



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 26, 2023

**MEMORANDUM FOR JESSICA MILANO, ACTING CHIEF RECOVERY OFFICER,
DEPARTMENT OF THE TREASURY**

FROM: Deborah L. Harker /s/
Assistant Inspector General for Audit

SUBJECT: Desk Review of the State of Tennessee's Use of
Coronavirus Relief Fund Proceeds (OIG-CA-23-035)

Please find the attached desk review memorandum¹ on the State of Tennessee's (Tennessee) use of Coronavirus Relief Fund (CRF) proceeds. The CRF is authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Under a contract monitored by our office, Castro & Company, LLC (Castro), a certified independent public accounting firm, performed the desk review. Castro performed the desk review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General* standards of independence, due professional care, and quality assurance.

In its desk review, Castro found that Tennessee was compliant with the required quarterly Financial Progress Reports (FPR) submission timeline as required under Department of the Treasury's (Treasury) guidance for Cycles 1² through 9.³ In addition, Castro personnel reviewed documentation for a selection of 33 transactions reported in the quarterly reports through cycle 9.⁴ Castro's review of Tennessee's documentation supporting its uses of CRF proceeds found that the expenditures for Contracts greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000⁵ complied with the CARES Act and Treasury's guidance. Castro found that expenditures for Grants greater than or equal to \$50,000, and Aggregate

¹ The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of Coronavirus Relief Fund (CRF) payments. The purpose of the desk review is to perform monitoring procedures of the prime recipient's receipt, disbursement, and use of CRF proceeds as reported in the grants portal on a quarterly basis.

² Calendar quarter ending June 30, 2020.

³ Calendar quarter ending June 30, 2022.

⁴ Calendar quarter ending June 30, 2022.

⁵ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the grants portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

Payments to Individuals⁶ did not comply with the CARES Act and Treasury's Guidance.

Based on the totality of the work performed, Castro identified total questioned costs of \$1,162,363.61 and determined that Tennessee's risk of unallowable use of funds is moderate. Based on Castro's desk review, Treasury Office of Inspector General (OIG) is questioning unsupported expenditures of \$1,162,363.61. See the attachment to this transmittal for the definition of a questioned cost.

Castro recommends that Treasury OIG pursue obtaining documentation from Tennessee personnel and ensure reporting corrections are made. Further, based on Tennessee's responsiveness to Treasury OIG's requests and its ability to provide documentation and remove ineligible transactions, Castro recommends Treasury OIG determine if a focused audit is feasible for Grants greater than or equal to \$50,000 and Aggregate payments to individuals. Treasury OIG and Castro met with Tennessee management to discuss the questioned costs. Tennessee management stated they would provide additional documentation to Treasury OIG to support both the unsupported and ineligible costs.

In connection with our contract with Castro, we reviewed Castro's desk review memorandum and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express an opinion on the State of Tennessee's use of the CRF proceeds. Castro is responsible for the attached desk review memorandum and the conclusions expressed therein. Our review found no instances in which Castro did not comply in all material respects *Quality Standards for Federal Offices of Inspectors General*.

We appreciate the courtesies and cooperation provided to Castro and our staff during the desk review. If you have any questions or require further information, please contact me at (202) 486-1420, or a member of your staff may contact Lisa DeAngelis, Deputy Assistant Inspector General for Audit, at (202) 487-8371.

cc: Michelle A. Dickerman, Deputy Assistant General Counsel, Department of the Treasury
Victoria Collin, Chief Compliance & Finance Officer, Office of Recovery Programs, Department of the Treasury
Christopher Sun, Director of Data and Reporting, Department of the Treasury
Eugene Neubert, Deputy Commissioner, State of Tennessee

⁶ Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the grants portal to prevent inappropriate disclosure of personally identifiable information.

Felenceo M. Hill, Department Controller, State of Tennessee
Wayne Ference, Partner, Castro & Company, LLC

Attachment

Schedule of Monetary Benefits

According to the Code of Federal Regulations,⁷ a questioned cost is a cost that is questioned due to a finding:

- (a) which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;
- (b) where the costs, at the time of the review, are not supported by adequate documentation; or
- (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs are to be recorded in the Department of the Treasury's (Treasury) Joint Audit Management Enterprise System (JAMES).⁸ The amount will also be included in the Office of Inspector General (OIG) Semiannual Report to Congress. It is Treasury management's responsibility to report to Congress on the status of the agreed to recommendations with monetary benefits in accordance with 5 USC Section 405(b) of the Inspector General Act of 1978.

