WIA Adult Program			\$ 16,907,463.31
17.259	Labor and Workforce Development	WIA Youth Activities			20,533,358.47
17.260	Labor and Workforce Development	WIA Dislocated Workers			14,074,874.53
<b>Subtotal Direct Programs</b>					<b>\$ 51,515,696.31</b>
<b>Passed Through East Tennessee Human Resource Agency, Incorporated</b>					
17.258	Pellissippi State Technical Community College	WIA Adult Program	AWIA-SC-PSCC-0102-072801		\$ 124,010.58
17.259	Pellissippi State Technical Community College	WIA Youth Activities	AWIA-SC-PSCC-0102-072801		53,978.96
17.260	Pellissippi State Technical Community College	WIA Dislocated Workers	AWIA-SC-PSCC-0102-072801		246,145.40

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Passed Through Upper Cumberland Human Resource Agency</b>				
17.258	Volunteer State Community College	WIA Adult Program	02-07-999-109	12,871.35
17.260	Volunteer State Community College	WIA Dislocated Workers	02-07-999-109	8,944.50
<b>Passed Through City of Memphis</b>				
17.259	University of Memphis	WIA Youth Activities	N15157	41,527.65
<b>Passed Through Knoxville Private Industry Council</b>				
17.259	Pellissippi State Technical Community College	WIA Youth Activities	99-STO-2-800/1-810	148,511.55
<b>Passed Through Southeast Tennessee Development District</b>				
17.259	Chattanooga State Technical Community College	WIA Youth Activities	01-05-999-127-YOUTH	\$ 48,772.37
17.259	Chattanooga State Technical Community College	WIA Youth Activities	01-05-999-227-YOUTH	3,334.22
				<u>52,106.59</u>
<b>Passed Through North Tennessee Private Industry Council</b>				
17.260	Austin Peay State University	WIA Dislocated Workers	C-99-0014	<u>1,625.00</u>
<b>Subtotal Pass-Through Programs</b>				<u>\$ 689,721.58</u>
<b>Subtotal Department of Labor</b>				<u>\$ 52,205,417.89</u>
<b>Total WIA Cluster</b>				<u>\$ 52,205,417.89</u>
<b>Highway Planning and Construction Cluster</b>				
<b>Department of Transportation</b>				
<b>Direct Programs</b>				
20.205	Transportation	Highway Planning and Construction		<u>\$ 513,163,736.41</u>
<b>Subtotal Department of Transportation</b>				<u>\$ 513,163,736.41</u>
<b>Total Highway Planning and Construction Cluster</b>				<u>\$ 513,163,736.41</u>
<b>Federal Transit Cluster</b>				
<b>Department of Transportation</b>				
<b>Direct Programs</b>				
20.500	Transportation	Federal Transit_Capital Investment Grants		<u>\$ 1,943,549.12</u>
<b>Subtotal Department of Transportation</b>				<u>\$ 1,943,549.12</u>
<b>Total Federal Transit Cluster</b>				<u>\$ 1,943,549.12</u>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Highway Safety Cluster</b>				
<b>Department of Transportation</b>				
<b>Direct Programs</b>				
20.600	Transportation	State and Community Highway Safety		\$ 2,482,178.06
20.601	Transportation	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants		1,770,487.14
20.602	Transportation	Occupant Protection		2,369,981.91
20.603	Transportation	Federal Highway Safety Data Improvements Incentive Grants		1,011,464.75
20.604	Transportation	Safety Incentive Grants for Use of Seatbelts		10,610.26
20.605	Transportation	Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons		1,318,646.88
<b>Subtotal Department of Transportation</b>				<u>\$ 8,963,369.00</u>
<b>Total Highway Safety Cluster</b>				<u>\$ 8,963,369.00</u>
<b>Special Education Cluster</b>				
<b>Department of Education</b>				
<b>Direct Programs</b>				
84.027	Education	Special Education_Grants to States		\$ 114,407,023.04
84.173	Education	Special Education_Preschool Grants		7,231,110.15
<b>Subtotal Direct Programs</b>				<u>\$ 121,638,133.19</u>
<b>Passed Through Murfreesboro City Schools</b>				
84.027	Middle Tennessee State University	Special Education_Grants to States	01-0143	\$ 31,245.02
<b>Subtotal Pass-Through Programs</b>				<u>\$ 31,245.02</u>
<b>Subtotal Department of Education</b>				<u>\$ 121,669,378.21</u>
<b>Total Special Education Cluster</b>				<u>\$ 121,669,378.21</u>
<b>TRIO Cluster</b>				
<b>Department of Education</b>				
<b>Direct Programs</b>				
84.042	Austin Peay State University	TRIO_Student Support Services		\$ 239,823.00
84.042	Dyersburg State Community College	TRIO_Student Support Services		279,057.42
84.042	East Tennessee State University	TRIO_Student Support Services		273,114.91
84.042	Middle Tennessee State University	TRIO_Student Support Services		100,771.24
84.042	Northeast State Technical Community College	TRIO_Student Support Services		223,330.26
84.042	Pellissippi State Technical Community College	TRIO_Student Support Services		145,178.91
84.042	Tennessee State University	TRIO_Student Support Services		238,688.78
84.042	University of Tennessee	TRIO_Student Support Services		491,876.04
				<u>\$ 1,991,840.56</u>

