STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE REHABILITATIVE INITIATIVE IN CORRECTION BOARD

Performance Audit Report

September 2015

Justin P. Wilson, Comptroller

Division of State Audit
Risk-Based Performance Section

DEBORAH V. LOVELESS, CPA, CGFM, CGMA
Director

KANDI B. THOMAS, CPA, CFE, CGFM, CGMA
Assistant Director

JENNIFER WHITSEL, CPA, CFE, CGMA
Audit Manager

Sharon Shaneyfelt, CFE
In-Charge Auditor

Allison Barnett, CPA
Jennifer Bounnara
Martin Brown, CPA
Cody Jennings
Jennifer Warren
Andrea Wilson
Staff Auditors

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402
(615) 401-7897

Reports are available at
www.comptroller.tn.gov/sa/AuditReportCategories.asp.

Mission Statement
The mission of the Comptroller's Office is to improve the quality of life for all Tennesseans by making government work better.

Comptroller Website
www.comptroller.tn.gov

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

September 25, 2015

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Jeremy Faison, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Patricia Weiland, Chief Executive Officer
Tennessee Rehabilitative Initiative in Correction Board
6185 Cockrill Bend Circle
Nashville, Tennessee 37209

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Tennessee Rehabilitative Initiative in Correction board for the period July 1, 2013, through May 31, 2015. This audit was conducted pursuant to the requirements of the Tennessee Governmental Entity Review Law, Section 4-29-111, *Tennessee Code Annotated*.

Our audit disclosed certain findings that are detailed in the Objectives, Methodologies, and Conclusions section of this report. Management of the board has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the board should be continued, restructured, or terminated.

Sincerely,

Deborah V. Loveless

Deborah V. Loveless, CPA, CGMA
Director

DVL/jw
15/040

State of Tennessee

Audit Highlights

Comptroller of the Treasury | Division of State Audit

Performance Audit
Tennessee Rehabilitative Initiative in Correction Board
September 2015

AUDIT SCOPE

We have audited the Tennessee Rehabilitative Initiative in Correction (TRICOR) board for the period July 1, 2013, through May 31, 2015. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts in the areas of fiscal operations and financial reporting, revenue contracts, the Tennessee Cook Chill program, follow-up of statewide contract concerns, professional service contracts, TRICOR's annual risk assessment, and the audit committee. The TRICOR board is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts.

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

CONCLUSIONS

AUDIT FINDINGS

TRICOR's executive director failed to ensure fiscal staff performed key fiscal and financial reporting functions, which led to a pervasive breakdown of controls that resulted in material financial misstatements and board decisions that were based on inaccurate financial information

We performed a limited review of the accounts receivable and accounts payable balances reported on TRICOR's internally prepared financial reports. Based on the procedures performed, we found pervasive weaknesses in management's design and implementation of internal controls over TRICOR's fiscal operations and financial reporting process. These weaknesses resulted in the unacceptable risk of material financial errors and misstatements, including failure to record all accounts receivables; failure to follow up on past-due receivables; failure to accurately report financial information; failure to update the accounting system; and failure to adequately segregate duties, all of which inhibited the TRICOR board's ability to make sound business decisions regarding fiscal operations (page 12).

TRICOR management did not provide adequate internal controls in four specific areas
TRICOR did not design and monitor effective internal controls in four specific areas. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and the inability to continue operations (page 28).

TRICOR and Department of Correction managements continue to operate the Tennessee Cook Chill program without executed agreements, resulting in unmet expectations and a program net loss of more than $4 million
TRICOR is currently operating the Tennessee Cook Chill program without an executed agreement with any of its customers. Specifically, TRICOR is providing meals to the Department of Correction through the Cook Chill program without a written interagency agreement that delineates entities' respective authority, responsibility, and fiscal relationship. As a result, each entity's expectations are unmet, and the Cook Chill program is in jeopardy (page 32).

Despite implementing corrective action since the prior audit, management's controls over monitoring professional service contracts require additional improvements*
Despite management's corrective actions, we determined that management still had not implemented sufficient controls, including detecting duplicate payments and monitoring contract payments against a contract's maximum liability, to ensure TRICOR's financial stability (page 51).

Management failed to submit a Financial Integrity Act report package for two consecutive years
While management did prepare the 2013 and 2014 annual risk assessments, they did not submit the Financial Integrity Act report packages to the commissioner of the Department of Finance and Administration and the Comptroller of the Treasury by December 31, 2013, and December 31, 2014, in accordance with state statute (page 55).

OBSERVATIONS

The following topics did not warrant findings but are included in this report because of their effect on the operations of the TRICOR board, as well as on the citizens of Tennessee: management's risk assessment process needs improvement (page 56) and the TRICOR board's audit committee needs to exercise more oversight over TRICOR management (page 57).

* This finding is repeated from the prior audit.

MATTERS FOR LEGISLATIVE CONSIDERATION

In this report, we recommend that TRICOR enter into a collaborative agreement with the Department of Finance and Administration (F&A) whereby TRICOR and F&A work together to develop a financial control environment within TRICOR that accomplishes the basic objectives of effectiveness and efficiency of operations (including safeguarding of assets); reliability of financial reporting; and compliance with laws and regulations. If the results of the collaborative effort between the Department of Finance and Administration and TRICOR do not improve the efficiency, effectiveness, and reliability of TRICOR'S fiscal operations, then the General Assembly may wish to consider statutory changes to accomplish those objectives (page 28).

The General Assembly may wish to consider amending state statute to require TRICOR to participate as a vendor on statewide contracts for items TRICOR sells to state entities or consider amending state statute to allow the Department of Correction to purchase items from TRICOR that are also available on statewide contract (page 48).

Performance Audit
Tennessee Rehabilitative Initiative in Correction Board

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Performance Audit
Tennessee Rehabilitative Initiative in Correction Board

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Rehabilitative Initiative in Correction (TRICOR) Board was conducted pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under Section 4-29-237, TRICOR's board is scheduled to terminate June 30, 2016. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether TRICOR's board should be continued, restructured, or terminated.

ORGANIZATION AND STATUTORY RESPONSIBILITIES

TRICOR was created in 1994 by the Tennessee General Assembly to provide occupational and life skills training for Tennessee's incarcerated population through job training, program opportunities, and transitional services designed to assist offenders with a successful reintegration into society. TRICOR's philosophy is to effectively manage revenue-supported industry, agriculture, and service operations for the purpose of employing and training offenders, providing quality products and services, and assisting in transitional services, all of which reduce the cost of government. Pursuant to Section 41-22-414, *Tennessee Code Annotated*, "It is the intent of the general assembly . . . that TRICOR has as part of its mission to offset the costs of incarceration by generating revenue through the sale of products in lieu of state-appropriated funds."[1]

<u>TRICOR Board of Directors</u>

TRICOR is governed by a nine-member board of directors appointed by the Governor. The Governor is required by Section 41-22-405, *Tennessee Code Annotated*, to appoint

- at least one person with eminence in the field of manufacturing;
- at least one person with eminence in the field of labor;
- at least one person with eminence in the field of agriculture;

[1] Starting in fiscal year 2013, the state appropriated approximately $7,550,000 to TRICOR for capital improvement projects to the facility housing its Cook Chill operations. During our audit fieldwork, we learned that TRICOR was in the process of signing contracts with vendors to begin work on the Cook Chill facility.

- at least one person with eminence in the field of fiscal management;
- an attorney with a strong background in business or corporate law;
- the executive director of the Tennessee State Employees Association;
- the chief executive Officer of TRICOR; and
- the remaining members to include persons with professional experience appropriate for assisting in carrying out TRICOR's mission, in disciplines such as sales, marketing, and human resources and relations.

The commissioner of the Tennessee Department of Correction serves as an ex-officio nonvoting member.

Pursuant to Section 41-22-406, *Tennessee Code Annotated*, "the board has such powers as necessary to effectively carry out its mission. . . . It is the intent of the general assembly that the board should be as free as is possible to operate its facilities and to pursue its mission with the principles of free enterprise." Furthermore, Section 41-22-408 states,

> the board has the duty to monitor TRICOR's operation and management and to impose such limitations as are prudent and necessary to assure that freedoms and powers are not abused. . . . The board shall assist TRICOR in maintaining the quality of management processes and reporting, providing for the adequacy of financial and accounting control systems and serving as a communications channel between TRICOR managers and auditors.

According to Section 41-22-407, the TRICOR board may employ an executive director who serves at the board's pleasure. The board, through its executive director, may employ professionals and staff to manage and operate TRICOR. TRICOR has 163 staff positions, with 110 of those positions filled as of May 1, 2015.

TRICOR's Operations

TRICOR's daily operations are overseen by a six-person executive team (see page 5 for an organizational chart of TRICOR's executive leadership team). This team consists of the following:

- The chief networking officer heads the human resources, communications, and learning and development areas. The chief networking officer also serves as TRICOR's legislative liaison.
- Under the direction of the director of Business Excellence, the Business Excellence area is responsible for initiatives such as strategic business plans, key performance indicators, and operational management systems to ensure continuing organizational improvement.
- The director of Sales and Marketing is responsible for customer support, program managers, and TRICOR's marketing. The director is also responsible for establishing and attaining annual sales targets, establishing strategic business relations, and

providing ideas for all strategic sales plans and their implementation. The customer support section is responsible for sales activities and customer relations. The director also oversees the product managers, who are responsible for the entire cycle of their respective product lines. In addition, the director oversees the marketing section, which is responsible for organizational branding and other marketing activities.

- The general counsel handles all of TRICOR's legal matters, including, but not limited to, human resource-related legal concerns; contracts; offender grievances and lawsuits; and aid with drafting contracts with private sector partners. In addition, the general counsel interprets laws and legislation affecting TRICOR and represents TRICOR as needed.

- Located under the chief financial officer, the Business Support Services area consists of TRICOR's purchasing, fiscal services, and information technology sections. TRICOR's business unit code in Edison is 31608. An organization chart of the Business Support Services area is on page 6.

- The chief operations officer is responsible for the Business and Offender Programs, which encompasses the areas of business that directly support TRICOR's mission to utilize offender labor (see the organizational chart on page 7). TRICOR annually provides 1.2 million hours of training to 1,435 offenders to prepare them for employment upon their release. TRICOR also provides life skill education and transition services to further contribute to each offender's reintegration into the community. Pursuant to Sections 41-22-116 and 41-22-119, *Tennessee Code Annotated*, TRICOR may sell its products to governmental agencies (including state, county, and municipal governments); Tennessee nonprofit corporations; and private contractors in Tennessee who purchase goods for subsequent use by a public agency or a nonprofit corporation.

  From 14 locations across the state, the business lines include

  - Administrative Support Services;
  - Agriculture - Dairy Farm and Row Crops;
  - Apparel and Textiles Manufacturing;
  - the Building Trades Vocational Program;
  - the Call Center;
  - Data Entry Services;
  - Document Imaging;
  - Flooring (Private Sector Partnership);
  - Food Manufacturing, Storage and Distribution Center, and Dairy Processing;
  - Fulfillment Services;[2]
  - Institutional Cleaning Products;
  - Packaging Services (Private Sector Partnership);

---

[2] A fulfillment service is the process of receiving, packaging, and shipping goods ordered.

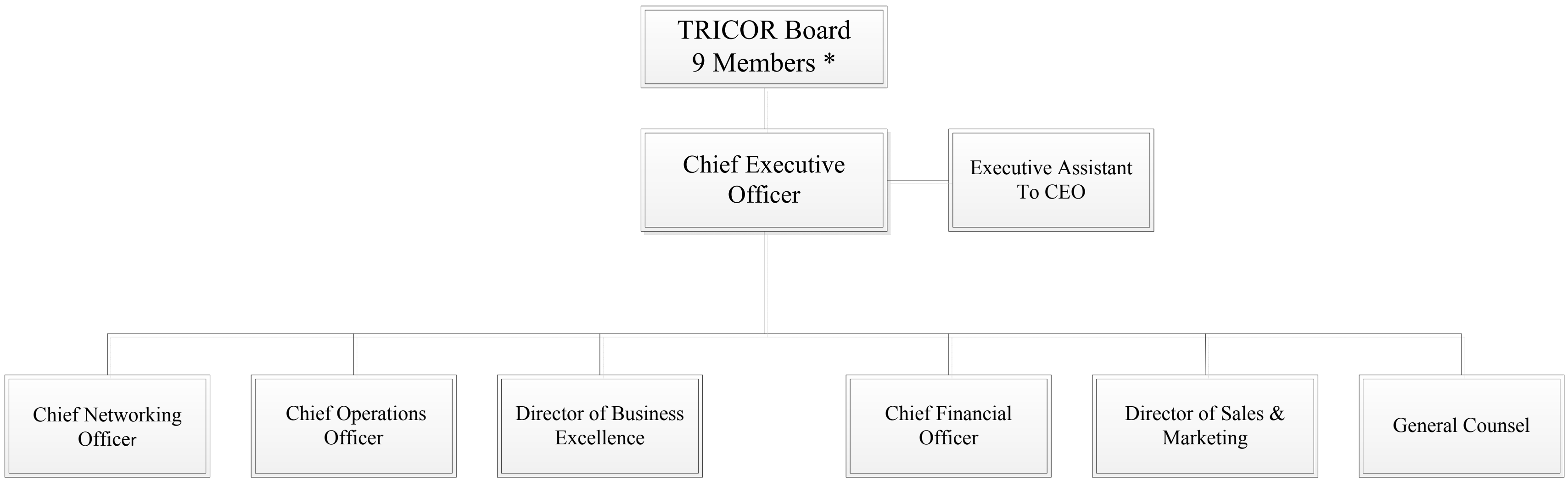
- Printing;
- Uniform Distribution and Warehouse;
- Vehicle and Novelty Plate Manufacturing; and
- Warehouse and Transportation.

The locations and business lines are illustrated on the map on page 8. TRICOR generated revenue totaling $60,681,209 from July 1, 2013, to December 31, 2014.

The Tennessee Cook Chill Program

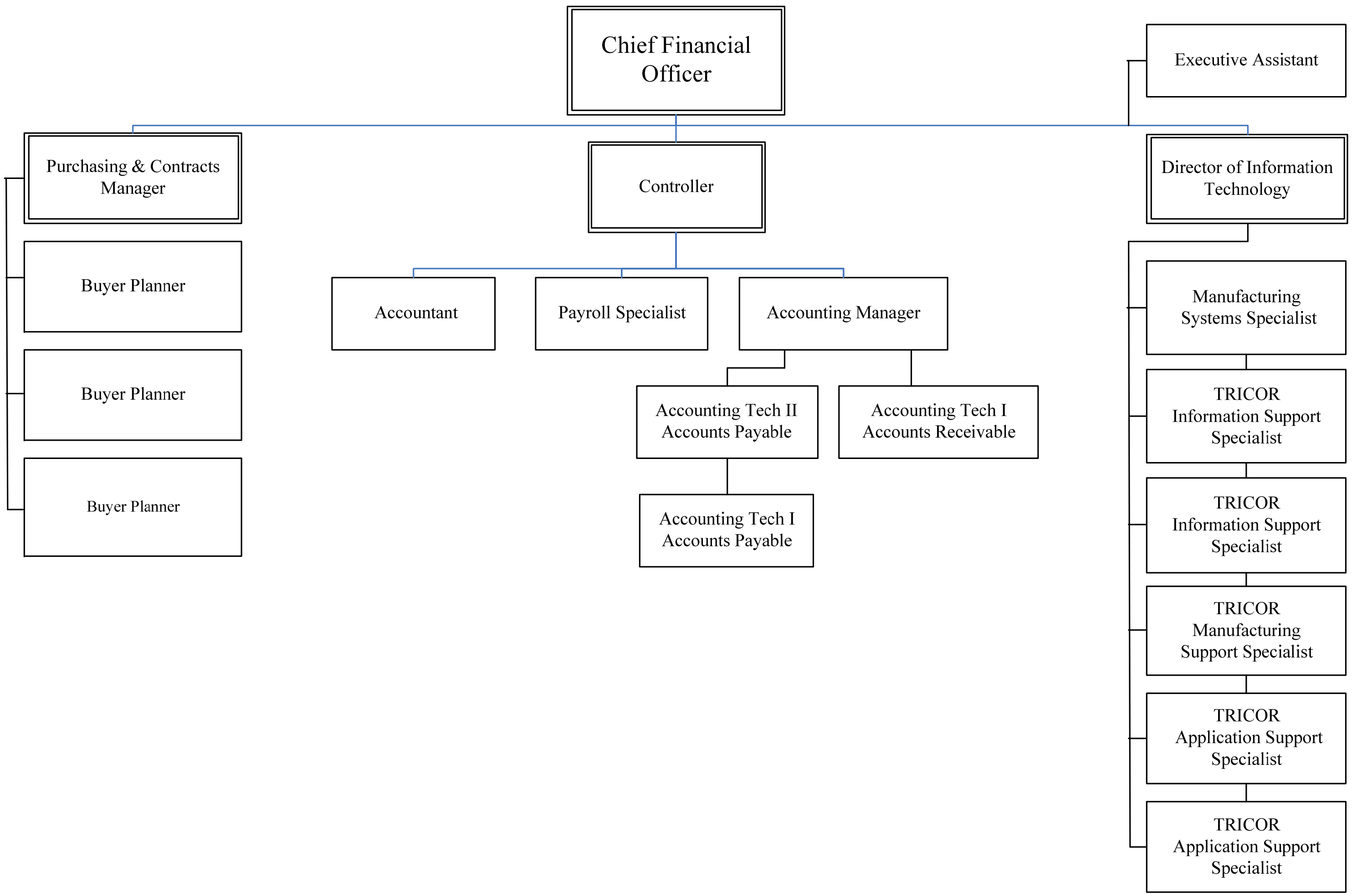
According to TRICOR's website, the Tennessee Cook Chill program is designed to produce and distribute meals for Tennessee's offender populations by using the offenders as the workforce. This innovative approach provides opportunities for Tennessee's offenders to acquire training and work skills necessary for successful reintegration into society after incarceration. TRICOR began managing the food processing facility in 2010. The Cook Chill is a process that allows for large quantities of food to be produced and prepared then chilled to preserve the quality. The Cook Chill program produces and distributes 22,000,000 servings annually. The Cook Chill program is accredited through the National Restaurant Association; it provides comprehensive food safety training and is recognized nationally.