<u>Recommendation</u>	<u>Questioned Costs</u>
Recommendation No. 1	\$1,162,363.61

The questioned cost represents amounts provided by Treasury under the Coronavirus Relief Fund. As discussed in the attached desk review, \$1,162,363.61 is Tennessee's total expenditures reported in the grants reporting portal that were either ineligible or lacked supporting documentation.

⁷ 2 CFR § 200.84 – Questioned Cost

⁸ JAMES is Treasury's audit recommendation tracking system.

Desk Review of the State of Tennessee

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OIG-CA-23-035

MEMORANDUM FOR DEBORAH L. HARKER,
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Wayne Ference
Partner, Castro & Company, LLC

SUBJECT: Desk Review of the State of Tennessee

On June 13, 2022, we initiated a desk review of the State of Tennessee's (herein referred to as "Tennessee") use of the Coronavirus Relief Fund (CRF) authorized under Title VI of the Social Security Act, as amended by Title V, Division A of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).¹ The objective of our desk review was to evaluate Tennessee's documentation supporting its uses of CRF proceeds as reported in the GrantSolutions² portal and to assess the risk of unallowable use of funds. The scope of our desk review was limited to obligation and expenditure data for the period of March 1, 2020 through June 30, 2022 as reported in Cycles 1³ through 9⁴ in the GrantSolutions portal.

As part of our desk review, we performed the following:

- 1) reviewed Tennessee's quarterly Financial Progress Reports (FPRs) submitted in the GrantSolutions portal through June 30, 2022;
- 2) reviewed the *Department of the Treasury's (Treasury) Coronavirus Relief Fund Guidance* as published in the Federal Register on January 15, 2021;⁵

¹ P.L. 116-136 (March 27, 2020)

² GrantSolutions, a grant and program management Federal shared service provider under the U.S. Department of Health and Human Services, developed a customized and user-friendly reporting solution to capture the use of CRF payments from recipients.

³ Calendar quarter ending June 30, 2020.

⁴ Calendar quarter ending June 30, 2022.

⁵ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

Desk Review of the State of Tennessee

- 3) reviewed Treasury Office of Inspector General's (OIG) *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping*,⁶
- 4) reviewed Treasury OIG's monitoring checklists⁷ of Tennessee's quarterly FPR submissions for reporting deficiencies;
- 5) reviewed other audit reports issued, such as Single Audit reports, and those issued by the Government Accountability Office and other applicable Federal agency OIGs for internal control or other deficiencies that may pose risk or impact Tennessee's uses of CRF proceeds;
- 6) reviewed Treasury OIG Office of Investigations (OI), the Council of the Inspectors General on Integrity and Efficiency Pandemic Response Accountability Committee (PRAC),⁸ and Treasury OIG Office of Counsel input on issues that may pose risk or impact Tennessee's uses of CRF proceeds;
- 7) interviewed key personnel responsible for preparing and certifying Tennessee's GrantSolutions portal quarterly FPR submissions, as well as officials responsible for obligating and expending CRF proceeds;
- 8) made a non-statistical selection of Contracts, Grants, Direct Payments, Aggregate Reporting,⁹ and Aggregate Payments to Individuals¹⁰ data identified through GrantSolutions reporting; and
- 9) evaluated documentation and records used to support Tennessee's quarterly FPRs.

⁶ Department of the Treasury Office of Inspector General *Coronavirus Relief Fund Frequently Asked Questions Related to Reporting and Recordkeeping* OIG-20-028R; March 2, 2021.

⁷ The checklists are used by Treasury OIG personnel to monitor the progress of prime recipient reporting in the GrantSolutions portal. GrantSolutions quarterly submission reviews are designed to identify material omissions and significant errors, and where necessary, include procedures for notifying prime recipients of misreported data for timely correction. Treasury OIG follows the *CRF Prime Recipient Quarterly GrantSolutions Submissions Monitoring and Review Procedures Guide*, OIG-CA-20-029R to monitor the prime recipients quarterly.