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CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues	
84.044	East Tennessee State University	TRIO_Talent Search		\$ 217,854.11	
84.044	Tennessee State University	TRIO_Talent Search		244,052.76	
84.044	University of Tennessee	TRIO_Talent Search		<u>276,605.10</u>	738,511.97
84.047	Austin Peay State University	TRIO_Upward Bound		\$ 828,194.98	
84.047	Dyersburg State Community College	TRIO_Upward Bound		242,837.41	
84.047	East Tennessee State University	TRIO_Upward Bound		936,320.40	
84.047	Southwest Tennessee Community College	TRIO_Upward Bound		247,855.09	
84.047	Tennessee State University	TRIO_Upward Bound		387,137.33	
84.047	University of Tennessee	TRIO_Upward Bound		<u>1,642,061.87</u>	4,284,407.08
84.066	Austin Peay State University	TRIO_Educational Opportunity Centers		\$ 331,591.44	
84.066	University of Tennessee	TRIO_Educational Opportunity Centers		545,633.89	877,225.33
84.217	East Tennessee State University	TRIO_McNair Post-Baccalaureate Achievement		\$ 219,720.29	
84.217	Middle Tennessee State University	TRIO_McNair Post-Baccalaureate Achievement		211,142.84	
84.217	University of Tennessee	TRIO_McNair Post-Baccalaureate Achievement		433,111.63	863,974.76
<b>Subtotal Department of Education</b>				<u>\$ 8,755,959.70</u>	
<b>Total TRIO Cluster</b>				<u>\$ 8,755,959.70</u>	
<b>Aging Cluster</b>					
<b>Department of Health and Human Services</b>					
<b>Direct Programs</b>					
93.044	Commission on Aging	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers		\$ 6,181,458.51	
93.045	Commission on Aging	Special Programs for the Aging_Title III, Part C_Nutrition Services		10,027,779.00	
<b>Subtotal Department of Health and Human Services</b>				<u>\$ 16,209,237.51</u>	
<b>Total Aging Cluster</b>				<u>\$ 16,209,237.51</u>	
<b>Consolidated Health Centers Cluster</b>					
<b>Department of Health and Human Services</b>					
<b>Direct Programs</b>					
93.151	East Tennessee State University	Health Center Grants for Homeless Populations		\$ 216,937.03	
93.224	Health	Community Health Centers		1,493,677.94	
<b>Subtotal Department of Health and Human Services</b>				<u>\$ 1,710,614.97</u>	
<b>Total Consolidated Health Centers Cluster</b>				<u>\$ 1,710,614.97</u>	

**State of Tennessee  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2002**

CFDA #	State Grantee Agency	Program Name	Other Identifying #	Disbursement/Issues
<b>Child Care Cluster</b>				
<b>Department of Health and Human Services</b>				
<b>Direct Programs</b>				
93.575	Human Services	Child Care and Development Block Grant		\$ 96,931,037.62
93.596	Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund		60,933,875.15
<b>Subtotal Department of Health and Human Services</b>				<u>\$ 157,864,912.77</u>
<b>Total Child Care Cluster</b>				<u>\$ 157,864,912.77</u>
<b>Medicaid Cluster</b>				
<b>Department of Health and Human Services</b>				
<b>Direct Programs</b>				
93.775	Tennessee Bureau of Investigation	State Medicaid Fraud Control Units		\$ 1,861,585.02
93.777	Health	State Survey and Certification of Health Care Providers and Suppliers		6,157,817.08
93.778	Finance and Administration	Medical Assistance Program	\$ 3,766,788,757.71	
93.778	University of Tennessee	Medical Assistance Program	19,131,532.20	<u>3,785,920,289.91</u>
<b>Subtotal Department of Health and Human Services</b>				<u>\$ 3,793,939,692.01</u>
<b>Total Medicaid Cluster</b>				<u>\$ 3,793,939,692.01</u>
<b>Disability Insurance/SSI Cluster</b>				
<b>Social Security Administration</b>				
<b>Direct Programs</b>				
96.001	Human Services	Social Security_Disability Insurance		\$ 36,965,054.76
<b>Subtotal Social Security Administration</b>				<u>\$ 36,965,054.76</u>
<b>Total Disability Insurance/SSI Cluster</b>				<u>\$ 36,965,054.76</u>
<b>Grand Total Federal Assistance</b>				<u><u>\$ 8,125,451,734.83</u></u>