Tennessee Rehabilitative Initiative In Correction
Board and Executive Team
Organizational Chart
December 2014

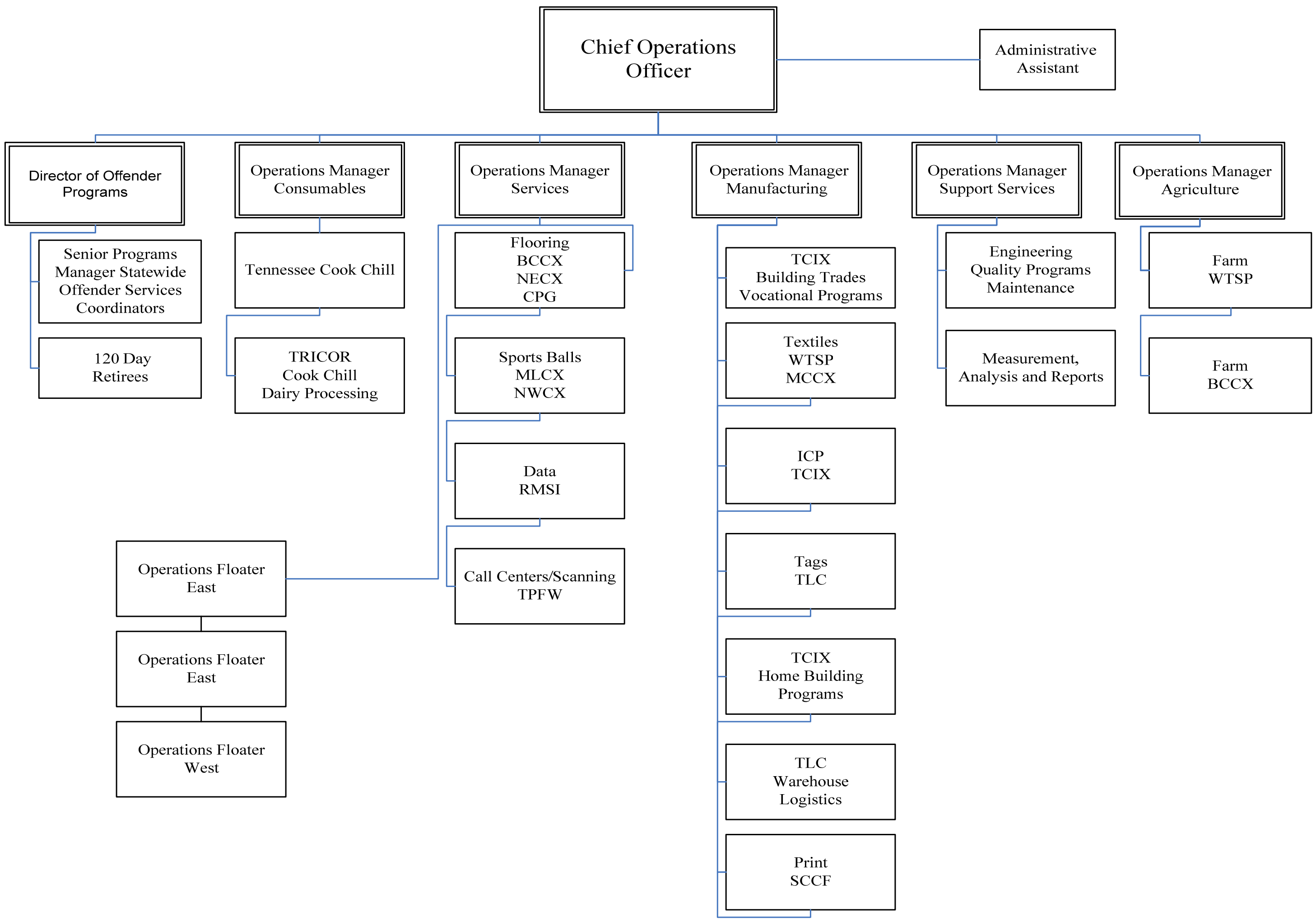


* Chief Executive Officer is also a voting member on TRICOR's board.

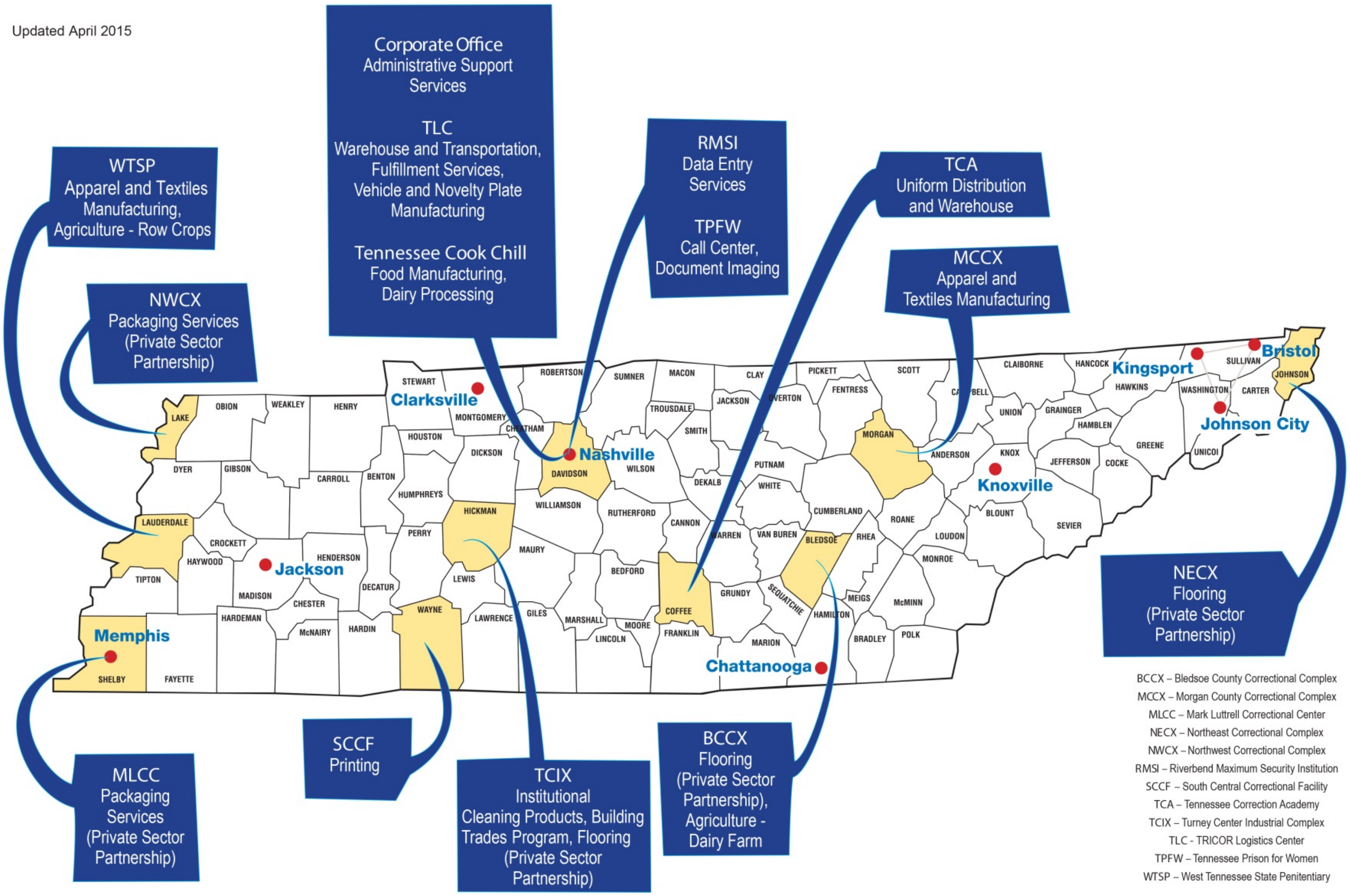
Tennessee Rehabilitative Initiative in Correction
Business Support Services
Organizational Chart
June 2015



Tennessee Rehabilitative Initiative in Correction
Business and Offender Programs
Organizational Chart
June 2015



Tennessee Rehabilitative Initiative in Correction
Operating Locations



AUDIT SCOPE

We have audited the Tennessee Rehabilitative Initiative in Correction (TRICOR) board for the period July 1, 2013, through May 31, 2015. Our audit scope included a review of internal control and compliance with laws, regulations, and provisions of contracts in the areas of fiscal operations and financial reporting, revenue contracts, the Tennessee Cook Chill program, follow-up of statewide contract concerns, professional service contracts, TRICOR's annual risk assessment, and the audit committee. The TRICOR board is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts.

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

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendation in the prior audit report. TRICOR's prior audit report, dated July 2013, included one finding. TRICOR filed its report with the Comptroller of the Treasury on February 7, 2014. A follow-up of the prior audit finding was conducted as part of the current audit.

REPEATED AUDIT FINDING

The prior audit report contained one finding concerning lack of written procedures and weaknesses identified in the administration and monitoring of professional service contracts. This finding has not been fully resolved and is repeated in the applicable section of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

FISCAL OPERATIONS AND FINANCIAL REPORTING

To fulfill its mission to reintegrate Tennessee's offenders into society, TRICOR operates in partnership with the Department of Correction and other entities to provide the training and transitional opportunities to the offenders. As required by Section 41-22-408, *Tennessee Code Annotated,* TRICOR's board "shall assist TRICOR management in maintaining the quality of management processes and reporting, providing for the adequacy of financial and accounting control systems, and serving as a communication channel between TRICOR managers and auditors."

Even though TRICOR was created to operate as freely as possible to achieve its mission, TRICOR is an internal service fund[3] of Tennessee state government, and the fund's financial information is reported in the State of Tennessee's *Comprehensive Annual Financial Report* (CAFR) prepared by the Department of Finance and Administration.

Our overall objective was to evaluate TRICOR management's fiscal operations and financial reporting for effectiveness and accuracy. Our specific objectives are described in further detail as follows.

<u>Current Processes for Day-to-Day Operations and Financial Reporting</u>

Day-to-Day Operations

TRICOR manages all aspects of its business using the TRICOR Information Management System (TIMS). TRICOR uses TIMS as its main accounting system instead of Edison, the state's central accounting system, and therefore does not enter all accounting information into Edison. The fiscal staff prepare and approve financial transactions in TIMS and prepare monthly financial reports for management's use and for consideration by TRICOR's board at its quarterly board meetings. TRICOR's monthly financial reports include an income statement and balance sheet.[4] Fiscal staff do not prepare a cash flow or notes.

As part of the day-to-day operations, fiscal staff enter accounts payable information into TIMS daily. Every night, this information is transferred into Edison in order to process payments to vendors. Once the payments are processed in Edison, fiscal staff must manually enter the Edison payment information into TIMS on a weekly basis in order to update the accounts payable account balances, which are maintained in TIMS.

---

[3] Internal service funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis.

[4] A balance sheet is a statement of the assets, liabilities, and capital of a business or other organization at a particular point in time.

To record TRICOR's accounts receivable information, fiscal staff use either sales orders or other supporting documentation to create invoices in TIMS and bill customers for goods and services provided. Unlike the accounts payable data, fiscal staff only report fiscal year-end accounts receivable balances to the Department of Finance and Administration for inclusion in the CAFR.

TRICOR fiscal staff are also responsible for collecting accounts receivable and determining if accounts receivable are past due. To analyze the accounts for outstanding uncollected balances, fiscal staff generate TIMS' aging receivables report, which lists the customer invoices that are past due and the length of time they are past due. For any past-due accounts identified, fiscal staff email the customer in an effort to collect the outstanding balance.

According to the controller, fiscal staff only analyze (age) the customer accounts that have been classified as "accounts receivable" accounts. Management and staff stated that they do not perform collection procedures on overdue accounts that are classified as other receivables such as interunit journal entries.[5]

Reporting of Financial Information

According to Section 311.d. of TRICOR's *Policies and Procedures Manual*, either the chief financial officer or his/her designee will prepare financial information for the purpose of managing business operations, including monitoring budgetary compliance and reporting the results of operations to upper management and to the board. Section 41-22-123, *Tennessee Code Annotated,* also requires preparation of a quarterly profit and loss statement that is certified by TRICOR's fiscal officer and submitted to the Comptroller of the Treasury and the commissioner of the Department of Finance and Administration.

As stated above, TRICOR staff also provided financial information to the Department of Finance and Administration for inclusion in the state's CAFR.

<u>Results of Audit Work</u>

The detailed objectives of our review were to

- document the controls over the accounts receivable and accounts payable processes;
- review the accounts receivable aging report and the estimated allowance for doubtful accounts for reasonableness and determine TRICOR's process for collecting past-due receivables;
- ensure the accuracy of the fiscal year 2014 account balances that were reported to the board of directors, as well as the amounts reported in the state's CAFR; and
- with respect to TIMS, determine if TRICOR management followed information systems' industry best practices regarding system controls.

---

[5] Within Edison, an interunit journal entry is a monetary transfer between state agencies.

To accomplish our objectives, we interviewed fiscal staff and performed walkthroughs of the accounts receivable and accounts payable processes. We obtained and analyzed the accounts receivable aging report as of April 30, 2015, by customer and by customer type. We reviewed TRICOR's collection policy. We obtained and reviewed the accounts receivable reconciliation as of June 30, 2014, and March 31, 2015, including the estimated allowance for doubtful accounts. To determine the accuracy of financial information reported to the board and in the CAFR, we performed a limited review of TRICOR's balance sheet for fiscal year 2014 and compared those account balances to the amounts reported in the state's CAFR for the same time period.

We compared management's internal control activities over TIMS to assess adherence to information systems' industry best practices.

Based on procedures performed, we determined that

- management did not implement adequate controls over the accounts receivable and accounts payable processes (see Finding 1);
- fiscal staff did not follow the established collection policies and procedures for past-due accounts, and management did not establish a collection policy for state customer accounts, nor did they establish an appropriate allowance of doubtful accounts, despite having the knowledge of clearly uncollectible accounts (see Finding 1);
- fiscal management and staff did not ensure that amounts reported on TRICOR's internally prepared balance sheet for June 30, 2014, agreed to the financial information provided to the Department of Finance and Administration for inclusion in the state's CAFR (see Finding 1);
- fiscal management and staff did not record an accounts receivable entry related to amounts that TRICOR management believed the Department of Correction owed TRICOR for the March 2015 Cook Chill invoice and failed to include this corresponding receivable on its March 31, 2015, balance sheet (see Finding 1); and
- TRICOR did not follow information systems' industry best practices (see Finding 2).

Finding 1 – TRICOR's executive director failed to ensure fiscal staff performed key fiscal and financial reporting functions, which led to a pervasive breakdown of controls that resulted in material financial misstatements and board decisions that were based on inaccurate financial information

Condition and Cause

We performed a limited review of the accounts receivable and accounts payable balances reported on TRICOR's internally prepared financial information. Based on the procedures performed, we found pervasive weaknesses in management's design and implementation of internal controls over TRICOR's fiscal operations and financial reporting process that resulted in the unacceptable risk of material financial misstatements and the inability of TRICOR's board to make sound business decisions because of inaccurate financial reports. We determined that management did not identify or implement controls to mitigate

- the risk of fiscal staff's failure to record and report all receivables due to TRICOR;
- the risk of fiscal staff not pursuing collection and/or write-off of past-due receivables;
- the risk of fiscal staff's failure to ensure that financial information provided to the Department of Finance and Administration for inclusion in the state's CAFR is accurate and agrees with TRICOR's internally prepared financial information;
- the risk of fiscal staff's failure to update their accounting system for TRICOR's payments processed in TIMS or to review vendor payables; and
- the risk of fiscal management's failure to adequately segregate duties within the accounts receivable process.

Specifically, we determined the following:

1. Management and staff did not record all accounts receivables

On the balance sheet for the month ending March 31, 2015, we noted that TRICOR did not record a $3,160,311 accounts receivable that management believed the Department of Correction owed TRICOR for Tennessee Cook Chill meals in March 2015. This invoice covered costs for meal kits ordered by the department for the period of July 1, 2014, through February 28, 2015. Fiscal staff also did not include this receivable amount when they prepared the May 31, 2015, balance sheet; therefore, management and the board were not aware of this outstanding balance.

2. Management and staff did not promptly follow up on past-due receivables

From our review of the April 30, 2015, TIMS accounts receivable aging report, we found $346,761 in unpaid invoices from 10 customers that were at least 60 days past due. Four of these customers were state entities that apparently owed TRICOR a total of $50,603. According to the controller and fiscal staff, fiscal staff did not ensure timely collection of receivables due to a lack of staffing resources available to perform collection procedures. Additionally, fiscal staff were not familiar with the state's write-off policy[6] and did not have internal written collection policies and procedures to address uncollectible accounts involving other state entities. Management could not provide a reason why established collection policies did not include state customers even though state entities had outstanding balances. We also determined that management had not written off uncollectible receivables since 2012. See details in Table 1.

[6] According to the Department of Finance and Administration's Policy 23, "Accounts Receivable - Recording, Collection and Write-Offs," a write-off is the removal of an uncollectible receivable from an organization's accounting records. See the policy under the Criteria section on page 18.

Table 1
Aged Accounts Receivable Summary
as of April 30, 2015
(unaudited)

Length Past Due	Amount Past Due
Aged 60 days to 1 year	$ 30,088
Aged 1 year to 2 years	25,215
Aged 2 years to 5 years	20,725
Aged 5+ years	270,733
Total	**$346,761**

Source: TIMS query.

As noted above, fiscal staff classify certain accounts receivables as other receivables and do not bill entities through the traditional invoicing process. In addition, the fiscal staff do not age these other receivables or attempt to collect past-due amounts as they do the regular accounts receivable account. As of March 31, 2015, fiscal staff had other receivables totaling $752,325.57 that were more than 60 days past due. Based on our review, we found that $637,799 of the total past-due amount related to the Department of Correction's invoices in the Tennessee Cook Chill program. The department disputes that it owes TRICOR this amount.