⁸ Section 15010 of P.L. 116-136 established the Pandemic Response Accountability Committee within the Council of the Inspectors General on Integrity and Efficiency to promote transparency and conduct and support oversight of covered funds (see Footnote 17 for a definition of covered funds) and the coronavirus response to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

⁹ Recipients are required to report CRF transactions greater than or equal to \$50,000 in detail in the GrantSolutions portal. Transactions less than \$50,000 can be reported as an aggregate lump-sum amount by type (contracts, grants, loans, direct payments, and transfers to other government entities).

¹⁰ Obligations and expenditures for payments made to individuals, regardless of amount, are required to be reported in the aggregate in the GrantSolutions portal to prevent inappropriate disclosure of personally identifiable information.

Desk Review of the State of Tennessee

Based on our review of Tennessee’s documentation supporting the uses of CRF proceeds as reported in the GrantSolutions portal, we found that uses of CRF proceeds for Contracts greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000 complied with the CARES Act and Treasury’s Guidance. However, we determined that the expenditures related to Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals did not comply with the CARES Act and Treasury’s Guidance.

We identified total questioned costs of \$1,162,363.61 and determined that Tennessee’s risk of unallowable use of funds is moderate. As such, Castro recommends Treasury OIG obtain documentation from Tennessee management and ensure reporting corrections are made. Further, based on Tennessee’s responsiveness to Treasury OIG’s requests and its ability to provide sufficient documentation and to reverse ineligible transactions charged to CRF, we recommend Treasury OIG determine the feasibility of conducting a focused audit for Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals.

Non-Statistical Transaction Selection Methodology

Treasury issued a CRF payment to Tennessee of \$2,363,433,874.30. As of Cycle 9¹¹ Tennessee’s cumulative obligations and expenditures were both \$2,363,433,874.30. Tennessee’s cumulative obligations and expenditures, by payment type as reported in GrantSolutions through Cycle 9,¹¹ are summarized below.

Payment Type	Cumulative Obligations	Cumulative Expenditures
Contracts >= \$50,000	\$ 143,787,734.34	\$ 143,787,734.34
Grants >= \$50,000	\$ 561,507,203.68	\$ 561,507,203.68
Loans >= \$50,000	\$ -	\$ -
Transfers >= \$50,000	\$ -	\$ -
Direct Payments >= \$50,000	\$ 59,607,129.12	\$ 59,607,129.12
Aggregate Reporting < \$50,000	\$ 321,252,650.60	\$ 321,252,069.59
Aggregate Payments to Individuals (In Any Amount)	\$ 1,277,279,737.57	\$ 1,277,279,737.57
Totals	\$ 2,363,433,874.30	\$ 2,363,433,874.30

Castro made a non-statistical selection of Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals. Selections were made using auditor judgment based on

¹¹ Calendar quarter ending June 30, 2022.

Desk Review of the State of Tennessee

information and risks identified in reviewing audit reports, the GrantSolutions portal reporting anomalies¹² identified by the Treasury OIG CRF monitoring team, and review of Tennessee's FPR submissions. Castro noted Tennessee did not obligate or expend CRF proceeds related to Loans greater than or equal to \$50,000 or Transfers¹³ greater than or equal to \$50,000; therefore, we did not make a selection of transactions from these categories.

The number of transactions (31) we selected to test were based on Tennessee's total CRF award amount and our overall risk assessment of Tennessee. To allocate the number of transactions (31) by obligation type (Contracts greater than or equal to \$50,000, Grants greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, Aggregate Reporting less than \$50,000, and Aggregate Payments to Individuals), we compared the obligation type dollar amounts as a percentage of cumulative obligations for Cycle 9.¹⁴ Additionally, we selected two Treasury OIG identified anomaly transactions for testing. The two anomalies were potential duplicate payments from the Grants greater than or equal to \$50,000 payment type. The total transactions tested were 33.