**State of Tennessee**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2002**

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**NOTE 1. PURPOSE OF THE SCHEDULE**

The Single Audit of the State of Tennessee for the year ended June 30, 2002, 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 16 to 30 is treated as cash disbursements for purposes of this schedule.

**NOTE 3. FEDERAL PERKINS LOAN (FPL) (CFDA 84.038); HEALTH PROFESSIONS STUDENT LOAN (HPSL)/PRIMARY CARE LOANS (PCL) (CFDA 93.342); and, NURSING STUDENT LOAN (NSL) (CFDA 93.364)**

Some state universities and community colleges participate in the FPL, HPSL/PCL, and NSL programs. These programs provide long-term low-interest loans to students who demonstrate the need for financial aid to pursue their course of study at postsecondary educational institutions. The disbursements reported in the Schedule of Expenditures of Federal Awards for each of these programs represent the federal capital contributions received during the year ended June 30, 2002. The loans outstanding net of allowances for doubtful accounts (including matching funds) at June 30, 2002, as well as the 2002 federal capital contributions, are shown below by program:

<u>CFDA</u>	<u>Outstanding Loans</u>	<u>Federal Capital Contributions</u>
84.038 FPL	\$48,289,338.77	\$621,478.90
93.342 HPSL/PCL	\$4,527,333.34	\$0.00
93.364 NSL	\$235,592.78	\$0.00

**State of Tennessee**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**June 30, 2002**  
**(continued)**

**NOTE 4. FEDERAL FAMILY EDUCATION LOANS (FFEL) (CFDA 84.032)**

The Tennessee Student Assistance Corporation (TSAC) is the guaranty agency for the FFEL program, in which some state universities and community colleges participate. This program makes interest subsidized or unsubsidized Stafford loans available to students or PLUS loans to parents of dependent students to pay for the cost of attending postsecondary educational institutions. The federal award to TSAC for administrative cost allowances and payments on defaulted loans is listed in the unclustered section of the Schedule of Expenditures of Federal Awards. At June 30, 2002, TSAC had insured loans outstanding of \$2,833,889,036.45.

**NOTE 5. CAPITALIZATION GRANTS FOR STATE REVOLVING FUNDS (SRF) (CFDA 66.458); and, CAPITALIZATION GRANTS FOR DRINKING WATER STATE REVOLVING FUND (DWSRF) (CFDA 66.468)**

The Tennessee Department of Environment and Conservation administers the SRF and the DWSRF programs. These programs provide capitalization grants to states to create revolving funds which will provide long-term financing for the costs of infrastructure needed to achieve or maintain compliance with the Safe Water Drinking Act requirements; for construction of wastewater treatment facilities and implementation of other water quality management activities; and, to protect public health. The disbursements reported in the Schedule of Expenditures of Federal Awards for each of these programs represent the federal capital contributions received during the year ended June 30, 2002. Loans provided under each of these programs and the federal capital contributions received during the year ended June 30, 2002, are shown below along with the total outstanding loans as of June 30, 2002.

<u>CFDA</u>	<u>Outstanding Loans</u>	<u>Loans Provided</u>	<u>Federal Capital Contributions</u>
66.458 SRF	\$332,631,621.63	\$19,371,184.00	\$5,045,285.31
66.468 DWSRF	\$14,205,000.00	\$8,160,000.00	\$9,025,580.45

**NOTE 6. UNEMPLOYMENT INSURANCE (CFDA 17.225)**

State unemployment tax revenues and other payments and revenues are combined and used to pay benefits under the Unemployment Insurance program. The state and federal portions of the total expenditures reported in the Schedule of Expenditures of Federal Awards were \$625,609,403.53 and \$41,757,609.09, respectively.