Based on interviews with the chief executive officer and selected board members, they became aware of the past-due account during and subsequent to the March 2015 board meeting (see Finding 3 on page 32).

We also found that even though total past-due receivables (those classified as both regular and other) were over $1 million, fiscal management did not establish an allowance for doubtful accounts based on a reasonable estimate of uncollectible accounts. The current balance for the allowance for doubtful accounts was approximately $222,000, which fiscal staff estimated based on the aging report process for the regular account alone.

3. Management and staff did not accurately report financial information

We compared TRICOR's balance sheet as of June 30, 2014, to TRICOR's financial information presented in the state's CAFR and found significant differences in the account balances reported on the balance sheet and in the CAFR, including but not limited to cash and cash equivalents, accounts receivable, buildings, equipment, and accounts payable. For example, the TRICOR controller reported a $3,313,030 accounts receivable balance on the internally prepared balance sheet but reported a $646,011 accounts receivable balance to the Department of Finance and Administration for use in the CAFR.

4. Management and staff did not promptly update their accounting system (TIMS) for the TRICOR payments processed in Edison and did not properly review vendor payables

According to TRICOR's payroll specialist, once the Department of Finance and Administration staff process TRICOR vendor payments in Edison, then TRICOR fiscal staff must manually enter the payment in TIMS to properly reduce the accounts payable balance. We determined that prior to March 2015, TRICOR's fiscal staff

- did not track vendor payments initiated in Edison to ensure payment,
- did not reconcile processed vendor payments to ensure fiscal staff promptly recorded the payments in TIMS to update the accounts payable balances, and
- did not review or age the accounts payable balances in TIMS to identify potential overdue vendor payables.

As a result, TRICOR's accounts payable balance in TIMS was overstated by $616,536, an error that carried through to TRICOR's balance sheet. This control deficiency was discovered when a temporary employee performing the chief financial officer's duties[7] observed that a significant number of vendor payables were more than 120 days past due on the TIMS aged payables report (see Table 2).

Table 2
Edison Payments Issued and Recorded in TIMS
(unaudited)

Payments Issued in Edison	Date Payment Issued Posted in TIMS	Payment Amount
Checks Issued from October 1, 2014, to October 31, 2014	4/27/2015	$212,853
Electronic Funds Transfer Issued from October 1, 2014, to October 31, 2014	4/27/2015	$78,580
Checks Issued from December 22, 2014, to December 26, 2014	4/23/2015	$168,505
Electronic Funds Transfer from December 22, 2014, to December 26, 2014	4/23/2015	$156,598
Total Payments		**$616,536**

Source: TRICOR fiscal staff.

[7] On a temporary basis, TRICOR acquired the services of a financial consultant with CFO-level qualifications to assist with financial matters. This consultant did not supervise any TRICOR employees.

5. Management did not ensure adequate segregation of duties for sales invoices and accounts receivables processes

Due to a lack of resources, management has not properly segregated duties or implemented compensating controls within the accounts receivable process. Specifically, we found that the accounts receivable technician is solely responsible for

- authorizing, creating, and voiding sales invoices;
- posting invoices to the accounting records;
- processing checks received for customer accounts;
- posting payments received to customer accounts; and
- performing collection activities on customer accounts that are overdue.

Furthermore, management has not performed supervisory reviews on the accounts receivable technician's work, nor has management established compensating controls to address the risks concerning the lack of segregation of duties. To mitigate the risks of error, fraud, waste, and abuse, management cannot allow a single employee complete responsibility for more than one of these types of duties without compensating controls.

6. Allegations and concerns regarding TRICOR management

After our audit fieldwork ended on June 19, 2015, we received allegations from multiple sources. These allegations and the results of our work are described as follows:

- *Allegation: Management misled the board of directors by not divulging that the approved budget was based on inaccurate financial information.*

  Audit Results: Although we cannot speak to management's intent, we found that TRICOR management submitted to the board an operating budget based on a critical financial commitment from the Department of Correction, even though the department had not agreed to the financial commitment (see Results of Further Audit Work on page 45 for additional detail).

- *Allegation: Management improperly influenced financial reporting by preventing fiscal staff from adjusting asset accounts, such as initiating uncollectible account write-off procedures for accounts deemed uncollectible or removing obsolete inventory from inventory accounts, in order to hide the financial position at year-end so that employee bonuses could be paid.*

  Audit Results: Although we cannot speak to management's intent to avoid write-offs, we found that based on our review of documentation submitted to the Office of the Comptroller of the Treasury, TRICOR has not requested a write-off of uncollectible accounts or obsolete inventory since 2012 (see item #2 in this finding).

As noted throughout this finding and the audit report, we have identified numerous errors and misstatements in TRICOR's fiscal operations and financial reporting process. Based on the results of our work and in-part corroboration of the allegations, we have serious concerns about whether TRICOR's management has the ability to report accurate financial information. Management and staff also lack knowledge of governmental accounting and state accounting policies.

During and after audit fieldwork, the chief financial officer (CFO) and controller were dismissed, and the accounting manager retired. TRICOR has not had a cost accountant[8] on staff since July 2014, and no internal auditor position exists. Management hired a new CFO in May 2015; most fiscal staff at TRICOR have been in their positions less than two years. Also, during our audit fieldwork, we found that management had not informed us when they hired a temporary CFO[9] on April 6, 2015. The temporary CFO worked approximately one month, through May 8, to review TRICOR's processes and data for the collection of financial information. In addition to not informing us of this temporary hire, management did not disclose to us the issues the CFO found from his review of TRICOR's processes (see item #4 in this finding).

<u>Criteria</u>

- Principle 10.3, "Accurate and Timely Recording of Transactions," in the Government Accountability Office's *Standards for Internal Control In the Federal Government* (also known as the Green Book), states,

> Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded.

- TRICOR Policy 301.01, "Collection of Accounts Receivable from Non-State Customers," Section D(2), states that designated accounting staff should perform the following procedures for private-sector customers:
    - run accounts receivable aging reports daily;
    - contact customers by telephone when an account balance is overdue, and follow up with a letter; and
    - contact customers again by telephone and letter when an account balance is 15 and 30 days overdue.

---

[8] A cost accountant collects and analyzes an organization's data to help management determine the appropriate, cost-effective options based on the organization's capabilities. For example, in manufacturing, cost accountants analyze costs, including those relating to raw materials, inventory, and labor, to calculate costs that affect the organization's bottom line.

[9] On a temporary basis, TRICOR acquired the services of a financial consultant with CFO-level qualifications to assist with financial matters. This consultant did not supervise any TRICOR employees.

- Section B of TRICOR Policy 301.01 states,

> Accounts receivable shall be identified, controlled, and tracked to ensure proper reporting in TRICOR's internal financial statements and subsequent reflection in the State of Tennessee Consolidated Annual Financial Report (CAFR).

The policy also states that management will adhere to state policies regarding writing off uncollectible accounts.

Furthermore, the Department of Finance and Administration's Policy 23, "Accounts Receivable – Recording, Collection, and Write-Offs," Section 9, states,

> If a receivable proves to be uncollectible based on collection efforts, . . . department heads are responsible for ensuring that these accounts are written off [in accordance with] the Official Rule of the Department of Finance and Administration, Chapter 0620-1-9 'Policy and Procedures Governing Write-Offs of Accounts Receivable.' Write-off requests should be submitted with supporting material to the Division of Accounts for review and approval.

- Principle 10.3, "Segregations of Duties," in the Government Accountability Office's *Standards for Internal Control In the Federal Government*, states,

> Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.

Effect

Management's failure to identify, assess, and mitigate risks by implementing proper internal controls, including collection policies and procedures; accurate financial reporting and reconciliations; and segregation of duties, increases the risk of material financial misstatements due to error, fraud, waste, or abuse. Furthermore, failure to report TRICOR's accurate financial condition and potential insufficient cash flow available to meet its strategic operation renders management, the board, and external users unable to make sound decisions relative to the future viability of TRICOR's programs or continued existence.

Recommendation

Based on the concerns documented here and throughout this report, we recommend that TRICOR enter into a collaborative agreement with the Department of Finance and Administration (F&A) whereby TRICOR and F&A work together to develop a financial control environment within TRICOR that accomplishes the basic objectives of effectiveness and efficiency of operations (including safeguarding of assets); reliability of financial reporting; and compliance with laws and regulations. The financial control environment established through this collaborative effort should at a minimum include appropriate risk control activities and help ensure that

- all financial information and accounts are properly and accurately recorded and reported to reflect TRICOR's financial position;
- TRICOR's internally prepared year-end financial information agrees to the financial information provided to the Division of Accounts for preparation of the internal service fund in the CAFR;
- TRICOR's Edison vendor payments are promptly reconciled to TIMS to update the accounts payable transactions to substantiate the year-end accounts payable balance; and
- all past-due accounts receivable balances for all customers are collected, a reasonable allowance for doubtful accounts is established, and past-due accounts deemed uncollectible are written off.

Management's Comments

Tennessee Rehabilitative Initiative in Correction

We concur in part as noted below.

The TRICOR Board of Directors and management recognize that financial and program accountability is fundamental to operating an organization within business best practices. Critical to this is the adherence to generally accepted accounting principles.

Historically the audit reports issued by the Division of State Audit for TRICOR have identified few issues and those identified were corrected immediately. It has been of the utmost priority of the TRICOR Board of Directors to operate with complete transparency to ensure the continuing confidence in the organization. This transparency has been well documented by management and the Board of Directors by taking the initiative to request routine financial audits issuing an opinion on the organization's financial statements as outlined below.

January 11, 2010 - Mr. Arthur A. Hayes, Director of State Audit issued a memorandum noting that audit work will become less cyclical therefore management should not depend solely on the work of State Audit to determine whether operations are running as effectively and efficiently as possible, whether internal control systems are properly designed and operating and whether financial information is reliable and accurate.

November 19, 2012 - At the TRICOR Board of Directors Audit Committee Meeting, as a result of the changes noted above, TRICOR management recommended the audit committee pursue its statutory authority, with the approval of the Comptroller of the Treasury, to have a public accounting firm conduct routine financial audits. The committee determined the organization should have a one year audit beginning in FY14 and then every three years thereafter unless State Audit has completed an audit. TRICOR had a Performance Audit by State Audit for the period July 1, 2009 to June 30, 2012 with a report issue date of July 2013.

October 22, 2014 - TRICOR's General Counsel made contact with both the General Counsel for the Comptroller of the Treasury and the Director of State Audit to request approval to pursue a private accounting firm to conduct a financial audit of TRICOR for FY14 in accordance with the Audit Committee's directive. It was noted that the audit would be required to issue an opinion on TRICOR's financial statements. He provided documentation of the TRICOR Board of Director's Audit Committee request. TRICOR's General Counsel was notified that the Comptroller's Office would not supply an opinion on the financial statements and that State Audit would be conducting a Sunset Audit for the period July 1, 2013 through December 31, 2014.

January 27, 2015 - At the TRICOR Board of Directors Audit Committee meeting, the committee reaffirmed its decision to seek Comptroller of the Treasury approval to have a public accounting firm provide a full financial audit issuing an opinion on the financial statements on a routine basis.

August 28, 2015 - A meeting was held with the Comptroller and staff where this issue was discussed. This issue is pending response.

Auditor Rebuttal:

To clarify, we conducted this audit pursuant to the Tennessee Governmental Entity Review Law, Title 4, Chapter 29, *Tennessee Code Annotated*. Under section 4-29-237, TRICOR's board is scheduled to terminate June 30, 2016. Furthermore, although TRICOR's management and board have requested a financial audit of its basic financial statements, management has yet to prepare the basic financial statements which could be subject to audit.

We do not concur with the statement that the executive director failed to ensure fiscal staff performed key reporting functions which led to a pervasive breakdown of controls that resulted in material financial misstatement and board decisions that were based upon inaccurate financial information. Detailed information is listed within this response.

We concur that the previous Chief Financial Officer (CFO) and Controller were not performing their duties and overseeing their responsibilities to a satisfactory level. The CFO was separated from state service March 18, 2015 and the Controller was separated from state service July 15, 2015. Once management became aware that problems existed in their performance they acted swiftly to correct the problem.

We hired a highly qualified CFO in May 2015 who has addressed all issues noted in the audit report and corrected several of the issues immediately. She is ensuring fiscal staff are performing key fiscal and financial reporting responsibilities. She is also consulting with staff from the Department of Finance and Administration to hire a new Controller.

It is the role of leaderships to ensure an organization is operating ethically, efficiently, effectively and within guidelines. In the event this is not occurring or is compromised, changes are made swiftly. The necessary changes were made when leadership lost faith in these individuals ability to do their jobs.

Management is addressing each of the following issues individually.

1. <u>Management and staff did not record all accounts receivables</u>

   We do not concur.

   This comment directly relates to the second “true-up” calculated and not executed by TRICOR. No invoice was created or billed in TIMS and sent to TDOC for this amount. A cover letter was issued under the CEO’s electronic signature to an attached report providing information to support the true-up that TRICOR was recommending to TDOC. The cover letter inaccurately referred to the report as a true-up “bill” (see page 59) when in fact the actual report (see page 39) noted in the first paragraph that one of the items covered in the report was back-up information to support a true-up TRICOR was recommending. This information was shared with the audit team.

   As mentioned in this audit, page 39, the TDOC Commissioner stated:

   > ***“TDOC has paid what TRICOR set as the price for those items and will not entertain further discussion on the matter.”***

Auditor Rebuttal:

To understand the full context involving the above quote, see the red text box in exhibit 1 on page 39. TRICOR’s comment misrepresents TDOC’s full comment.

Creating an invoice that is known to be uncollectable would be in direct opposition of ethical principles. This would intentionally overstate revenue by the said $3.1 million which is why an invoice was not created in the system and sent to the customer.

Auditor Rebuttal:

Management’s comment that “Creating an invoice that is known to be uncollectable would be in direct opposition of ethical principles” is baffling because management did request payment from the Department of Correction and should have recorded the receivable.

We have TRICOR’s letter to the Commissioner of the Department of Correction dated March 24, 2015, which states,

“TRICOR will…require a “true up” billing payment of $3,160,311 no later than April 1, 2015.”

See Appendix 3 on page 67. The Department of Correction interpreted TRICOR's letter as a demand for payment. TRICOR's comment that an "invoice was not created in the system and sent to the customer" (TDOC) is misleading and in contradiction to TRICOR's letter to TDOC seeking payment of the $3.1 million.

2. Management and staff did not promptly follow up on past-due receivables.

   We concur and action was taken immediately to correct this issue. The aged accounts receivables were not promptly followed-up upon however there were many of these receivables that were not at a point to be considered uncollectable and therefore written-off.

   Collection efforts have resumed with very successful results. At the point of this response, invoices totaling $79,899.78 have been collected. Collection efforts will continue with the expectation of both continuing successful results and that all government customers will pay. The remaining balance in the allowance for doubtful accounts is expected to exceed any additional invoices that may need to be written-off.

   The auditors note that while they cannot speak to management's intent to avoid write-offs no requests had been made to the Comptroller of the Treasury since 2012. It is important to note that while write-offs did not occur, TRICOR did have an allowance for doubtful accounts with a balance of $222,537.76. This was not sufficient to cover the total aged receivables noted in the audit however after applying the proceeds from the allowance for doubtful accounts, the remaining amount of receivables aged 60 days and beyond would be approximately $124,000. In addition, when closing out June's financial results, TRICOR accounting staff recorded an additional $102,484.56, bringing the total in the allowance for doubtful accounts to $325,022.32. This is sufficient to cover any aged receivables determined to be uncollectable.

   We have started the final process of the write-off procedures for some of the past-due receivables. Multiple attempts have been made to collect these debts; however, we have identified some as non-collectable. In addition, all fiscal employees have read, printed and signed the Department of Finance and Administration Policy 23. This will ensure all fiscal employees are familiar with this policy and strict adherence to the policy will be monitored by supervisors.

3. Management and staff did not accurately report financial information

   We concur and corrective action was taken immediately to resolve variances between the CAFR and the internal financial statements created in the TIMS system. This will remain an ongoing process.

4. Management and staff did not promptly update their accounting system (TIMS) for the TRICOR payments processed in Edison and did not properly review vendor payables

We concur and the issue was immediately corrected. Vendor payables are currently reconciled weekly. Accounts payable in Edison is now compared to accounts payable in TIMS on a weekly basis to ensure the accounts are in balance and all payables are recorded as paid in the TIMS system.

This process is manual and requires a double entry in TIMS and EDISON. When the EDISON system was launched, TRICOR, the TIMS software consulting firm and the State worked together on an interface for accounts payable to ensure no duplication of effort was needed to avoid the problem noted above. After considerable time and money were spent, the interface did not work successfully and the effort was abandoned. As a result of this audit finding, we have resumed conversations with the Department of Finance and Administration to develop an automated interface process. If this is successful, the weakness noted in this finding will not happen again.

5. Management did not ensure adequate segregation of duties for sales invoices and accounts receivables processes

   We concur and this was corrected immediately. While approximately 90% of these activities were properly segregated at the time of the audit, TRICOR changed the remaining 10% immediately.

6. Allegations and concerns regarding TRICOR management

   We do not concur as noted below:

   A. The audit states that management misled the Board of Directors by not divulging that the budget presented was based on inaccurate financial information.

Auditor Rebuttal:

Our audit results clearly state that we cannot speak to management’s intent of presenting the budget based on a standard menu price which had not been agreed to by the Department of Correction. Without full disclosure of financial information presented in TRICOR’s budget, the board cannot make well-informed decisions.

There was no subterfuge by management with the intent to mislead the board. This statement is unfounded and we believe these allegations have been made by former TRICOR employees who were separated from state service.

The auditors reached this conclusion based upon the fact that the budget presented to the Board of Directors reflected a \$3.59 price per day per offender for the standard menu in place at that time. At the time of the board meeting, the Commissioner had agreed to a price of \$3.15. This price difference however was discussed openly at the Board meeting with the Board recognizing that there was an evaluation plan in place to determine whether TRICOR will remain in this business after December 31, 2015.

TDOC now pays TRICOR $3.84 per day per offender for a significantly higher calorie content meal.