Background

The CARES Act appropriated \$150 billion to establish the CRF. Under the CRF, Treasury made payments for specified uses to States and certain local governments; the District of Columbia and U.S. Territories, including the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands; and Tribal governments. Treasury issued a CRF payment to Tennessee for \$2,363,433,874.30.

The CARES Act stipulates that a recipient may only use the funds to cover costs that—

- (1) are necessary expenditures incurred due to the public health emergency with respect to the coronavirus disease 2019 (COVID-19);
- (2) were not accounted for in the budget most recently approved as of March 27, 2020; and

¹² Treasury OIG has a pre-defined list of risk indicators that are triggered based on data submitted by recipients in the FPR submissions that meet certain criteria. Castro reviewed these results provided by Treasury OIG for Tennessee.

¹³ A transfer to another government entity is a disbursement or payment to a government entity that is legally distinct from the prime recipient.

¹⁴ Calendar quarter ending June 30, 2022.

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(3) were incurred between March 1, 2020 and December 31, 2021.¹⁵

Section 15011 of the CARES Act, requires each covered recipient¹⁶ to submit to Treasury and the PRAC, no later than 10 days after the end of each calendar quarter, a report that contains (1) the total amount of large covered funds^{17,18} received from Treasury; (2) the amount of large covered funds received that were expended or obligated for each project or activity; (3) a detailed list of all projects or activities for which large covered funds were expended or obligated; and (4) detailed information on any level of sub-contracts or sub-grants awarded by the covered recipient or its sub-recipients.

The CARES Act assigned Treasury OIG the responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF proceeds. Treasury OIG also has authority to recoup funds in the event that it is determined a recipient failed to comply with requirements of subsection 601(d) of the Social Security Act, as amended, (42 U.S.C. 801(d)).

Desk Review Results

Tennessee's quarterly FPR submissions through June 30, 2022 were timely filed in accordance with the Reporting Timeline as required under Treasury OIG Guidance OIG CA-20-021, *Coronavirus Relief Fund Reporting and Record Retention Requirements*.

Additionally, Castro noted that Tennessee had Single Audit reports filed for 2020, 2021, and 2022. No CRF findings were reported in 2020 or 2022. However, two CRF findings were reported for 2021 as follows:

1. Inadequate procedures to ensure that items were not double billed to CRF, which resulted in \$497,106 of questioned costs for duplicate billings, and

¹⁵ P.L. 116-260 (December 27, 2020). The period of performance end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The period of performance end date for tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328, December 29, 2022, 136 Stat. 4459.

¹⁶ Section 15011 of P.L. 116-136 defines a covered recipient as any entity that receives large covered funds and includes any State, the District of Columbia, and any territory or possession of the United States.

¹⁷ Section 15010 of P.L. 116-136 defines covered funds as any funds, including loans, that are made available in any form to any non-Federal entity, not including an individual, under Public Laws 116-123, 127, and 136, as well as any other law which primarily makes appropriations for Coronavirus response and related activities.

¹⁸ Section 15011 of P.L. 116-136 defines large covered funds as covered funds that amount to more than \$150,000.

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2. Inadequate sub-recipient monitoring. No questioned costs reported.

Castro recommends that Treasury OIG follow-up to obtain the status of these Single Audit findings.

Other than Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals, transactions selected for detailed review were supported by documentation and were allowable expenditures in accordance with the CARES Act and Treasury's guidance. We also found that Contracts greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000 were necessary expenditures due to the COVID-19 public health emergency, were not accounted for in the budget most recently approved as of March 27, 2020, and were incurred during the covered period. The transactions selected for testing were not selected statistically, and therefore results cannot be extrapolated to the total universe of transactions.

The following table includes the total cumulative expenditure amount and the expenditure amount tested. Within the table below, we have included a summary of unsupported and ineligible expenditures identified as questioned costs. Additionally, in the far-right column, we have identified the expenditures that Castro tested without exceptions noted. See the Desk Review Results section below this table for a detailed discussion of questioned costs and other issues identified throughout the course of our desk review.