Auditor Rebuttal:

We attended the Board Meeting in question and there was no open discussion of the “price difference” or that the budget was based on any specific price point during the formal board meeting. To obtain the price information, we had to request this information subsequent to the board meeting. We also confirmed with the Department of Correction personnel present at the meeting that the price information was not openly discussed during the formal board meeting.

TRICOR’s Board of Directors and management are comprised of a team of individuals with considerable business acumen who understand how budgeting works in a sales driven organization rather than a state appropriated agency. TRICOR’s budget is based upon the best customer and market trending information we have at the time it is prepared. We must project what will happen based upon this information. This is similar to how the State of Tennessee prepares its budget which relies to a great extent on sales tax revenue. Forecasting a budget on sales tax revenue also requires looking at trends and making certain assumptions.

Planning and preparation, as with most businesses, is based upon the best customer information available at that time, and the plan must remain flexible to meet the customer’s needs and expectations.

We monitor our budget very closely and issue monthly financial statements to track performance. The Sales Division completes a monthly forecast detailing whether they are behind, on target or ahead of the forecast.

With all the variables to consider, TRICOR’s annual operating budget, with some exceptions, is very accurate due in large part to a detailed strategic planning process.

B. We believe the allegations of improperly influencing financial reporting were made by individuals separated from state service by TRICOR. Prior to the recent State Audit, TRICOR asked all staff members to disclose in writing whether they were aware of any fraudulent activity at TRICOR. Both of these individuals signed that they were not aware of any fraudulent activity at TRICOR.

Management categorically refutes any asserted claim that anyone was asked or expected to do anything improper as it relates to financial reporting. A former Controller with TRICOR who worked for the former CFO in 2012-2013 and left in good standing was contacted by TRICOR Human Resources and asked whether anyone had asked him to do or not do something because it would impact the TRICOR Incentive Plan. He did not recall being asked to do anything like this and said if he were asked he would have reported this to a higher level. This individual is a Certified Public Accountant, a Certified Fraud Examiner and is certified in

Financial Forensics. He worked for the Division of State Audit from 1993-1998 and was also the Director of Internal Audit for the Department of Finance and Administration. His credibility is without question.

Auditor Rebuttal:

The former employee was not employed during our audit field work and did not provide evidence regarding the audit objectives.

Our review shows that if the Accounts Receivable invoices noted in the audit had been written off, net income would have been sufficient to pay out in full the TRICOR Incentive Plan. The chart below shows the net income after all incentive payment accruals for the fiscal years ending 2013 and 2014. There is also a list of invoices that will be written off and their invoice dates. The information shows that after calculating the invoices to be written off, less the balance in the allowance for doubtful accounts, the remaining write off for 2013 would have been $46,428. When this number is applied against the net income for 2013, the adjusted net income would have still been sufficient for incentive payments to be paid.

In 2014 there would have been one additional invoice to write off in the amount of $25,215. Adding this amount to the 2013 totals, the total adjustment would have been $71,643. When this number is applied against the net income for 2014, the adjusted net income would have still been sufficient for incentive payments to be paid.

See the chart on the following page:

TRICOR Table 1

TRICOR			
Recorded Net Income Adjusted for Accounts Receivable Write Offs			
	2013		**2014**
Net Income after bonus accrual	$ 59,173		$ 89,523
Adjust for:			
A/R Write Off's	46,428		71,643
Net Income if all adjustments had been made	$ 12,745		$ 17,880
A/R Invoices to write off:			
Customer Number	**Invoice Date**		**Amount**
9005	Aug-07		$ 1,464.96
9005	Sep-07		1,778.00
9005	Oct-07		1,615.25
9011	Jul-05		14,403.31
9011	May-06		197.87
9011	Jun-06		0.47
9275	Jan-09		1,858.81
9275	Jul-09		127,261.22
9275	Aug-09		96,833.80
9275	Sep-09		20,470.02
9275	Oct-09		4,849.61
Total of invoices to write off			270,733.32
Less: Allowance for Doubtful Accounts			224,305.53
Balance remaining to write off 2013			46,427.79
Add 2014 Invoices to write off			
9635	Sep-13		25,215.22
Total of invoices to write off 2014			$ 71,643.01
	2013		**2014**
Additional Net Income			
Provided by Workforce Development Funds	$ 455,999		$ 517,259
*Data obtained from TRICOR TIMS Accounting System			

In reference to the allegation of not writing off obsolete inventory, in April 2013 TRICOR wrote of $430,284.50 due to the closure of the Metal Plant. TRICOR is very conservative when writing off inventory of raw materials or finished goods as the vast majority of these items have value in the market. In TRICOR's environment, an item may be obsolete because the intended customer has discontinued the item, but it has value and can be sold in another market. We have improved the process in an effort to move inventory that is no longer used by our customers. This responsibility has been moved to Sales and Operations to determine what market to sell the items to generate revenue. This recommendation will be approved by the Chief Financial Officer. Making this transition will put the focus on the sales team to turn these inventory items into revenue.

The audit report states that TRICOR hired a temporary Chief Financial Officer for 30 days, and they were not informed by management. Following the separation of the CFO, management entered into an agreement with a staffing organization to obtain an individual to assist TRICOR with the completion of verifying/validating recent financial statements and reviewing the Cook Chill cost center for FY 14 and FY15 to verify the accuracy of information. He was also to review time sensitive processes to determine our performance against expectations.

This individual did not supervise or manage any person or division during his time at TRICOR. He did not function in the capacity of the Chief Financial Officer during his brief time at TRICOR. Due to the temporary status of the agreement and the fact the individual was not supervising or making decisions on behalf of TRICOR, management did not realize that they were expected to make the audit team aware of this temporary hire.

Auditor Rebuttal:

TRICOR management states above that "It has been of the utmost priority of the TRICOR Board of Directors to operate with complete transparency to ensure the continuing confidence in the organization." Since we clearly communicated that our audit objectives involved our review of TRICOR's financial information and the Cook Chill program, in the interest of transparency, management should have informed us of the temporary employee performing CFO duties and should have communicated any deficiencies he identified in TRICOR's financial operations.

The audit team did receive information from Human Resources when our new Chief Financial Officer was hired.

The final recommendation in the report recommends that TRICOR enter into a collaborative agreement with the Department of Finance and Administration where we work together to ensure our systems and processes are sound.

TRICOR welcomes the opportunity to partner with the Department of Finance and Administration and will pursue a Memorandum of Understanding to solidify objectives.

We would request the Office of Information Resources evaluate whether there can be additional TIMS and Edison interfaces in an effort to make the sharing of information between the systems automatic. This was discussed before Edison was launched, and we have only one successful interface. Now that the system has matured, we would request an updated evaluation of how this can be accomplished.

Department of Finance and Administration

We concur. The Department of Finance and Administration will, effective October 1, 2015, enter into a memorandum of understanding with the Tennessee Rehabilitative Initiative in Correction providing for the formation of a collaborative partnership to improve TRICOR's financial management practices.

Matter for Legislative Consideration

If the results of the collaborative effort between the Department of Finance and Administration and TRICOR do not improve the efficiency, effectiveness, and reliability of TRICOR'S fiscal operations, then the General Assembly may wish to consider statutory changes to accomplish those objectives.

Finding 2 – TRICOR did not provide adequate internal controls in four specific areas

TRICOR did not design and monitor internal system controls in four specific areas. Ineffective implementation of internal controls increases the likelihood of errors, data loss, and inability to continue operations. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the office with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

Recommendation

Management should ensure that these conditions are remedied by the prompt development and consistent implementation of internal controls in four areas. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. The issues addressed in this finding have been corrected.

REVENUE CONTRACTS

TRICOR has executed 10 contracts with state and non-state customers to secure revenue. Through these revenue contracts, the offenders answer phones at call centers, manufacture flooring, perform data entry services, and manufacture vehicle license plates and decals. From these 10 revenue contracts, TRICOR secured revenue totaling $16,837,309, from July 1, 2013, through December 31, 2014. This revenue consisted of $10,548,948 from non-state customers (six revenue contracts) and $6,288,361 from state entities (four revenue contracts). Two of the six non-state revenue contracts were Prison Industry Enhancement Certification Program[10] contracts with floor manufacturers.

The objectives of our review were to

- examine revenue transactions to determine if TRICOR had properly executed contracts with customers, and
- determine whether these revenue contracts were established in accordance with state statute and TRICOR policies and procedures.

From TIMS, we extracted a list of 2,877 revenue receipts (totaling $60,681,209) from 375 TRICOR customers from July 1, 2013, through December 31, 2014, and compared the revenue list to established contracts to verify that the reported revenue amounts were associated with valid contracts. From a population of 10 revenue contracts established between July 1, 2013, and December 31, 2014, we obtained and reviewed all 10 contract files to verify the existence of executed revenue contracts. We reviewed state statute and TRICOR policies and procedures to determine whether the contracts were established appropriately.

Based on the procedures performed, we determined that

- with the exception of the Tennessee Cook Chill program, management appropriately entered into contractual relationships with its state and non-state customers; and
- the revenue contracts were established in accordance with state statute and TRICOR policies and procedures.

TENNESSEE COOK CHILL PROGRAM

Background

The Tennessee Comprehensive Food Service Program, also known as Tennessee Cook Chill, was established in July 1995 under a third-party management fee contract whereby, under the Department of General Services' monitoring, a vendor managed the program from a state facility and was responsible for procuring, preparing, packaging, storing, and delivering prepared and pass-through food items to state entities in exchange for a management fee and reimbursement of variable overhead and equipment maintenance expenses. After the vendor's contract expired on June 30, 2010, TRICOR took over the Cook Chill program. TRICOR's customers include the Department of Children's Services, the Department of Intellectual and Developmental Disabilities, the Department of Mental Health and Substance Abuse Services,

[10] The Prison Industry Enhancement Certification Program is designed to place offenders in a realistic work environment, pay them the prevailing local wage for similar work, and enable them to acquire marketable skills to increase their potential for successful rehabilitation and meaningful employment upon release.

Prince Foods Systems,[11] and the Department of Correction, which is TRICOR's largest Cook Chill customer.

Description of Current Process and Relationship with the Department of Correction

TRICOR's Standard Menu Program

To operate the Cook Chill program from July 1, 2010, to December 31, 2013, TRICOR's executive management used a billing model similar to the one developed by the private vendor who previously operated the program. Under this original model, TRICOR billed the customer for all direct operating and raw material costs for the program, as well as its management fees. Effective January 1, 2014, TRICOR implemented the Standard Menu Program for meals ordered by the Department of Correction. With the Standard Menu Program, TRICOR provides the department meals kits, which consist of an entrée, side items, condiments, and a beverage, for offenders housed in its state-run correctional facilities based on orders submitted by the department. TRICOR bills the department a standard price for each meal kit ordered per offender per day, based on the number of offenders provided by the department. Under this new Standard Menu Program, TRICOR does not charge a separate management fee. According to TRICOR, the purpose of implementing the Standard Menu Program was to

- develop, operate, and monitor a four-week standardized menu using the department's nutritional and caloric guidelines;
- provide breakfast, lunch, and dinner meal kits for offenders;
- evaluate vendor sources[12] to reduce costs, while maximizing Cook Chill's capacity; and
- begin other agriculture programs for the department's consumption.

Cook Chill Ordering Process – Standard Menu Program

The department purchases meal kits from TRICOR's Cook Chill program to feed the offender population, as well as the correctional officers, at state-run correctional facilities. To order meal kits, the department enters a purchase requisition in Edison and emails the completed purchase requisition to TRICOR. Upon receipt of the department's requisition, TRICOR staff enter the corresponding sales order and associated work orders in TIMS. Copies of the sales order and work orders are sent to the department so department staff can initiate a purchase order in Edison. Once the purchase order has been entered in Edison, the department sends a copy of the purchase order to TRICOR so TRICOR staff can process the order for shipment and billing.

[11] Prince Food Systems is a private, for-profit company that operates the Comprehensive Food Programs for the Department of Mental Health and Substance Abuse Services.

[12] Sources for raw materials for food manufacturing and pass-through items ordered by TRICOR to be included in the meals kits.

Results of Audit Work

Because the Department of Correction is TRICOR's largest Cook Chill customer, and based on an allegation we received, we focused our work involving the Cook Chill program on TRICOR's business relationship with the department.

At the beginning of our audit fieldwork, we attended the March 13, 2015, board meeting to gain an understanding of the board's oversight role and involvement in TRICOR's operations. During the meeting, TRICOR's chief financial officer presented TRICOR's financial information to the board and indicated that in the first seven months of fiscal year 2015 (July 1, 2014, through January 1, 2015), TRICOR had lost approximately $2.4 million, primarily due to the business arrangement with the Department of Correction for the Standard Menu Program. In our preliminary planning testwork, we determined that TRICOR did not have a formal written agreement with the department.

Subsequent to the board meeting, we received an allegation involving the Cook Chill program that focused on concerns about

- the business model used for the Cook Chill Standard Menu Program,
- TRICOR's billings to the Department of Correction,
- the increasing net loss on Cook Chill operations, and
- TRICOR's executive leadership and potential mismanagement of the Cook Chill program.

To follow up on the allegation, the objectives of our review were to

- determine if TRICOR entered into formal agreements with its Cook Chill customers;
- determine why TRICOR has not entered into a written agreement with the Department of Correction and ascertain TRICOR's progress toward securing a written agreement with the department; and
- assess the Cook Chill program's financial position after implementation of the Standard Menu Program.

To gain an understanding of the current state of the Cook Chill program and the Standard Menu Program, we interviewed TRICOR board members, TRICOR management, and Department of Correction management. We also obtained and reviewed several proposed Cook Chill program agreements, as well as correspondence between TRICOR and the department that related to these proposed agreements. We obtained and reviewed the program's financial reports, which were prepared by TRICOR staff, for the period July 1, 2013, through March 31, 2015.

Based on procedures performed, we determined that

- TRICOR management has not executed revenue contracts with any of its state or non-state customers for goods purchased from the Cook Chill program (see Finding 3);
- as of June 19, 2015, TRICOR and department management have yet to establish a written agreement concerning each entity's responsibilities in the Cook Chill program (see Finding 3), and are continuing to work toward refining the Cook Chill program to increase its future viability (see Results of Further Audit Work on page 45); and
- during the Standard Menu Program implementation period covering January 1, 2014, through March 31, 2015, the Cook Chill program has experienced net operating losses of $4,004,790 (see Finding 3).

Finding 3 – TRICOR and Department of Correction managements continue to operate the Tennessee Cook Chill program without executed agreements, resulting in unmet expectations and a program net loss of more than $4 million

Condition and Cause

TRICOR failed to properly execute a formal agreement with any of its Cook Chill customers, including its largest customer, the Department of Correction. As illustrated in Table 3 below, TRICOR and the department have attempted to reach a mutually agreeable arrangement delineating each entity's responsibilities and expectations, but they have yet to formally execute a written agreement.

Table 3
Timeline of Proposed Draft Agreements

Date	Action
June 30, 2012	TRICOR and the department's original Cook Chill program memorandum of understanding (MOU) expired.
December 6, 2012	According to department management, the department presented TRICOR with a proposed MOU. This MOU's term began on July 1, 2012, and would have ended on June 30, 2013. This MOU was not executed.
July 1, 2013 – December 31, 2013	TRICOR and the department began developing the Standard Menu Program, with January 1, 2014, as the expected implementation date.
September 13, 2013	TRICOR presented to the department its own proposed MOU, which described the new Standard Menu Program. This MOU was not executed.
January 1, 2014	TRICOR implemented the Standard Menu Program without a signed agreement with the department.
January 26, 2014	According to department management, the department presented TRICOR with a second proposed MOU relating to the Cook Chill program.
January 26, 2014 – August 2014	The department did not receive any communication from TRICOR regarding the second proposed MOU.
December 2, 2014	TRICOR presented the department with another proposed interagency agreement for the Cook Chill program. The department compiled

	comments for the proposed agreement and provided its comments to TRICOR.
June 19, 2015	On the last day of audit fieldwork, TRICOR and the department still had not executed an agreement relating to the Cook Chill program.

Based on our audit work, we summarized below the areas of disagreement that have prevented either party from securing a written agreement. (For specific details surrounding these areas, see Exhibit 1 on page 39. Based on our review of the proposed agreements for the Cook Chill program, none of the proposed agreements addressed the specific concerns raised in the exhibit.)

1. Upon implementation of the Standard Menu Program, effective January 1, 2014, both entities reported to us that they verbally agreed on a standard meal kit price of $2.99[13] per offender per day. When we requested details to support the $2.99 price determination, TRICOR management could not provide them; however, based on our inquiry, TRICOR informed us that the $2.99 rate is below its cost to produce meals. TRICOR management further stated that they expected the department to order meals based on an average of 80% of its offender population, and then TRICOR planned to recoup its meal production costs by billing the department for 100% of its offender population. However, based on our conversations with department management, we believe that the department expected to pay for actual meal kits ordered.

    - Based on our examination of documents obtained from the department, the department's commissioner informed TRICOR's chief executive officer on March 31, 2015, that he did not know how TRICOR arrived at the $2.99 rate, and he was not aware of TRICOR's expectation of billing for more meal kits than were ordered. In fact, the commissioner stated that these specifics had not been previously discussed.

    According to a letter written by TRICOR's chief executive officer to the commissioner (see Appendix 1, page 59), both entities agreed to a quarterly reconciliation process called a "true-up." The letter specifically states,

    > To use this rate [the standard menu program rate of $2.99] it was agreed by you and I that there would be a "true-up" process that would look at the costs versus billings and if necessary, reconciliation to either partner would be made based on these numbers.

    From our understanding and based on information provided by TRICOR's chief executive officer and our review of the fiscal year 2015 true-up sent to the department, TRICOR has charged an additional cost above the standard menu price for meals ordered over 100% of the offender population count. Furthermore, based on our review of TRICOR's records, TRICOR has never issued any refunds via the true-up process, as illustrated in Table 4.

[13] The DeBerry Special Needs Facility has a standard menu price of $3.10 per offender per day because it does not have a complete kitchen to prepare meals; the meals for this facility cannot require additional kitchen preparation.

Table 4
Standard Menu Program
True-ups Billed by TRICOR and Paid by the Department of Correction

Billing Period	TRICOR Billed	Department Paid	Amount Outstanding
January 1, 2014 – June 30, 2014	$2,221,199	$1,583,400	$637,799
July 1, 2014 – February 28, 2015	$3,160,311	$0	$3,160,311
Total	$5,381,510	$1,583,400	$3,798,110

Source: TRICOR fiscal staff.

- According to the department management's understanding of the true-up process, it was designed to provide relief to the department if the department paid for meal kits it did not receive. Department management stated that they have paid TRICOR for the true-up charges that the department agreed to pay (e.g., the department paid the difference to replace white bread with wheat bread). Furthermore, the department does not agree that it owes TRICOR additional true-up payments to defray TRICOR's production costs, as the remaining balance due appears to represent. The department asserts that it has paid TRICOR for every meal kit ordered, which includes the meal kits served to its correctional officers.[14]

2. Even though TRICOR considered the Standard Menu Program a pilot program, the department considered it a permanent change and submitted to the Governor a recurring budget reduction of $7.1 million beginning fiscal year 2015, based on the Standard Menu Program's projected cost savings; the department's commissioner discussed the pricing changes in budget hearings held in November 2013.

Conclusion

Since the January 1, 2014, implementation of the Standard Menu Program, the Cook Chill program reported a net loss of $4,004,790; as a self-funded agency, TRICOR's reserves covered the loss as shown in Table 5. As noted in TRICOR's reported balance sheet from May 31, 2014, through May 31, 2015 (see Exhibit 2 on page 47), the balance for cash and cash equivalents has decreased over $7.3 million dollars. At this rate, TRICOR cannot continue to absorb losses through its reserves indefinitely and creates a going concern issue for the agency.

[14] TRICOR expected the department to report meals ordered for correctional officers separately from the offender population because TRICOR based its billing practices only on the offender population. According to TRICOR, the outstanding balance of $637,799 for January 1, 2014, through June 30, 2014, represents an additional charge for correctional officers' meals since the department did not separate correctional officer orders from the offender population orders on its purchase requisitions.

Table 5
Net Income/(Loss) for the Cook Chill Program
January 1, 2014, through March 31, 2015
(unaudited)

Reporting Period	Net Income/ (Loss)
January 1, 2014, through June 30, 2014	$2,944
July 1, 2014, through September 30, 2014	($695,584)
October 1, 2014, through December 31, 2014	($1,243,467)
January 1, 2015, through March 31, 2015	($2,068,683)
Net Loss from January 1, 2014, through March 31, 2015	**($4,004,790)**

Source: TRICOR fiscal staff.

Expectations of TRICOR's Board

During the March 2015 board of directors meeting, the TRICOR board requested management draft a policy to ensure TRICOR did not enter or begin any business relationship without a written agreement signed by TRICOR's chief executive officer or a designee. This policy is awaiting formal approval by the board.

Criteria and Effect

Section 41-22-403(2)(B), *Tennessee Code Annotated*, states, "TRICOR has a mission to offset the costs of incarceration by generating revenue through the sale of products or business services."

According to the *Amended Procurement Procedures Manual of the Central Procurement Office*, the purpose of an agreement is to formally describe each entity's duties and responsibilities, any applicable exchange of funds, and the term for the agreement.

TRICOR's policies and procedures do not specifically address TRICOR's responsibilities in contractual relationships when its role is to provide the goods and/or services (vendor); the policies and procedures only address instances when TRICOR is the procurer of goods or services.

Failing to secure agreements with its Cook Chill program customers increases the risk that TRICOR will not be able to protect its interests, serve its customers, and generate the revenue necessary to carry out its mission.

Recommendation

The TRICOR board should ensure management establishes policies and procedures that require written executed vendor agreements that clearly delineate all parties' authorities, responsibilities, and fiscal relationships before providing any good or service to customers.

The board should work with management and its customers, particularly the Department of Correction, to assess the current business model of the Cook Chill program. The board should develop a plan that will not only be profitable for TRICOR but will also ensure that the state, through TRICOR's contractors, gets the best products and services available to fulfill the agencies' responsibilities. This plan should also include an exit strategy for each party in case the program is no longer viable. The exit strategy should provide both TRICOR and its contractors with reasonable notice so that service disruptions are minimal.

Management's Comments

Tennessee Rehabilitative Initiative in Correction

We concur with the audit report recommendations.

TRICOR agrees that it is a business best practice to have written agreements with all procuring parties and as verified by the audit team in this report (page 28) it is TRICOR's standard practice. We have revenue contracts with all customers when appropriate except for the Standard Menu Program with TDOC. The other two customers using product from the Cook Chill facility comprise less than 1.5% of the total product purchases. These purchases are appropriately managed with purchase orders in the Edison system.

TRICOR has managed the Cook Chill Operation for five years operating on two business models. With the exception of year five, it was financially sustainable. For all five years we saved the State of Tennessee in excess of $10M with few customer concerns related to TRICOR. The first 3 ½ years was a reimbursement based business model for the customers with no incentive for either party to be efficient or effective. The last 18 months the business model proposed to TDOC and we believe accepted, relied on a reduction in food costs (TRICOR), portion control (TDOC), meal ordering for only the number of those eating (TDOC) and billings for the full population. While this was a significant shift in the previous operating methods, the net cost savings for the state was significant; however, the full cost savings under this model was not realized as noted below.

TRICOR Table 2 **FY15 TDOC Meal Order Patterns**

Month FY 2015	TDOC Population Operating Capacity	Total # of Meals for 100% Operating Capacity (Population Count)	Total # Std. Meals Ordered (Actual)	Total # of Non-Standard Meals Ordered (Actual)	Total # Meals Ordered (Actual)	Total # Meals Over 100% Population Count	Total # of Meals Percentage for Population Count
July	16,016	1,521,520	1,673,567	203,599	1,877,166	355,646	23.37%
August	16,016	1,217,216	1,361,115	130,506	1,491,621	274,405	22.54%
September	15,968	1,213,583	1,369,914	132,111	1,502,025	288,442	23.77%
October	15,920	1,512,400	1,700,870	181,630	1,882,500	370,100	24.47%
November	15,920	1,209,920	1,365,386	153,766	1,519,152	309,232	25.56%
December	15,992	1,215,392	1,372,584	163,246	1,535,830	320,438	26.36%
January	16,016	1,521,520	1,682,443	195,227	1,877,670	356,150	23.41%
February	15,973	1,213,967	1,322,772	145,031	1,467,803	253,836	20.91%
March	15,720	1,194,720	1,296,183	94,298	1,390,481	195,761	16.39%
April	15,503	1,472,785	1,616,935	133,858	1,750,793	278,008	18.88%
May	15,503	1,178,228	1,092,674	177,954	1,270,628	92,400	7.84%
June	15,503	1,178,228	1,102,011	168,901	1,270,912	92,684	7.87%
Grand total for FY 2015	[redacted]	**15,649,479**	**16,956,454**	**1,880,127**	**18,836,581**	**3,187,102**	**20.37%**

^ Meals are taken directly from invoices of kits ordered by TDOC

* July, October, January, and April have 5 weeks of billings

TRICOR Table 3

The average price per meal during this period was 99.7¢ for the standard menu. Using an average order quantity of 80% as reported by TDOC Food Service staff plus an average 8% spoilage rate, the department had the opportunity to save an additional $3.4M in food costs if ordering quantities were restricted to the average number actually eating (Table 3) rather than the 20.3% over the offender population count (Table 2).

While TRICOR made numerous attempts to have the department sign an Interagency Agreement, an Operational Agreement and then a Letter of Agreement we were unsuccessful in fully executing an agreement that would articulate expectations for both partners. In the absence of a written agreement, TRICOR elected to continue, without interruption or compromise in service, the provision of all food products to TDOC. We are very familiar with prison operations, as we operate programs for both the government and the private sector throughout the state using 90% offender labor. We understand how food is directly tied to a safe and secure prison system and made a conscious decision not to interrupt services, as the results would be catastrophic to the system and those working and living in prison daily. TRICOR has and will continue to focus on transforming lives through effective programs within a correctional system that costs taxpayers close to one billion dollars each year, so that we can facilitate success after release for offenders.

As noted in the audit as a recommendation, TRICOR has assessed the current business model and TRICOR's price is now calculated on making a margin with every meal ordered regardless of order quantities.

Department of Correction

We concur. There is no written executed agreement with TRICOR governing the Standardized Menu Program. As indicated in Table 3 of the Performance Audit Report, there have been multiple and ongoing attempts by the Department to formalize a written agreement with TRICOR. The reasons for not having an agreement in place are numerous, but, in the simplest terms, the agencies have not been able to agree on a mutually acceptable and affordable scope of work.

The Department concurs with the Comptroller's summarized areas of disagreement found on pages 33-34 of the report and stands by its stated positions in the memorandum to TRICOR dated June 23, 2015 (Appendix 2). Each of the identified areas of disagreement would have a significant financial impact on the Department. The Department cannot agree to changes in the program that would exceed our budgetary constraints.

EXHIBIT 1
Memorandum Regarding Standard Menu Program Expectations With Department of Correction's Comments
[For Presentation Purposes Only]

The memorandum exhibited below, sent by TRICOR's chief executive officer (CEO) to the Department of Correction's commissioner on March 23, 2015, illustrates both entities' unmet expectations for the Standard Menu Program. The text within the purple boxes indicates department management's internal comments. According to department management, they did not send their comments to TRICOR management; they communicated their comments during subsequent meetings with TRICOR management. The CEO's original letter is exhibited in Appendix 1 on page 59.

March 23, 2015
TDOC/TRICOR Partnership
Standard Menu Program

Commissioner Schofield,

Attached please find an analysis of the food ordering by TDOC for the period July 1, 2014 to February 28, 2015 as well as a "true-up" recommendation from TRICOR. To understand how we mutually agreed to a "true-up" process, it is necessary to revisit the history of both the Tennessee Cook Chill (TCC) operation and its relationship with TDOC and the current Standardized Menu pilot project.

The "true-up" or reconciliation process you mention was initially discussed on February 14th, 2014 and considered only to protect TDOC from paying for items that were not received. In this specific case, it was to provide relief for the Department if our actual Kit orders fell below the Population Count which was to be the basis of the payment to TRICOR.

The "true up" was not conceived or intended to provide TRICOR a mechanism to retroactively increase the previously agreed upon prices. Furthermore, when the requisition for food orders was amended to include lines for "Overpopulation" kits in Edison, the need for a "true up" was relieved in its entirety and, as a result, there has not been one attempted by either party. The "Overpopulation" lines that TRICOR added to the requisition included prices that equated to $2.99 per day and TDOC did not set that pricing. Your assertion today that those kits actually cost $6.75 per day is completely unreasonable – TDOC has paid what TRICOR set as the price for those items and will not entertain further discussion on the matter.

This is inaccurate. The Department did not order pass through items through the Sodexo [*sic*] [contract]. All pass through items were ordered off [*sic*] the Statewide Staple Groceries Contract.

When TRICOR began management of TCC in July 1, 2010, it operated on a similar model as under the 20 years with the private sector. TRICOR received a monthly management fee from the customers and all operational and raw material costs were passed directly onto the customers. Under private sector management, the contractor purchased all pass-through items for the department and added a mark-up to each item. TRICOR elected not to assume the responsibility of pass-through purchasing for the department. This responsibility went back to the department in an effort to save the mark-up added on by the private sector.

It was the mutual understanding of both TDOC and TRICOR that when the department was ready to implement a standardized menu with both portion control and strict monitoring of offender management for both the actual number eating and those individuals eating per meal, our partnership would move in that direction.

During the 2013 legislative session the ongoing offender food costs became a subject of conversation with select legislators who were told by private food service companies that the cost could be as low as $1/day/offender. In an effort to keep the goals of our long-term partnership on track, TRICOR made a proposal to TDOC to move forward with a pilot program (See Attachment 1).

The proposal presented to you and then at your request to your leadership team in June 2013 presented an initial mutual goal of reducing offender food costs for TDOC while moving toward full utilization of the TCC food manufacturing facility. The proposal recommended the following pilot program for the Standardized Menu only as it represented the significant majority of food consumed by offenders at that time and the nonstandard menus were in the full control of the department:

Year 1 (FY 14) – Pilot Program

- TRICOR will develop, operationalize and monitor a 4-week standardized menu for TDOC using as a basis TDOC's nutritional and caloric guidelines. This will be reviewed and approved by the TDOC centralized food service team.
- The average offender food cost for year one will be at or below $2.99/day. This is a savings of approximately $4.6M during this first year.
- The operational goal in Year 1 is to evaluate additional recipe items and vendor sources to continue to (a) reduce the daily cost for offender food and (b) maximize TCC capacity.
- Research and evaluate similar state's average daily cost per offender for food and develop a target to reach by end of Year 1, etc. Goal is long-term sustainability.
- Evaluate and begin programs for growing crops which increase TDOC's ability to move toward self-sustaining agriculture programs for TDOC consumption.

Benefits:

- Immediate impact in reducing food costs while maintaining a 4-week rotation of food.

- Place the food management program on a "transition plan" to reach the goal of sustainable cost reductions while mitigating the risk of prison unrest due to a drastic change in the food service program.
- Standardized menu items will have a centralized ordering system through TDOC and inventory management at the central and local level will be evaluated and monitored by TRICOR in conjunction with TDOC central office and site locations.

This is inaccurate – as previously discussed, this was not the purpose of the "true up" as agreed to. We never discussed with you or your team or agreed to review your "cost vs. billings" and pay the difference. It is TDOC's position that the cost TRICOR submitted to Edison should have included your cost to produce and deliver the items. If it is now your position that the agreed upon price was roughly 1/3rd of your actual costs, while unfortunate, that is not something TDOC can assist you with. It is still the Department's position that it has paid in full for every item received and that the reconciliation bill is in error.

The pricing and billing model explained by TRICOR and used from the beginning of the pilot program was to offer a low offender cost per day for the Standard Menu which would be billed at a rate of the total offender population count. The sites were to order the actual number that would eat based upon the food service managers' historical information of those eating by meal. This model is one of the standard models used by the private sector when managing food service programs. The food provider (TRICOR) would offer a low daily rate and the margin would be gained by the difference of the number of offender meals ordered and the total population count. To use this rate it was agreed by you and I that there would be a quarterly "true-up" process that would look at the costs vs. the billings and if necessary, reconciliation to either partner would be made based upon these numbers.

This is inaccurate. TDOC drafted an Interagency Agreement, working in concert with your staff, and sent it to TRICOR in January of 2014. TRICOR never provided any feedback on that document until a completely re-written version was sent to us in December 2014. All TDOC stakeholders were given the opportunity to review and comment. Those questions / revisions were returned to your General Counsel on January 16th, 2015. It should be noted that during this review, TRICOR first indicated that a substantial increase in pricing across the board was imminent but not reflected in the MOU we were reviewing, making that review a waste of time. No further communication from TRICOR has been received.

During the period July 1, 2013 to December 31, 2013 the standardized menu was developed and approved, processes were developed and numerous meetings were held between both departments to explain the new program in preparation for a January 1, 2014 start date. The Interagency Agreement was drafted by TRICOR and provided to TDOC leadership however it was not executed prior to the start date due to ongoing questions and clarification needed by TDOC. Absent the agreement, TRICOR began the new billing model in good faith that the questions could be answered and the agreement would be signed which provided protection for both parties to ensure that the benefits noted earlier could be realized. After numerous changes, the agreement remains unexecuted.

During the period January 1, 2014 to June 30, 2014 two critical events took place that should have directed changes in the ordering of meals. A meeting was held between you and me and our leadership teams which outlined the order patterns during the first six month trial period. The data showed that the department was continuing to order approximately 30% over its population count and there was an agreement that this would change to reflect orders for those actually eating and not full population count every day or over population count. (It was recognized that there were meals such as hamburger or hot dog day that extra entrees were required. It was agreed that extra entrees could be ordered rather than ordering a full kit.) As a result of these practices there were two "true up" billings presented to the department for a total of $2.2M for this time period.

Beginning July 1, 2014 through February 28, 2015 the order patterns did not change consistently as reflected in Attachment 2 which has resulted in an additional "true-up" billing of $3,160,311.

It is the Department's position that our ordering pattern is irrelevant to this discussion. TRICOR established a price in Edison for the items we needed, sent us a bill for those items and was paid in full. Your staff has commented a number of times this week that TDOC has ordered "2.5 million extra meals" in FY15, presumably for the shock value. This is pure misdirection and completely irrelevant for two reasons: 1) We do not base our orders, nor are invoiced, on the number of meals served. 2) TDOC has ordered more than 22 million meals in to date FY15. Placed in that context, 2.5 million meals represents 8% of our need and an acceptable level of ordering to account for spillage, spoilage and contingencies.

If we evaluate the "why" of where we are today and you look at the benefits of where we wanted to be by now according to the proposal, you can conclude the following:

Benefits:

Immediate impact in reducing food costs while maintaining a 4-week rotation of food.

The standardized menu has been implemented. The sites order kits by week and by breakfast, lunch and dinner. The cost per day per offender is $2.99.

There is discussion to change the kit to a per meal ordering as it has been noted by TDOC that the current kit construction may drive over ordering. TRICOR is willing to make these changes but also recognizes that an agreed upon process was put in place early to allow the sites to order extra entrees on days where the entrée drives a higher number of offenders eating.

TRICOR also recognizes that our mutual goal is Standard menu orders + nonstandard menu orders should not exceed 100% of the offender population count. This is not the case. The order guide calls for separate ordering for correctional officers which TDOC does not do. This must happen if we are ever going to truly make savings in food costs sustainable. You must know where your food is going.

It is the Department's opinion that accounting for staff separately is unnecessary. The meals available to the staff are the exact same as the meals being fed to the offenders and therefore should be the same price. To suggest that paying separately for staff meals is the only way to sustain savings in food cost is simply not defendable.

Place the food management program on a "transition plan" to reach the goal of sustainable cost reductions while mitigating the risk of prison unrest due to a drastic change in the food service program.