Summary of Expenditure Testing and Recommended Results – As of Cycle 9¹⁹

Payment Type	Cumulative Expenditure Population Amount	Cumulative Expenditure Tested Amount	Unsupported Exception	Ineligible Exception	Castro Reviewed Value Without Exception (per Support)
Contracts >= \$50,000	\$ 143,787,734.34	\$ 2,824,992.01	\$ -	\$ -	\$ 2,824,992.01
Grants >= \$50,000	\$ 561,507,203.68	\$ 37,542,880.65	\$ 157,953.72	\$ 1,000,800.75	\$ 36,384,126.18
Loans >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers >= \$50,000	\$ -	\$ -	\$ -	\$ -	\$ -
Direct Payments >= \$50,000	\$ 59,607,129.12	\$ 3,621,160.47	\$ -	\$ -	\$ 3,621,160.47
Aggregate Reporting < \$50,000	\$ 321,252,069.59	\$ 146,712.00	\$ -	\$ -	\$ 146,712.00
Aggregate Payments to Individuals (in any amount)	\$1,277,279,737.57	\$1,306,542,832.80	\$ -	\$ 3,609.14	\$1,306,539,223.66
Totals	\$2,363,433,874.30	\$1,350,678,577.93	\$ 157,953.72	\$ 1,004,409.89	\$1,349,516,214.32

Grants Greater Than or Equal to \$50,000

We determined that Tennessee’s Grants greater than or equal to \$50,000 were not in compliance with the CARES Act and Treasury’s Guidance. As a result of our testing, we noted that obligations for Grants greater than or equal to \$50,000 were adequately supported and allowable; however, we question a combination of unsupported and ineligible expenditures of \$157,953.72 and \$1,000,800.75, respectively. Additionally, as a result of our testwork, we identified misclassification exceptions related to Grants greater than or equal to \$50,000 that should have been reported as Transfers greater than or equal to \$50,000. We selected 9 expenditure transactions to test. Then, for 7 of those 9, we obtained the sub-recipient general ledger (GL) detail and made 25 additional sub-selections to test expenditures at the sub-recipient invoice level.

For 1 out of 25 sub-selections, Castro reviewed invoices and Tennessee’s European Strategic Plan for the Nashville Convention & Visitors Corporation (herein referenced as European Strategic Plan) report provided and identified up to \$250,000 in potentially ineligible costs related to the European Strategic Plan including aviation route development analysis and recommendations. Castro noted that within the methodology section of the strategic plan report, the description of the additional aviation analysis report made no mention of COVID-19 guidelines or safeguards. Additionally, Castro determined that the contractor-

¹⁹ Calendar quarter ending June 30, 2022.

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generated European Strategic Plan report results, which suggested that Tennessee address aging facilities as well as plan for the expansion of the Music City Center, consisted of long-term planning/repositioning of Nashville's infrastructure and aviation route. Specifically, the European Strategic Plan explicitly indicated:

1. Parks and public facilities are key to attracting events and conventions to appeal to visitors. **Addressing aging facilities, including Bridgestone Arena, Nissan Stadium and the Fairgrounds at Nashville, and planning for the expansion of the Music City Center will help ensure a bright future.**
2. An additional aviation analysis report will produce an in-depth strategic review of the new European Aviation landscape with recommendations on potential **mid to long-term opportunities** to grow new, lucrative direct air services to Nashville.

Based on these descriptions, Castro determined that at least a portion of these expenditures were being utilized for the long-term planning/repositioning of Nashville's infrastructure and the long-term planning of new direct air services between Nashville and other European destinations. Tennessee personnel told us that these items were not previously budgeted; however, it is Castro's opinion that this long-term strategic planning would have occurred regardless of the occurrence of the COVID-19 pandemic. Therefore, Castro considered these to be expressly disallowed under Federal Register Notice Volume 86, Number 10 for the CRF, Treasury's Guidance FAQ# A.45, because it did not meet the requirements of the guidance, which states "Expenses related to developing a long-term plan to reposition a recipient's convention and tourism industry and infrastructure would not be incurred due to the public health emergency and therefore may not be covered using payments from the Fund."

Castro was able to identify and quantify specific direct billings of ineligible costs of \$27,070, consisting of \$22,510 in labor costs related to the strategic direction and \$1,330 in labor costs related to the aviation strategy from the direct billing information provided. However, we were unable to quantify the full amount at the billable hour summary level. Therefore, we are questioning the full invoice amount of \$250,000 in potentially ineligible costs, as invoiced by the Contractor for European Strategic Plan including aviation route development analysis and recommendations.

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Tennessee personnel respectfully disagreed on the following two bases.

Basis 1: There is No Both/And Requirement

Tennessee personnel indicated that they believe Castro's interpretation that an expense must be both associated with the publicization of resumption of activities and the steps taken to ensure a safe experience is contrary to Treasury's guidance and intent. Tennessee personnel indicated that such a strict interpretation would limit the eligibility of entities to claim many types of expenses, including public health and public safety payroll.

Moreover, Tennessee personnel indicated that a plain review of Treasury FAQ #A.45 makes clear this is not a "both/and" requirement, because the question being answered does not contemplate steps taken to ensure a safe experience. The specific FAQ begins:

"45. May recipients use Fund payments to remarket the recipient's convention facilities and tourism industry?
Yes, if the costs of such remarketing satisfy the requirements of the CARES Act.

Basis 2: Tennessee indicated that there was no Repositioning.

Tennessee personnel disagreed with Castro's contention that the advertising expenses were related to an ineligible long-term plan to reposition Nashville's convention and tourism industry and infrastructure. Tennessee personnel indicated the excerpts from the European Strategic Plan – including addressing aging facilities, planning for the expansion of the Music City Center, and potential mid to long-term opportunities – did not reflect a repositioning of the Nashville tourism industry, as the term is used in marketing. Rather, they were all components of a successful remarketing effort. Nashville was marketed as the Music City before the pandemic and is marketed as the Music City after the pandemic. Tennessee personnel contend that long-term planning is part of any marketing effort and is allowed by Treasury guidance. Tennessee personnel indicated the only component of long-term planning that is not eligible is that which is related to the repositioning of the industry, and they indicated that such costs were not claimed here.

For 4 out of 25 sub-selections, Castro questioned \$750,800.75 in ineligible advertising costs. We reviewed advertising invoices and related advertisements did not identify any indication of how the attached advertisements publicized COVID-19 guidelines and/or safety measures. Castro determined that for these advertising expenditures to be eligible for CRF reimbursement, the advertisements and marketing materials end products needed to publicize both

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the resumption of activities and the steps that the sub-recipient (i.e., Destination Marketing Organizations within Tennessee Cities, Counties, etc.) took to ensure safety for visitors. Castro reviewed the underlying invoices and final advertisement results generated using CRF funds (i.e., video advertisement, internet click advertisement, advertisement pamphlets, etc.), and noted that there was no mention of Tennessee's "Good to Go Program" or communication of how visitors could "safely" return to Tennessee during the pandemic; as such, we considered these expenditures to be ineligible. Tennessee personnel disagreed with this interpretation as discussed above in the response related to the European Strategic Plan.

For 4 out of 25 sub-selections, Castro reviewed sub-recipient payroll distribution support. Castro found information for \$1,579,537.29 out of \$1,737,491.01 in expenditures claimed. The costs related to sub-recipient payroll costs for the hospital's in-house and contracted nurses (programmatic personnel). Therefore, we consider \$1,579,537.29 to be eligible costs. For the remaining expenditure balance of \$157,953.72, Tennessee allowed its sub-recipient to calculate these grant administrative claim costs by multiplying the 10% de minimis by the sum of its total programmatic personnel payroll costs claimed. Due to the 10% de minimis calculation method utilized, Tennessee did not require its sub-recipient to retain expenditure documentation such as payroll distribution reports to support these balances. Therefore, Castro considers these administrative expenses to be unsupported and questions \$157,953.72 in administrative costs claimed.

Tennessee personnel did not agree with Castro, indicating that at the recipient level, Tennessee was not applying its own indirect cost rates to payments received from the CRF fund. Instead, in establishing a payroll support program for hospital staffing assistance, Tennessee personnel indicated they utilized their judgement to make a programmatic decision to allow hospitals to apply a rate of 10% of the eligible expenses per reimbursement claim period. Tennessee personnel indicated that while this rate was modeled on the de minimis 10% of modified total direct cost (MTDC) method, it was not a true indirect cost rate and served simply to offset the administrative burden of the participating hospitals. Tennessee personnel indicated they believed these costs met CRF eligibility requirements.