While much progress has been made in this area we are still not to the point where every site subscribes to portion control or knows how many offenders may be getting both a nonstandard and standard meal. TRICOR has also noted during site visits where officers are being served greater portions than the menu allows. This is an issue that must be addressed. It is not TRICOR's decision as to whether officers should be eating consistent with the offender population but rather TDOC's decision. Even though the order guide calls for ordering for both offenders and correctional staff, sites do not separate their ordering in accordance with the guide.

Standardized menu items will have a centralized ordering system through TDOC and inventory management at the central and local level will be evaluated and monitored by TRICOR in conjunction with TDOC central office and site locations.

At TDOC's request TRICOR agreed to change our system to allow the site inventory to appear in Edison. This was to benefit the department and each site for inventory control and audit reasons. TRICOR would have the capability then to look into Edison to see inventory levels at each site to determine whether our bill of materials for menu items maybe over or under stated.

On the contrary, TRICOR's kit ordering system parameters make the keeping of accurate inventories and effective control of ordering in Edison impossible. We look forward to TRICOR breaking the kit system down in days instead of weeks and ultimately abandoning the Kit entirely so TDOC can order and pay for each component, as this has long been requested and ignored by TRICOR.

This information is not uniformly put into Edison and therefore cannot be monitored to determine inventory levels. This may be leading to excessive inventory levels of food at the sites.

In the proposal it noted that after Year 1 we needed to make a decision. The full Pilot Program was in effect from January 1, 2014 to December 31, 2015 so the time is now here to decide whether there are course corrections that need to be made to go forward.

This is simply not accurate. The Standardized Menu Project was never designed or intended to be a "Pilot" of any kind. It was a permanent change in the way we provide food to the inmate population. The permanence of this plan is evidenced in the fact that TDOC submitted a recurring budget reduction in FY15. We did start the program 6 months early to test the process and delivery plans (in December 2014). However, on July 1st, 2015, the program went live and the budget reduction was in place.

TRICOR remains committed to our partnership with TDOC however moving forward will require immediate changes to the processes and the program overall. TRICOR will be unable to continue using the model that the program is built on today where we must rely on the department's willingness to pay "true up" reconciliation for us to break even. We will also need an interagency agreement that clearly outlines the responsibilities of each party as we go forward.

In the interim while decisions are being evaluated by the department, TRICOR will need to resume the model used during the first three years of operation as noted earlier in this document. The department will pay the direct cost of what it uses and TRICOR will be paid a monthly management fee for operating TCC and food delivery. If the ordering is done properly, your costs should not exceed $2.99 for the Standard Menu Program. These changes will be reflected in an agreement crafted by both agencies general counsels and signed by April 1, 2015.

TRICOR's inaccurate pricing model is fully responsible for any operating deficits being experienced, not the way the Department is ordering or serving the food. Unfortunately, it is not possible to simply abandon the Standardized Menu Program and revert to the previously used model – those funds were taken as part of the reduction plan developed in partnership with TRICOR and no longer exist.

Sincerely,
Patricia Weiland

Results of Further Audit Work – Tennessee Cook Chill Program

Status of the Standard Menu Program as of July 19, 2015

We attended the June 26, 2015, board of directors meeting, where the chief financial officer stated that, as of May 31, 2015, TRICOR reported a net operational loss of $5,232,919, primarily related to the Tennessee Cook Chill program. TRICOR's chief executive officer (CEO) made a presentation about the past, present, and projected future of the Standard Menu Program (see Appendix 3 on page 67). The CEO stated that TRICOR must increase the price of meal kits to allow TRICOR to remain financially viable; however, the CEO did not specifically quantify the price increase needed for TRICOR to continue the Cook Chill program.

During the board meeting and as a result of TRICOR's current financial position, the board approved a motion for the CEO and the commissioner to determine the future of the Standard Menu Program by December 31, 2015— either TRICOR will continue to manage the program or the department will seek another vendor to provide meals at its state-run facilities. The financial information presented at the June 26, 2015, board meeting is presented in Exhibit 2 on page 47.

We reviewed, but did not audit, the balance sheet presented at the May 31, 2015, board meeting. Based on our review, we have concerns that the balance sheet is not presented in accordance with prescribed accounting standards. We noted, for example, that management reported negative operating cash. We also noted other apparent errors on the balance sheet.

Standard Menu Program Price Increase

At the June 26, 2015, board meeting, the CEO presented the fiscal year 2016 operating budget based on a standard menu price of $3.59 for Cook Chill meal kits (we were told and provided evidence by the Department of Correction after the board meeting that TRICOR's budget was based on a standard menu price of $3.59). Based on our observation during the board meeting, neither the board members nor department management discussed the increase of the standard menu price in regard to the budget. On the day of the board meeting, June 26, the CEO knew that the Department of Correction had not agreed to this price increase to $3.59, as evidenced by the letter from the commissioner to the CEO dated June 23, 2015 (see Appendix 2 on page 64).

Subsequent to the board meeting, according to Department of Correction management, the commissioner verbally agreed to increase the price for the meal kits from $2.99 to $3.15, effective July 11, 2015. An email between TRICOR and the department, dated July 2, 2015, confirmed the department's commitment to the $3.15 rate.

In response to our learning of the price increase, we presented two follow-up questions regarding the Standard Menu Program to the CEO and received her response (in blue) on July 19, 2015.

1. What new price did TRICOR and the Department of Correction agree to for meals ordered for the Standard Menu Program? Will the new price allow TRICOR to remain financially viable?

   TRICOR notified the department on June 11, 2015, that the price for the current standard menu would be increasing to $3.59, effective July 11, 2015. In a subsequent meeting with the department's Commissioner, he stated that they were willing to give a 5% increase only, which put the price at $3.15. It was discussed at that time that there needed to be menu changes to increase the plate coverage. TRICOR agreed to propose an alternate menu. ***TRICOR will not be financially sustainable with the current menu at $3.15*** [emphasis added].

2. Did TRICOR and the Department of Correction document the new agreed upon price in a written agreement? If so, please provide documentation of the agreement for the new agreed upon price.

   A presentation of the new menu and price will occur within the next 10 days. An agreement is being developed for both parties to sign prior to the effective date. [This should have occurred by July 31, 2015, 10 business days after July 19, 2015.] The $3.15 price has been changed in Edison which serves as our contractual arrangement in the interim.

Currently, we are not aware that TRICOR and the department have signed an agreement for the Standard Menu Program or for the price increase.

EXHIBIT 2
TRICOR's Statement of Financial Position
Presented at the June 26, 2015, TRICOR Board of Directors Meeting
Source: TRICOR Staff
(unaudited)

TRICOR
STATEMENT OF FINANCIAL POSITION
AT MAY 31

Assets	2015	2014	Variance
Current Assets:			
Cash:			
Operating Cash	(4,914,811)	3,856,356	(8,771,167)
Workforce Development Program Contribution	1,515,538	957,400	558,138
Capital Replacement	4,142,000	3,574,071	567,929
Cook Chill Equipment Replacement	2,164,615	1,807,000	357,615
Cash and Cash Equivalents	2,907,342	10,194,827	(7,287,485)
Accounts Receivable, net	4,148,569	4,075,113	73,456
Inventories	4,234,018	4,153,608	80,410
Prepaid Expenses	275,001	61,063	213,938
Total Current Assets	11,564,930	18,484,611	(6,919,681)
Capital Assets:			
Land	746,296	746,296	0
Buildings and Improvements, net of Accumulated Dep.	1,776,981	1,458,103	318,878
Leasehold Imp., net of Accumulated Depreciation	688,337	171,635	516,702
Equipment, net of Accumulated Depreciation	2,931,354	2,196,017	735,337
Total Capital Assets, net of Accumulated Depreciation	6,142,968	4,572,051	1,570,917
Total Assets	**17,707,898**	**23,056,662**	**(5,348,764)**
Liabilities			
Current Liabilities:			
Accounts Payable	1,408,399	1,888,853	(480,454)
Accrued Liabilities	3,425,925	3,070,086	355,839
Accrued Payroll and Related Liabilities	499,697	515,356	(15,659)
Total Current Liabilities	5,334,021	5,474,295	(140,274)
Noncurrent Liabilities:			
Customer Deposits	30,975	9,600	21,375
Total Noncurrent Liabilities	30,975	9,600	21,375
Total Liabilities	**5,364,996**	**5,483,895**	**(118,899)**
Net Assets			
Net Assets, Unrestricted as of June 30, 2014	17,575,821	16,969,218	606,603
Add: Net Income (Loss)	(5,232,919)	603,549	(5,836,468)
Total Net Assets	**12,342,902**	**17,572,767**	**(5,229,865)**
Total Liabilities and Net Assets	**17,707,898**	**23,056,662**	**(5,348,764)**

FOLLOW-UP OF STATEWIDE CONTRACT CONCERNS

TRICOR was created by legislation to assist the Department of Correction with the rehabilitation of its offender population by placing offenders in manufacturing, business services, and agricultural jobs to reduce the cost of incarceration by generating revenue through the sale of products and providing business services. TRICOR's mission also includes helping offenders develop marketable skills that they can use post-incarceration.

We received a complaint alleging that TRICOR would not cooperate as a vendor with the state's Central Procurement Office (CPO) regarding a statewide contract for staple foods. The complaint also alleged that the Department of Correction had purchased staple foods to feed the prison population from TRICOR instead of the statewide contract, spending 75% more per day.

To determine whether the TRICOR/department relationship allowed the department to continue procuring goods and services at the best possible costs, we compared the item descriptions from a population of 104 staple food and cleaning product pass-through[15] items that TRICOR sold to the department from July 1, 2013, through December 31, 2014, to items offered on statewide contracts.[16] From the population of 104 items, we found 12 comparable items that were also available on statewide contracts. We reviewed the prices TRICOR paid for these items, the prices TRICOR charged the department for the items, and the prices listed on the statewide contracts, and we analyzed each item's price per unit. We found that, overall, TRICOR offered the department a price comparable to or lower than the price offered on the statewide contract.

The department was bound by the *Procurement Procedures of the Central Procurement Office* manual that was in effect when the purchases were made. According to the procurement procedures, state agencies—and in this instance the Department of Correction—are required to procure goods and services through statewide contracts that are under the authority of the CPO, unless the department obtains prior approval to make purchases from another source from the chief procurement officer or his or her designee. Statewide contracts provide state agencies a method to procure goods and services at the lowest cost possible because, by negotiating statewide contracts with vendors, the state can take advantage of the quality, quantity, and pricing of goods and services, while securing discounts and rebates. In this situation, the department did not utilize the statewide contract because it had a relationship with TRICOR (created by legislation) for the purposes stated above.

Matter for Legislative Consideration

The General Assembly may wish to consider the following options:

- amending Section 41-22-401 et seq., *Tennessee Code Annotated*, to require TRICOR to participate as a vendor on statewide contracts for items TRICOR sells to enable the state to save money; or

[15] A pass-through item is a finished good purchased for resale.

[16] The list of statewide contracts and items available is found on the Central Procurement Office's website, http://www.tn.gov/generalservices/section/central-procurement-office, under the "State Agencies" section.

- amending state statute to grant the Department of Correction an exemption from adhering to CPO statewide contract requirements to allow the department to purchase staple foods from TRICOR instead of through the statewide contract.

PROFESSIONAL SERVICE CONTRACTS

<u>Background</u>

Statutory Authority

TRICOR statutes authorize its board of directors to purchase and contract for materials and services to develop jobs to train the state's offenders who are incarcerated within Department of Correction facilities. Offenders are placed in industrial, business services, or agricultural programs to help ensure post-incarceration success. TRICOR is also authorized to procure products or services in order to generate revenue to offset the costs of incarceration. Specifically, Section 41-22-408(a), *Tennessee Code Annotated*, authorizes the board to

> contract for professional services, for which reimbursement may be established on an incentive basis, and for the lease or purchase of property and equipment, to be provided for TRICOR, that is necessary for the efficient discharge of its duties to manage and operate.

Procurement and Payment Process

According to TRICOR's internal guidelines, if a TRICOR employee identifies a need for a professional service contract, the employee then requests that the contract administrator open a service contract file. Once TRICOR completes its internal procurement process and develops a contract, it obtains the required signatures from the contractor and TRICOR management.

According to our documented understanding of TRICOR's internal processes, when a contract is executed, the purchasing department creates the purchase order, which contains a list of items or services procured as well as the contract's costs and payment terms. The TRICOR employee who initiated the contract receives and verifies the receipt of the contractor's items or services and then forwards the receipt to fiscal staff for payment. Once the fiscal staff receive verification of the receipt of goods or services, they enter the vendor invoice information into the TRICOR Integrated Management System (TIMS) [17] and perform a manual three-way match of

- the vendor invoice (which contains the contract number, purchase order number, and an itemized list of items or services procured by TRICOR);
- the receiving receipt (which contains the purchase order number and the itemized list of items or services procured); and
- the purchase order (which contains items or services ordered by TRICOR).

[17] TRICOR's accounting system.

Once the match is complete, fiscal staff initiate the payment in TIMS. Every night, the TIMS transactions are uploaded into Edison, the state's accounting system, which ultimately issues the payment to the vendor.

Results From the Prior Audit

In TRICOR's July 2013 performance audit report, we reported a finding involving weaknesses with TRICOR's processing of professional service contracts. Specifically, we reported the following:

- management had not established written guidelines to create, administer, or monitor professional service contracts;
- management paid vendors for services provided before the contracts were legally binding;
- management paid vendors over the contract's maximum liability amount; and
- management approved and paid vendor invoices that contained errors.

We also recommended that TRICOR management improve their process to procure goods and services through professional service contracts by documenting the vendor selection process and by improving the contract review and approval processes.

In their response to the prior audit finding, management concurred and stated that TRICOR has taken all steps necessary to strengthen procedures and controls over contracting. Management's corrective action stated that in order to address the weaknesses identified, TRICOR changed its purchasing procedures, improved controls over processing invoices for contracted services, and strengthened internal processes.

Results From Current Audit Work

The objectives of our review of the prior audit finding and management's corrective action were to determine whether management, since the prior audit report's release,

- procured goods and services through professional service contracts in accordance with TRICOR's revised policies and procedures;
- implemented controls to ensure vendor payments were accurate and pursuant with contract terms; and
- monitored the contract payments to ensure the total payments did not exceed the contract maximum liabilities.

To meet our objectives, we discussed the prior audit finding with management to determine the status of corrective action. We conducted a walk-through with key personnel in the Legal and Contract Services area and the Business Support Services area to document management's and staff's processes for initiating requests for professional services, preparing the contracts, and procuring and paying for these services.

For all 14 professional service contracts that management initiated between July 1, 2013, and December 31, 2014, we obtained and reviewed all contracts and procurement documentation, totaling $3,724,144. We tested these professional service contracts to determine if TRICOR procured these services in accordance with TRICOR policies and procedures. We then reviewed all of these contracts' purchase orders and vendor payments in TIMS and traced these transactions to Edison to ensure all payments recorded in TIMS were appropriately processed in Edison. Finally, we tested the purchase orders and vendor payments to determine if management appropriately issued the payments for the correct amounts.

We also obtained and analyzed all 26 professional service contracts, totaling $5,711,266, in which the scope of service was effective any time during the period July 1, 2013, through December 31, 2014. We extracted from TIMS all posted payments issued on each of these contracts to determine if total payments for each contract exceeded the contract's maximum liability.

Based on procedures performed, we determined that management

- followed its written policies and procedures and processes when procuring goods or services except for two professional service contracts, for which TRICOR allowed a vendor to perform services before a contract was executed and did not obtain signatures on all required contract attachments;
- did not improve contract controls sufficiently to ensure vendor payments were appropriate (see Finding 4); and
- still did not monitor contract payments to ensure the contract maximum liability was not exceeded (see Finding 4).

Finding 4 - Despite implementing corrective action since the prior audit, management's controls over monitoring professional service contracts require additional improvements

Based on the work performed, we determined that TRICOR took certain corrective actions to

- revise written procedures to address professional service contracts within its purchasing procedures manual,
- maintain documentation of the vendor selection process,
- standardize the use of the contract routing sheet with each professional service contract to document review and approval of all management involved in the contracting process, and
- execute TRICOR's contracts before vendor payments were made.

Despite the corrective actions taken by management, however, we determined that management still had not implemented sufficient controls to effectively monitor contract payments to prevent improper payments.[18]

Condition and Cause

1. From our review of all 14 professional service contracts (and associated procurement documents and payments) that management initiated between July 1, 2013, and December 31, 2014, we found that TRICOR does not have a process to detect duplicate contract payments. Specifically, TRICOR paid $413 to one contractor for the same service on two separate invoices. The contractor identified the duplicate payment and refunded TRICOR $413 on September 17, 2014.

2. From our review of all 26 professional service contracts with scope periods effective anytime from July 1, 2013, through December 31, 2014 we found the following:

   - For one professional service contract, TRICOR's total payments to the vendor exceeded the contract's established maximum liability.

     - The contract's maximum liability was established at $132,270. Even though TRICOR properly established a purchase order, staff still paid the vendor a total of $144,670, exceeding the maximum liability by $12,400. When calculating the contract's maximum liability, TRICOR staff did not include the optional training described in the contract's payment methodology; thus, they incorrectly established the maximum liability for the contract.

   - We also identified additional control deficiencies involving TRICOR's contract payment review process. Specifically, we found that the Accounts Payable staff within the Business Support Services area did not review contract files prior to processing payments to ensure the payments were proper. Accounts Payable staff rely solely on the contract's initiator to monitor the vendor's services and to determine whether the vendors should be paid.

   - For five contracts, TRICOR staff issued more than one purchase order; however, staff did not have a process in place to ensure contract payments against multiple purchase orders did not exceed the contract's maximum liability. For one contract, staff did not establish a purchase order, a tool to ensure contract payments do not exceed the contract's maximum liability.