Castro noted that the Federal Register Notice Volume 86, Number 10,²⁰ *Coronavirus Relief Fund for States, Tribal Governments, and Certain Eligible Local Governments, Supplemental Guidance on Use of Funds To Cover Administrative Costs, General*, indicates the following:

²⁰ Coronavirus Relief Fund Guidance as published in the Federal Register (January 15, 2021) https://home.treasury.gov/system/files/136/CRF-Guidance-Federal-Register_2021-00827.pdf

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"Payments from the Fund are not administered as part of a traditional grant program and the provisions of the Uniform Guidance, 2 CFR part 200, that are applicable to indirect costs do not apply. Recipients may not apply their indirect costs rates to payments received from the Fund. Recipients may, if they meet the conditions specified in the guidance for tracking time consistently across a department, use payments from the Fund to cover the portion of payroll and benefits of employees corresponding to time spent on administrative work necessary due to the COVID-19 public health emergency. (In other words, such costs would be eligible direct costs of the recipient)."

Castro noted that the CRF program requirements for prime recipients also applies to their sub-recipients (as described in 2 CFR 200.101(b)(2)). Therefore, we determined the CRF guidance doesn't permit CRF recipients to charge indirect costs to their CRF award or for sub-recipients to charge indirect costs to their CRF sub-awards (either with a Negotiated Indirect Cost Rate Agreement or using the de minimis indirect cost rate per 2 CFR 200.414(f)). Since these costs were charged as direct administrative costs to the CRF sub-award, the sub-recipient must provide supporting documentation for it to be considered allowable (as required by 2 CFR 200.413 – Direct Costs). Therefore, Castro determined that these administrative expenses were unsupported and questioned \$157,953.72 in administrative costs claimed.

For 4 out of 9 transactions tested, Castro determined that Tennessee misclassified transactions as Grants greater than or equal to \$50,000 instead of reporting these transactions as Transfers greater than or equal to \$50,000, resulting in overstatement of \$20,406,225 in expenditures to Grants greater than or equal to \$50,000. We are not questioning these costs as the support for these transactions was adequate to determine eligibility of expenditures; however, we determined the following exceptions to be a reporting misclassification. We note that due to the high volume of underlying transactions, we tested only a sub-selection of transactions and were unable to determine the exact correction entry required.

Castro noted that Tennessee reported similar misclassifications totaling \$115,312,500 for remaining Counties that it allocated funds to (not covered in our transactions tested). We consider these balances to be similarly misclassified.

Castro noted that the sub-recipient agreement to Counties/Towns/Local Governments provided general authority to incur CRF funds on expenditures such as government payroll costs, public health compliance expenses such as expenditures to facilitate remote work, and expenditures related to County established contracts (e.g., contracting accounting firms to ensure compliance

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with eligibility requirements). Given the general authority provided by Tennessee to these Counties and local governments, we did not consider this funding document to be a grant agreement; instead, we considered it to be a transfer agreement.

Tennessee personnel did not agree, indicating that each local government that participated in the program was required to complete an acknowledgement and certify compliance and agreement with Tennessee's Coronavirus Relief Fund Recipient Guidelines. Tennessee personnel indicated that they reported the obligations as grants because they determined grant agreements to be in place. Tennessee personnel also indicated the program was a reimbursement program under which an eligibility team reviewed all submissions under program guidelines before reimbursing the local governments.

Based on Castro interpretation of Treasury's guidance in response to Tennessee's non-concurrence to our exception, we have determined that Tennessee's restrictions were built for the purposes of monitoring compliance with CRF funding requirements. We consider these restrictions conducive to effective monitoring of funds, and do not consider these restrictions to preclude reporting of funds as a transfer payment type in GrantSolutions.

Aggregate Payments to Individuals

We determined Tennessee's Aggregate Payments to Individuals were not in compliance with the CARES Act and Treasury's Guidance. As a result of our testing, we questioned total ineligible expenditures of \$3,609.14. Specifically, we noted the following exceptions.