3. In TRICOR's 2014 documented risk assessment, management identified the risk that expenditures would not be recorded against the proper purchase order or contract. Accordingly, management identified the control to mitigate this risk as TIMS "requires a three-way matching of purchase orders, receipts, and invoices before invoices can be paid." The controls within TIMS, however, are designed to prevent

[18] An improper payment occurs when TRICOR pays the wrong contractor, pays the contractor the incorrect amount of funds, or pays the contractor for services outside the contract's term or in excess of the maximum liability.

payments from exceeding the total value of one purchase order, not multiple purchase orders. Management did not identify a control to mitigate the risk when payments actually involve multiple purchase orders. Furthermore, during our audit work, we learned that Accounts Payable staff manually match the purchase orders, receiving receipts, and vendor invoices before invoices are paid; therefore, staff did not have a systematic process as the risk assessment implies.

Criteria

Management is responsible for establishing internal controls and developing policies and procedures. TRICOR does not have a policy that addresses preventing duplicate contract payments or exceeding contract maximum liabilities.

Effect

By not developing policies and procedures and properly designing and implementing adequate controls, management increases the risk of staff making improper contract payments that could negatively impact TRICOR's financial position.

Recommendation

Management should ensure that fiscal staff monitor professional service contract payments to prevent duplicate payments and to ensure contract payments do not exceed the maximum liability amount. If management determines additional policies and procedures are required, management should submit the policies and procedures to the board of directors for approval in accordance with Section 41-22-406(b), *Tennessee Code Annotated*.

Management should also continue to assess all risks in TRICOR's documented risk assessment, including the risks noted in this finding. In addition, TRICOR's board of directors should adequately document and approve the risk assessment and the mitigating controls. The board should implement effective controls to ensure compliance with policies, procedures, and other instructions; assign employees to be responsible for ongoing monitoring of the risks and any mitigating controls; and take action if deficiencies occur.

Management's Comment

We concur. TRICOR has improved our controls in the area of professional service contracts through strengthening written processes, evaluating the TIMS system to ensure we are using all automated controls and holding management accountable for adequate oversight.

TRICOR's Annual Risk Assessment

Background

Section 9-18-104, *Tennessee Code Annotated,* requires the head of each state agency and higher education institution to conduct an assessment of the risks and systems of internal control in accordance with the guidelines established by the Department of Finance and Administration, in consultation with the Comptroller of the Treasury. According to Section 9-18-102, the objectives of this risk assessment are to provide reasonable assurance of

(1) Accountability for meeting program objectives;

(2) Promoting operational efficiency and effectiveness;

(3) Improving reliability of financial statements;

(4) Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and

(5) Reducing the risk of financial or other asset losses due to fraud, waste and abuse.

Section 9-18-104 also requires the head of each state agency and higher education institution to submit an annual Financial Integrity Act report to the commissioner of the Department of Finance and Administration and the Comptroller of the Treasury by December 31 of each calendar year. In this report, management of the agency or institution (1) acknowledges responsibility for establishing, implementing, and maintaining an adequate system of internal control and (2) states whether an assessment of risk performed by the agency or institution provides reasonable assurance of compliance with the objectives of the assessment as specified in statute. In the event that an agency's or institution's assessment does not provide reasonable assurance of compliance with the objectives of the assessment, as stated in the statute, the report is to include a corrective action plan. In addition to the management report, the *State of Tennessee's Management's Guide to Risk Management and Internal Control,* published by the Department of Finance and Administration, states that the Financial Integrity Act report package should include the completed checklist and documentation of the risk assessment.

Results of Audit Work

The objectives of our review of TRICOR management's risk assessment process were to

- determine whether management formally assessed the agency's risks of errors, fraud, waste, and abuse;
- evaluate whether management included risks for each operation, as well as risks related to the prior audit finding;
- ascertain if management listed control activities to prevent or minimize risk for each risk item identified; and

- determine if TRICOR management submitted its risk assessment in accordance with Section 9-18-104, *Tennessee Code Annotated*.

To gain an understanding of management's risk assessment process, we interviewed appropriate agency personnel and documented management's process for preparing the risk assessment. We reviewed and compared the 2014 risk assessment with both the 2013 and 2010 submitted risk assessments, as well as with the prior audit finding. We also reviewed the Department of Finance and Administration's and the Comptroller of the Treasury's records to determine when TRICOR submitted its risk assessment.

Based on our review, we determined that

- management prepared a risk assessment annually but did not always formally submit the Financial Integrity Act report package to the Department of Finance and Administration and the Comptroller of the Treasury annually by the December 31 deadline (see Finding 5);
- management included risks for each operation, as well as risks related to one prior audit finding, but management's process still needs improvement related to the preparation and review of the risk assessment (see Observation 1); and
- management listed control activities to prevent or minimize risk for each risk item identified.

Finding 5 – Management failed to submit a Financial Integrity Act report package for two consecutive years

Condition

While management did prepare the 2013 and 2014 annual risk assessments, they did not submit the Financial Integrity Act report packages, which consist of a management report, checklist, and risk assessment, to the commissioner of the Department of Finance and Administration and the Comptroller of the Treasury by December 31, 2013, and December 31, 2014, in accordance with state statute.

Criteria

Pursuant to Section 9-18-104(a), *Tennessee Code Annotated,* the head of each state agency and higher education institution is required to prepare and transmit to the commissioner of the Department of Finance and Administration and the Comptroller of the Treasury a report of management's assessment of risk by December 31, 2008, initially, and then by December 31 of every year thereafter. According to the *State of Tennessee's Management's Guide to Risk Assessment and Internal Control,* management should submit the management report, the checklist, and the risk assessment.

Cause

Management did not ensure that the report package was submitted by the December 31 deadline for either 2013 or 2014.

Effect

By not submitting the Financial Integrity Act report package annually by December 31, management cannot document TRICOR's compliance with state statute by ensuring that they are properly assessing risk and implementing mitigating internal controls.

Recommendation

The chief executive officer should ensure the complete Financial Integrity Act report package is submitted by December 31 of each year as required by statute.

Management's Comment

We concur. As the audit notes, the annual risk assessments were completed, presented and approved by the TRICOR Board of Directors, but the Department of Finance and Administration does not have a record of their receipt and TRICOR's Chief Financial Officer could not find evidence that she submitted the reports by email or hand delivered.

TRICOR's process for overseeing all such reports is sound. TRICOR maintains a "Timeline" of external reports due to all outside entities, which is monitored monthly. However, our process did not require that reports be sent by courier, where a receipt would be obtained to ensure both TRICOR management and the Department of Finance and Administration that the assessment was submitted. This has now been added to the process and appropriate documentation will be maintained in the future.

Observation 1: Management's risk assessment process needs improvement

The *State of Tennessee's Management's Guide to Risk Management and Internal Control,* published by the Department of Finance and Administration, holds the agency head responsible for helping to design, implement, and maintain internal control systems. The risk assessment is a tool that management utilizes to aid in the design, implementation, and maintenance of its internal control systems.

We performed an in-depth review and comparison of the 2014 risk assessment to the 2013 and 2010 risk assessments. From our comparison, we found that management did not adequately prepare and review its 2014 annual risk assessment. We identified the following areas of the risk assessment that need improvement:

- 14 risks and control activities were duplicated in Part 1 of the risk assessment;

- subheadings that separated the different operations of TRICOR were removed, making it more difficult to ensure all operations were assessed and creating the appearance of 27 duplicated risks; and
- 35 risks were removed but were still applicable to current operations, including risks related to information system recovery, employee relations, financial statements, and other financial matters.

The chief executive officer (CEO) should implement a documented and approved process to ensure management adequately reviews its risk assessment. The process should include removing risks that are no longer applicable. In addition, the CEO should consider adding subheadings to the risk assessment to identify the areas of operations and their risks. When we discussed this issue with the CEO, she agreed to institute procedures for removing risks that were no longer applicable and to reintroduce the subheadings in future risk assessments.

AUDIT COMMITTEE

Observation 2 – TRICOR board's audit committee needs to exercise more oversight over TRICOR management

As a state governing board that is responsible for the preparation of financial statements, whether included in the financial statements of other entities or free standing, the TRICOR board is required to create an audit committee pursuant to the State of Tennessee Audit Committee Act of 2005, Title 4, Chapter 35, *Tennessee Code Annotated*. In addition, the audit committee is required to develop an audit committee charter, subject to approval by the Comptroller of the Treasury.

As described in Section 4-35-105, TRICOR board's audit committee's responsibilities include, but are not limited to,

- overseeing the financial reporting and related disclosures, especially when financial statements are issued;
- evaluating management's assessment of TRICOR's system of internal controls; and
- informing the Comptroller of the Treasury of the results of the assessment and controls to reduce the risk of fraud.

In their audit committee charter, TRICOR's audit committee further defined their responsibilities, such as

- reviewing significant accounting and reporting standards;
- reviewing the financial statements and the *Comprehensive Annual Financial Report*;
- reviewing TRICOR's internal control structure, including the adequacy of internal controls for compliance with policies, procedures, laws, and regulations;

- reviewing management’s risk assessment, including processes in place to assess risk such as fraud; and
- reviewing management’s assertion that internal controls are effective and adequate.

This audit identified issues with TRICOR’s financial reporting process, including its financial information and preparation (see Finding 1); TRICOR’s handling of the Tennessee Cook Chill program and the Standard Menu Program (see Finding 3); TRICOR’s deficient internal controls regarding professional service contract payments (see Finding 4); and management’s risk assessment process (see Observation 1).

The audit committee is empowered by Section 4-35-106, *Tennessee Code Annotated,* to do what it deems necessary to carry out its responsibilities. We recommend that the audit committee directly oversee the corrective action process to address the deficiencies in this audit. The audit committee should seek assistance directly from and have direct access to all TRICOR management and staff, auditors, legal counsel, and others deemed necessary to ensure proper and swift corrective action is taken.

APPENDICES

APPENDIX 1
Original Memorandum from TRICOR's CEO to the Department of Correction's Commissioner Dated March 23, 2015 [For Presentation Purposes Only]

TRICOR
TRANSFORMING LIVES

MEMORANDUM

240 Great Circle Road, Suite 310
Nashville, TN 37228-1790
Phone 615-741-5705
Fax 615-741-2696

TO: Derrick Schofield, Commissioner
Tennessee Department of Correction

FROM: Patricia Weiland Patricia Weiland

SUBJECT: Follow up to your memorandum dated 3/19/15

DATE: March 23, 2015

Attached please find a summary of the Standard Menu Pilot Program, which includes a "true-up" bill effective the period July 1, 2014 thru February 28, 2015. Our leadership teams are meeting today and this information will be part of the agenda.

If you have any questions, please feel free to call me.

March 24, 2015
TDOC/TRICOR Partnership
Standard Menu Program
Corrected Copy March 23, 2015

Commissioner Schofield,

Attached please find an analysis of the food ordering by TDOC for the period July 1, 2014 to February 28, 2015 as well as a "true-up" recommendation from TRICOR. To understand how we mutually agreed to a "true-up" process, it is necessary to revisit the history of both the Tennessee Cook Chill (TCC) operation and its relationship with TDOC and the current Standardized Menu pilot project.

When TRICOR began management of TCC in July 1, 2010, it operated on a similar model as under the 20 years with the private sector. TRICOR received a monthly management fee from the customers and all operational and raw material costs were passed directly onto the customers. Under private sector management, the contractor purchased all pass-through items for the department and added a mark-up to each item. TRICOR elected not to assume the responsibility of pass-through purchasing for the department. This responsibility went back to the department in an effort to save the mark-up added on by the private sector.

It was the mutual understanding of both TDOC and TRICOR that when the department was ready to implement a standardized menu with both portion control and strict monitoring of offender management for both the actual number eating and those individuals eating per meal, our partnership would move in that direction.

During the 2013 legislative session the ongoing offender food costs became a subject of conversation with select legislators who were told by private food service companies that the cost could be as low as $1/day/offender. In an effort to keep the goals of our long-term partnership on track, TRICOR made a proposal to TDOC to move forward with a pilot program (See Attachment 1).

The proposal presented to you and then at your request to your leadership team in June 2013 presented an initial mutual goal of reducing offender food costs for TDOC while moving toward full utilization of the TCC food manufacturing facility. The proposal recommended the following pilot program for the Standardized Menu only as it represented the significant majority of food consumed by offenders at that time and the nonstandard menus were in the full control of the department:

> *Year 1 (FY 14) – Pilot Program*
>
> *• TRICOR will develop, operationalize and monitor a 4-week standardized menu for TDOC using as a basis TDOC's nutritional and caloric guidelines. This will be reviewed and approved by the TDOC centralized food service team.*
>
> *•The average offender food cost for year one will be at or below $2.99/day. This is a savings of approximately $4.6M during this first year.*

•The operational goal in Year 1 is to evaluate additional recipe items and vendor sources to continue to (a) reduce the daily cost for offender food and (b) maximize TCC capacity.

• Research and evaluate similar state's average daily cost per offender for food and develop a target to reach by end of Year 1, etc. Goal is long-term sustainability.

•Evaluate and begin programs for growing crops which increase TDOC's ability to move toward self-sustaining agriculture programs for TDOC consumption.

Benefits:

• Immediate impact in reducing food costs while maintaining a 4-week rotation of food.

•Place the food management program on a "transition plan" to reach the goal of sustainable cost reductions while mitigating the risk of prison unrest due to a drastic change in the food service program.

•Standardized menu items will have a centralized ordering system through TDOC and inventory management at the central and local level will be evaluated and monitored by TRICOR in conjunction with TDOC central office and site locations.

The pricing and billing model explained by TRICOR and used from the beginning of the pilot program was to offer a low offender cost per day for the Standard Menu which would be billed at a rate of the total offender population count. The sites were to order the actual number that would eat based upon the food service managers' historical information of those eating by meal. This model is one of the standard models used by the private sector when managing food service programs. The food provider (TRICOR) would offer a low daily rate and the margin would be gained by the difference of the number of offender meals ordered and the total population count. To use this rate it was agreed by you and I that there would be a quarterly "true-up" process that would look at the costs vs the billings and if necessary, reconciliation to either partner would be made based upon these numbers.

During the period July 1, 2013 to December 31, 2013 the standardized menu was developed and approved, processes were developed and numerous meetings were held between both departments to explain the new program in preparation for a January 1, 2014 start date. The Interagency Agreement was drafted by TRICOR and provided to TDOC leadership however it was not executed prior to the start date due to ongoing questions and clarification needed by TDOC. Absent the agreement, TRICOR began the new billing model in good faith that the questions could be answered and the agreement would be signed which provided protection for both parties to ensure that the benefits noted earlier could be realized. After numerous changes, the agreement remains unexecuted.

During the period January 1, 2014 to June 30, 2014 two critical events took place that should have directed changes in the ordering of meals. A meeting was held between you and me and our leadership teams which outlined the order patterns during the first six month trial period. The data showed that the department was continuing to order approximately 30% over its population count and there was an agreement that this would change to reflect orders for those actually eating and not full population count every day or over population count. (It was recognized that there were meals such as hamburger or hot dog day that extra entrees were required. It was agreed that extra entrees could be ordered rather than ordering a full kit.) As a result of these practices there were two "true up" billings presented to the department for a total of $2.2M for this time period.

Beginning July 1, 2014 through February 28, 2015 the order patterns did not change consistently as reflected in Attachment 2 which has resulted in an additional "true-up" billing of $3,160,311.

If we evaluate the "why" of where we are today and you look at the benefits of where we wanted to be by now according to the proposal, you can conclude the following:

Benefits:

- *Immediate impact in reducing food costs while maintaining a 4-week rotation of food.*

  The standardized menu has been implemented. The sites order kits by week and by breakfast, lunch and dinner. The cost per day per offender is $2.99.

  There is discussion to change the kit to a per meal ordering as it has been noted by TDOC that the current kit construction may drive over ordering. TRICOR is willing to make these changes but also recognizes that an agreed upon process was put in place early to allow the sites to order extra entrees on days where the entrée drives a higher number of offenders eating.

  TRICOR also recognizes that our mutual goal is Standard menu orders + nonstandard menu orders should not exceed 100% of the offender population count. This is not the case. The order guide calls for separate ordering for correctional officers which TDOC does not do. This must happen if we are ever going to truly make savings in food costs sustainable. You must know where your food is going.

- *Place the food management program on a "transition plan" to reach the goal of <u>sustainable</u> cost reductions while mitigating the risk of prison unrest due to a drastic change in the food service program.*

  While much progress has been made in this area we are still not to the point where every site subscribes to portion control or knows how many offenders may be getting both a nonstandard and standard meal. TRICOR has also noted during site visits where officers are being served greater portions than the menu allows. This is an issue that must be addressed. It is not TRICOR's decision as to whether officers should be eating consistent with the offender population but rather TDOC's decision. Even though the order guide calls for ordering for both offenders and correctional staff, sites do not separate their ordering in accordance with the guide.

•Standardized menu items will have a centralized ordering system through TDOC and inventory management at the central and local level will be evaluated and monitored by TRICOR in conjunction with TDOC central office and site locations.

> At TDOC's request TRICOR agreed to change our system to allow the site inventory to appear in Edison. This was to benefit the department and each site for inventory control and audit reasons. TRICOR would have the capability then to look into Edison to see inventory levels at each site to determine whether our bill of materials for menu items maybe over or under stated.
>
> This information is not uniformly put into Edison and therefore cannot be monitored to determine inventory levels. This may be leading to excessive inventory levels of food at the sites.

In the proposal it noted that after Year 1 we needed to make a decision. The full Pilot Program was in effect from January 1, 2014 to December 31, 2015 so the time is now here to decide whether there are course corrections that need to be made to go forward.

TRICOR remains committed to our partnership with TDOC however moving forward will require immediate changes to the processes and the program overall. TRICOR will be unable to continue using the model that the program is built on today where we must rely on the department's willingness to pay a "true up" reconcillation for us to break even. We will also need an interagency agreement that clearly outlines the responsibilities of each party as we go forward.

In the interim while decisions are being evaluated by the department, TRICOR will need to resume the model used during the first three years of operation as noted earlier in this document. The department will pay the direct cost of what it uses and TRICOR will be paid a monthly management fee for operating TCC and food delivery. If the ordering is done properly, your costs should not exceed $2.99 for the Standard Menu Program. These changes will be reflected in an agreement crafted by both agencies general counsels and signed by April 1, 2015.

Sincerely,

Patricia Weiland

Patricia Weiland

APPENDIX 2
Department of Correction's Response to TRICOR's CEO's Memorandum Dated June 23, 2015

BILL HASLAM
GOVERNOR

DERRICK D. SCHOFIELD
COMMISSIONER

STATE OF TENNESSEE
DEPARTMENT OF CORRECTION
SIXTH FLOOR, RACHEL JACKSON BUILDING
320 SIXTH AVENUE NORTH
NASHVILLE, TENNESSEE 37243-0465
OFFICE (615) 253-8139 • FAX (615) 532-8281

June 23, 2015

Mrs. Patricia Weiland
Chief Executive Officer
TRICOR
6185 Cockrill Bend Circle
Nashville, TN 37209

Dear Chief Executive Officer Weiland:

I am in receipt of your memo dated June 10, 2015, in reference to the Standardized Menu Program and the memo from Troy Shanks dated June 11, 2015, in reference to Price Adjustment. I am disappointed that TRICOR continues to make unilateral changes to the Standardized Menu Program without my consultation or consent. TRICOR's continued attempt to re-define not just the history of the program but the nature and cost of the effort is, in my opinion, impeding progress toward a mutually beneficial resolution of the issues both agencies face. Also of concern is the fact that these efforts by TRICOR contradict sworn testimony by both agencies provided to the Legislature during the 2014 and 2015 Budget Cycles as well as mutual assurances TRICOR provided to TDOC and Governor Haslam.

I do not agree with your characterization of the history of this project and current state of the effort.

For clarification, I'll quickly review the Department's positions.

1. We disagree with TRICOR's contention that the Program included the 80 percent–20 percent model that you have referenced. TDOC has never agreed to pay for 100 percent of the inmate population when it orders less than that. If the 80 percent–20 percent is an assumption that TRICOR made, the Department was not notified or consulted in advance, nor is this referred to in any of the proposed Memorandums of Understanding. TDOC's stated goal for the Standardized Menu

Project was to lower food cost and establish a fully loaded price for the menu components. TRICOR selected the $2.99 price point, and it was reasonably assumed by TDOC that all costs related to administering the program were vetted and analyzed by TRICOR before a set price of $2.99 was established. TRICOR did not reveal to the Department how the $2.99 price point was developed or the pricing of the items that make up the kits.

2. TDOC has always taken the position that it would not pay for kits that were not received from TRICOR. This was the basis for the reconciliation process that we discussed and agreed to. TRICOR, since March, has incorrectly described this reconciliation process as a mechanism for TRICOR to unilaterally increase the agreed upon $2.99 price or make corrections to its pricing structure.

3. TRICOR contends that the Department has been ordering at 123 percent of the Inmate Population. The Department has actually ordered 12-13 percent over population in FY15 (Specialty meals should not be included in that calculation) and serves nearly 30 million meals annually. When calculated correctly and placed in the proper context, a 12-13 percent margin is well within normal parameters to account for spillage, spoilage, or loss and does not represent rampant over ordering or increased costs. Nevertheless, the Department's ordering pattern is not material to this issue.

   The prices set by TRICOR for the standard and overpopulation kits should have included the cost to produce, procure, and deliver the items on the menu. TRICOR's failure to analyze and set those prices at the proper level, while unfortunate, is not TDOC's responsibility. The items in question have been paid for in full at the $2.99 price. It is always the Vendor's responsibility to anticipate and plan for increases in the costs of goods sold and marketplace volatility in advance. Your staff has conceded that no cost analysis was ever performed on the $2.99 price quoted to TDOC.

4. The Standardized Menu Project was never considered a "Pilot Program to be reviewed after 18 months." The program went live approximately 6 months in advance for process testing; however, there was no "Pilot" phase for this project. TDOC submitted a substantial budget reduction for FY15 based on TRICOR's assurances of the cost savings. Budgets are determined well over one year in advance and cannot be adjusted every 30 days.

Mrs. Patricia Weiland, Chief Executive Officer
3
June 23, 2015

5. I would like to emphasize that TRICOR's billings should not represent 100 percent of the Department's food budget. The proposed $3.59 price presented on June 11, 2015, makes an unreasonable assumption that TDOC's entire budget for food can be redirected to TRICOR.

6. I do not agree with TRICOR's claim that it has 'subsidized' the Department's meal plan in any financial respect. TRICOR's present financial condition is based entirely upon its admitted failure to properly set the pricing and not due to any action by the Department. As with any purchasing agreement, pricing is firm at an agreed upon unit price or prices for the term of the project. Market changes (commodity price changes or other influences as inflation, raw material costs, manufacturing and transportation) should be considered before pricing is set. It is the Vendor's responsibility to anticipate and plan for marketplace volatility, not the customer.

We are anxiously awaiting the presentation of the "alternate" menus you refer to in your memo that will reflect a true $2.99 standardized menu.

Based on the foregoing, I do not agree to the unilateral pricing increase your staff presented on June 11, 2015. Due to the budget implications in FY15/16, I am requesting a moratorium on any price increases until a true $2.99 menu can be developed, reviewed, and agreed upon.

My desire continues to be to strengthen the partnership between our agencies for the good of the state of Tennessee. I look forward to discussing this with you and bringing these issues to a resolution.

Sincerely,

Derrick D. Schofield
Commissioner, Department of Correction

DDS:WL

APPENDIX 3
TDOC/TRICOR Partnership Standard Menu Program Letter of Agreement Dated March 24, 2015

TRICOR
TRANSFORMING LIVES

240 Great Circle Road, Suite 310
Nashville, Tennessee 37228-1734
Phone (615) 741-5705 - Fax (615) 741-2696
Toll Free (800) 95-TRICOR (958-7426)

Bill Haslam
Governor

Patricia Weiland
Chief Executive Officer

March 24, 2015
TDOC/TRICOR Partnership
Standard Menu Program Letter of Agreement

Commissioner Schofield,

Starting April 1, 2015, TRICOR will bill TDOC directly for all operational costs, raw material costs, pass-through costs, and a management fee at the end of every calendar month. The management fee will cover TRICOR's expenses in purchasing, equipment replacement, engineering, capital building projects, and grounds and perimeter maintenance.

TRICOR will also require a "true up" billing payment of $3,160,311 no later than April 1, 2015. This payment will formerly end the pilot portion of the Standard Menu Program that was to be in effect from January 1, 2014 to December 31, 2014.

Absent an agreement, evidenced by your signature and return of this letter no later than April 1, 2015, TRICOR will increase all menu prices captured in Edison until an inter-agency agreement for the Standard Menu Program is executed. The department will be notified of increased prices 24 hours before the price change is to go into effect in Edison.

Please address all questions, comments, or concerns to Bruce Shanks, Jr. at bruce.shanks@tn.gov or 615-741-5705.

Respectfully,

Patricia Weiland

Accepted and Agreed to:

Tennessee Department of Corrections

by: ______________________________
Derrick Schofield, TDOC Commissioner

Appendix 4
Standard Menu Program Overview
[For Presentation Purposes Only]

The following document was presented by TRICOR's chief executive officer to the board of directors during the board meeting on June 26, 2015. Members of the Department of Correction's executive team were also in attendance. This document provided the board an overview of the past, present, and projected future of the Standard Menu Program.

Standard Menu Program

Phase I

● Transition of the Cook Chill facility from the private sector to TRICOR occurred five years ago.

●TRICOR and the Department of Correction (DOC) maintained the Department of General Services/Sodexho business model for three years. Direct billing for operational and raw material costs plus a management fee.

●Model was stable for TRICOR based upon a standard management fee however ordering was inconsistent and made it difficult to plan and gain economies of scale. Costs were escalating for DOC. Customer wanted to move to a per day or per meal cost based upon a standardized menu.

Lessons Learned

●Absent a standard menu, ordering at the facility level of additional products was driving up food costs.

●Not all sites were ordering product from the Cook Chill Facility so the facility remained underutilized.

●To maximize the use of the Cook Chill Facility and control costs at the institutions, a 28 day standardized menu should be developed with oversight of food ordering, portion control, warehouse management and kitchen management.

Phase II

● The development of a standardized menu – 28 day cycle- nutrient dense.

● After significant discussion TRICOR offered a low-cost $2.99 per day/offender price for the standardized menu program (SMP) Specialty meals were priced according to each individual menu. Margin for TRICOR was to be gained based upon the difference between the number meals ordered vs the total offender population.

Lessons Learned

●The pricing model used by TRICOR was not financially viable for TRICOR to sustain as the food service program was structured. While this is a pricing model often used by the private sector, it is effective when used in concert with the management of a full service food program.

● For this venture to achieve sustainable and reliable savings for the Department and be a long-term financial viability program for TRICOR it will be necessary to move to a full service food program model under the management of TRICOR.

Adopting a price structure that has a lower average cost per day for a Standard Menu, the entity supplying the food must also have full control over ordering, serving, warehousing, portion control, kitchen management, etc. To maintain the model as is will require a higher average cost per day for the entity providing the food.

●Specialty menus should have a separate budget and should not affect the Standard Menu budget. This is a constantly moving variable which depends entirely at this point on the health care provider's determination at each facility that an individual qualifies for a special meal.

●When determining the menu, it should be clearly identified that the menu is based upon XX or YY. The current menu is "nutrient dense" which affects the cost considerably. TDOC inmates housed at Southcentral Correctional Complex which is operated by CCA are provided a menu that contains more carbohydrates, sugar, etc. thus lowering the cost to produce. You cannot maintain a low daily cost for a nutrient dense menu.

●The value of inmate programming is paramount in this equation to TRICOR. Management of the full Food Service Program will impact TRICOR's ability to serve more offenders. TRICOR's Parole Readiness Program, which is approved by TDOC, supplants TDOC's provision of these services to TRICOR programmed offenders. This assists TRICOR to have an impact on a greater percent of the offender population and results in a direct cost savings to TDOC.

Phase III (Recommendations for going forward)

Phase III is the transition to a full service food management program managed by TRICOR within the DOC facilities.

1. The cost of the current standard menu will be increasing effective July 11, 2015. TRICOR must do this to remain financially viable.

2. An alternate menu is being developed by TRICOR to maximize plate coverage at the request of TDOC. The current CCA menu is being evaluated as well as other less nutrient dense menus in an effort to keep the per meal cost reasonable and provide sufficient food for the offender population. The menu will be provided to TDOC for approval. An aggressive implementation plan will be developed and executed.

   The menu price of #1 above or #2 (if selected) will remain in effect until June 30, 2016 at which time a predetermined price escalator will go into effect. TRICOR will work with TDOC during the budget cycle to determine needed price adjustment based upon inflation and/or ongoing/predicted fluctuating market conditions that cannot be corrected by menu changes.

3. TRICOR will request Washington State Correctional Industries visit Tennessee to present its program to both TDOC and TRICOR. They are in the third phase of the transition to full service Food Management. We can learn from what they have experienced.

4. TRICOR is recommending a consultant be hired by TRICOR to evaluate TDOC’s food service needs and develop a plan which will move the current program into Phase III. Feedback will be gained to evaluate the current operational model, understand the expectations of the new model and develop a plan with costs involved to achieve the expected results.

   The model will be based on a two component price structure,
   - the cost of the menu per meal, and
   - an administrative fee for kitchen management at each facility.

   The results of the consultant’s evaluation will be restricted to both TDOC and TRICOR as the information may be used by TRICOR to respond to an RFP in the event this occurs.

5. TRICOR will evaluate the results and determine if it remains interested in pursuing Phase III of the program plan.

6. TDOC will evaluate the results and determine if they meet the needs of the department and may therefore pursue Phase III of the program plan with TRICOR as the provider or another potential provider.

7. It will be understood that TDOC continues to reserve the right, after the study and plan is released and evaluated, to issue an RFP for the services. TDOC also understands that TRICOR may use the results of the study/plan to submit a response to the RFP therefore any information gained through these consulting services will be confidential until after an RFP has been released and an award made.

8. This process will be completed by December 31, 2015.

APPENDIX 5

Tennessee Rehabilitative Initiative in Correction
Staff Positions by Gender and Ethnicity
as of May 1, 2015
(Unaudited)
(Source: Tennessee Rehabilitative Initiative in Correction Human Resources Director)

Job Title	Gender		Ethnicity					
	Male	*Female*	*White*	*Black*	*Hispanic*	*Asian*	*American Indian*	*Other*
TRICOR ACCOUNT SPECIALIST	1		1					
TRICOR ACCOUNTING MANAGER		1	1					
TRICOR ACCOUNTING TECHNICIAN		2	2					
TRICOR ACCOUNTING TECHNICIAN 2	1							1
TRICOR ADMINISTRATIVE ASSISTANT		1	1					
TRICOR ASST CHIEF OPS	1		1					
TRICOR BUILDING TRADES MANAGER	1		1					
TRICOR BUSINESS DEVELOPMENT MANAGER	1		1					
TRICOR BUYER PLANNER		1	1					
TRICOR CHIEF OPS OFFICER	1		1					
TRICOR CLIENT CONTRACT SPECIALIST		1	1					
TRICOR COMMERCIAL DRIVER	5		4	1				
TRICOR CONTROLLER	1		1					
TRICOR COOK CHILL CUSTOMER RELATIONS SPECIALIST		1		1				
TRICOR COOK CHILL DISTRIBUTION SUPERVISOR	1			1				
TRICOR COOK CHILL ENV SVS SUPERVISOR		1		1				
TRICOR COOK CHILL LEAD	1			1				
TRICOR COOK CHILL MANAGER	1	1	2					
TRICOR COOK CHILL PURCHASING MANAGER	1		1					
TRICOR COOK CHILL SUPERVISOR	1	3	1	3				
TRICOR CUSTOMER RELATIONS MGMT SPEC		3	3					
TRICOR CUSTOMER SUPPORT MANAGER		1	1					
TRICOR DAIRY SUPERVISOR	1		1					
TRICOR ENV HEALTH & SAFETY SPECIALIST	1		1					
TRICOR EXECUTIVE ASSISTANT		1						1

Job Title	Gender		Ethnicity					
	Male	*Female*	*White*	*Black*	*Hispanic*	*Asian*	*American Indian*	*Other*
TO THE CEO								
TRICOR EXECUTIVE ASSISTANT	1	2	1	1				1
TRICOR EXECUTIVE DIRECTOR		1	1					
TRICOR FACILITIES MANAGER	1		1					
TRICOR FARM ASSISTANT MANAGER	2		2					
TRICOR FARM SUPERVISOR 1	4	1	5					
TRICOR FARM SUPERVISOR 2	4	1	5					
TRICOR FLOOR SUPV MFG		3	2	1				
TRICOR FLOOR SUPV PRODUCTION	3		2	1				
TRICOR GENERAL MANAGER OF INFORMATION SYSTEMS	1		1					
TRICOR GOVT & COM RELATIONS DIRECTOR		1		1				
TRICOR HUMAN RESOURCES MANAGER		1		1				
TRICOR INDUSTRIAL PROD SPECIALIST	1		1					
TRICOR INDUSTRY HR MGR 1		1		1				
TRICOR INFO SUPP SPECIALIST	2		2					
TRICOR LEARN & DEV GENERAL MANAGER		1	1					
TRICOR LEGAL COUNSEL	1			1				
TRICOR MANUFACTURING SUPP-SP		1	1					
TRICOR MANUFACTURING SYSTEMS SPECIALIST	1		1					
TRICOR MARKETING COM MANAGER		1	1					
TRICOR MFG PRODUCTION SPECIALIST	3	1	4					
TRICOR OFFENDER SERVICES COORDINATOR	3	4	5	1	1			
TRICOR OPERATIONS MANAGER 1	1	1	1	1				
TRICOR OPERATIONS MANAGER 2	1		1					
TRICOR OPERATIONS MANAGER 3	3		3					
TRICOR OPERATIONS MANAGER OF CONSUMABLES	1		1					
TRICOR PAYROLL SPECIALIST		2	2					
TRICOR PIE COMPLIANCE MANAGER		1	1					
TRICOR PRODUCT MANAGER	2		2					
TRICOR PRODUCT SPECIALIST		1	1					
TRICOR PRODUCTION MANAGER 1	3	6	6	2			1	
TRICOR PRODUCTION		1	1					

Job Title	Gender		Ethnicity					
	Male	*Female*	*White*	*Black*	*Hispanic*	*Asian*	*American Indian*	*Other*
MANAGER 2								
TRICOR QUALITY CONTROL SUPERVISOR	1		1					
TRICOR QUALITY CONTROL TECHNICIAN		1		1				
TRICOR SALES & MARKETING DIRECTOR	1		1					
TRICOR SENIOR PROJECT ADMINISTRATOR		1	1					
TRICOR WAREHOUSE MANAGER	1		1					
Totals	**60**	**50**	**85**	**20**	**1**	**0**	**1**	**3**

APPENDIX 6

Tennessee Rehabilitative Initiative in Correction
Board Members by Gender and Ethnicity
as of May 1, 2015
(Unaudited)
(Source: Tennessee Rehabilitative Initiative in Correction Human Resources Director)

	Gender		**Ethnicity**		
	Male	*Female*	*White*	*Black*	*Hispanic*
BOARD MEMBER	**7**	**3***	**8***	**1**	**1**

*The board is made up of nine voting members (including the chief executive officer of TRICOR) and the commissioner of the Department of Correction.

APPENDIX 7
Performance Measures Information

As stated in the Tennessee Governmental Accountability Act of 2013, “accountability in program performance is vital to effective and efficient delivery of government services, and to maintain public confidence and trust in government.” In accordance with this Act, all executive-branch state agencies are required to submit annually to the Department of Finance and Administration a strategic plan and program performance measures. One of the Department of Correction’s priority goals, reported in April 2015 on the Governor’s Customer Focused Government Monthly Results website, relates to TRICOR as follows.

Performance Standards and Measures

Performance Standard 1: Provide comprehensive services to address barriers to offender success in the community.

Purpose of the Goal: Ensuring that available resources are delivered to offenders on the basis of assessments to increase successful reintegration into the community.

Measuring the Goal:	**Baseline**	**Current**	**Target**
Number of offenders receiving programming in the community	3,073	3,022	3,010
Number of offenders receiving programming in prisons	6,950	7,166	7,300
Percent of offenders who are recipients of resources on the basis of assessment	98%	98%	98%