For 1 of the 17 transactions reviewed, Tennessee charged \$1,538.14 in longevity leave payroll expenses to the CRF for an employee based on the longevity of employment. Federal Register Notice Volume 86, Number 10 for the CRF, Treasury's Guidance, published January 15, 2021, states that payments from the fund may only be used to cover costs that were incurred during the period that begins on March 1, 2020 and ends on December 31, 2021, and were not accounted for in the budget most recently approved as of March 27, 2020. Castro determined that using CRF for longevity pay was essentially using CRF to cover a cost previously budgeted prior to March 27, 2020. As a result, Castro questions the \$1,538.14 paid out for a longevity payroll expense as ineligible.

Tennessee personnel acknowledged inclusion of the ineligible claim, noting human error as the root cause and indicating that they planned to replace the cost with unclaimed eligible payroll amounts in a future cycle.

Desk Review of the State of Tennessee

For 1 of the 17 transactions reviewed, we identified an ineligible bonus payment of \$2,071 for an employee who was substantially dedicated to public health and safety. Tennessee personnel acknowledged inclusion of the ineligible bonus payment, noting human error as the root cause and indicating that they planned to replace the cost with one of its unclaimed eligible payroll amounts.

For 3 of the 17 transactions reviewed, across six total sub-selections,²¹ Castro reviewed three underlying contracts for these sub-selections and determined that Tennessee incorrectly classified \$63,051.57 worth of contracts as Aggregate Payments to Individuals. Depending on the total expenditures claimed under these three contracts (to include any remaining expenditures not tested by Castro), Tennessee should have reported these contract transaction balances to either Contracts greater than or equal to \$50,000 or Aggregate Reporting less than \$50,000. We are not questioning these costs as the support for these transactions was adequate to determine eligibility of expenditures; however, we determined the following exceptions to be a reporting misclassification. We note that due to the high volume of underlying transactions, we tested only a sub-selection of transactions and were unable to determine the exact correction entry required.

Tennessee acknowledged the misclassification, noting human error as the root cause. Tennessee planned to correct the issue in a future cycle.

²¹ Due to high volume of transactions at the original transaction selection level, we utilized the general ledger detail listing to obtain a sub-selection of obligations and expenditures to test at the detailed transaction level.

Desk Review of the State of Tennessee

Conclusion

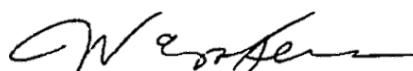
Based on the results of our desk review, we found Tennessee to be compliant with the Reporting Timeline as required under Treasury OIG Guidance OIG CA-20-021, *Coronavirus Relief Fund Reporting and Record Retention Requirements*.

Based on our review of Tennessee's documentation supporting the uses of CRF proceeds as reported in the GrantSolutions portal, we found that uses of CRF proceeds for Contracts greater than or equal to \$50,000, Direct Payments greater than or equal to \$50,000, and Aggregate Reporting less than \$50,000 complied with the CARES Act and Treasury's Guidance. However, we determined that the expenditures related to Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals did not comply with the CARES Act and Treasury's Guidance.

We identified total questioned costs of \$1,162,363.61 and determined that Tennessee's risk of unallowable use of funds is moderate. As such, Castro recommends Treasury OIG obtain documentation from Tennessee management and ensure reporting corrections are made. Further, based on Tennessee's responsiveness to Treasury OIG's requests and its ability to provide sufficient documentation and to reverse ineligible transactions charged to CRF, we recommend Treasury OIG determine the feasibility of conducting a focused audit for Grants greater than or equal to \$50,000 and Aggregate Payments to Individuals. Also, Castro recommends that Treasury OIG follow-up to obtain the status of the 2021 Single Audit findings.

All work completed with this letter complies with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspectors General*, which require that the work adheres to the professional standards of independence, due professional care, and quality assurance to ensure the accuracy of the information presented.²² We appreciate the courtesies and cooperation provided to our staff during the desk review.

Sincerely,



Wayne Ference
Partner, Castro & Company, LLC

²² <https://www.ignet.gov/sites/default/files/files/Silver%20Book%20Revision%20-%208-20-12r.pdf>