
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF COOPERATIVE AGREEMENT

**Tennessee Department of Economic
and Community Development
Nashville, Tennessee**

**Final Report Number: 19-07
Grant Number: TN-18055-C1 & C2
November 2018**

Prepared by:

Leon Snead & Company, P.C.



**LEON SNEAD
& COMPANY, P.C.**

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November 30, 2018

Appalachian Regional Commission
Office of the Inspector General
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Leon Snead & Company, P.C. completed an audit of cooperative agreement number TN-18055-C1 and C2 awarded by the Appalachian Regional Commission (ARC) to Tennessee Department of Economic & Community Development (TNECD). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements; and (6) the established performance measures were met or likely to be met.

The grantee's financial and administrative procedures and internal controls were adequate to effectively manage the funds provided under the ARC agreement. The costs tested were properly supported and allowable. Financial and project performance reports for TN-18055-C2 were submitted to ARC timely and accurately. We determined that TNECD had an adequate process in place for obtaining and recording data related to the overall goals for TN-18055-C2. The final performance report for cooperative agreement TN-18055-C2 stated that 42 open projects were being administrated as of the end of the period of performance. Consequently, performance outcomes were met or on track for this cooperative agreement.

However, we were unable to identify the specific performance outcomes for cooperative agreement TN-18055-C1 because performance reports were not prepared for the agreement. This finding and the corresponding recommended corrective actions are discussed in the Finding and Recommendation section of this report.

A draft report was provided to TNECD on October 29, 2018, for comments. TNECD provided a response to the report on November 29, 2018, which is included as an Appendix to this report.

Leon Snead & Company appreciates the cooperation and assistance received from the TNECD and ARC staffs during the audit.

Sincerely,

Leon Snead & Company, P.C.
Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of cooperative agreement number TN-18055 awarded by the Appalachian Regional Commission (ARC) to Tennessee Department of Economic & Community Development (TNECD). The audit was conducted at the request of the ARC Office of Inspector General to assist the office in its oversight of ARC grant funds.

Two years of the ongoing agreement were selected for audit, TN-18055-C1 and TN-18055-C2. ARC awarded the grantee a total of \$287,000 (\$191,000 for TN-18055-C1 and \$96,000 for TN-18055-C2) for these two years. There was no matching requirement for either agreement. The period of performance for cooperative agreement TN-18055-C1 was December 1, 2016 through September 30, 2017 and TN-18055-C2 was October 1, 2017 through September 30, 2018.

On December 7, 2014, TNECD signed a one-time Memorandum of Understanding to enroll in ARC's Registered State Basic Agency (RSBA) program. The purpose was to provide funds for TNECD to administer 85 open and 35 new ARC projects (40 open and 15 new project during fiscal year 2017 and 45 open and 20 new projects during fiscal year 2018). Funding was provided through cooperative agreements between ARC and TNECD. TNECD contracted with an experienced management firm to provide services related to grant monitoring and compliance activities.

Objectives, Scope, and Methodology

The audit objectives were to determine whether: (1) program funds were managed in accordance with the ARC and Federal grant requirements; (2) grant funds were expended as provided for in the approved grant budget; (3) internal grant guidelines, including program (internal) controls, were adequate and operating effectively; (4) accounting and reporting requirements were implemented in accordance with generally accepted accounting principles (or other applicable accounting and reporting requirements); and (5) the matching requirements; and (6) the established performance measures were met or likely to be met.

The total estimated project costs for C1 and C2 were \$287,000. The percentage break-out of funding for the overall project was 100% ARC and 0% TNECD. ARC grant funds of \$141,000 were expended during the project, \$54,000 was expended under cooperative agreement TN-18055-C1 and \$87,000 was expended under cooperative agreement TN-18055-C2. We reviewed \$94,000 of ARC funds that were expended.

We reviewed documentation TNECD provided and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed written policies and administrative procedures to determine if they complied with federal requirements and were adequate to administer the grant. We reviewed financial and project performance reports to determine if they were submitted in accordance with requirements. We also reviewed the most recent financial statement audits to identify any issues that significantly impacted the ARC cooperative agreements and our audit.

The on-site fieldwork was performed at the TNECD office during the period of October 4, 2018 through October 12, 2018. The preliminary audit results were discussed with TNECD officials at the conclusion of the on-site visit.

The primary criteria used in performing the audit were 2 CFR 200, the ARC Code, the cooperative agreements, and the Memorandum of Understanding between ARC and TNECD. The audit was performed in accordance with the *Government Auditing Standards*.

Summary of Audit Result

TNECD's financial and administrative procedures and internal controls were adequate to effectively manage the funds provided under the ARC agreement. The costs tested were properly supported and allowable. Financial and project performance reports for TN-18055-C2 were submitted to ARC timely and accurately. We determined that TNECD had an adequate process in place for obtaining and recording data related to the overall goals for TN-18055-C2.

However, we were unable to identify the specific performance outcomes for cooperative agreement TN-18055-C1 because performance reports were not prepared for the agreement. For cooperative agreement TN-18055-C2, the final performance report stated that 42 open projects were being administrated as of the end of the period of performance. Consequently, performance outcomes were met or on track for this cooperative agreement.

The finding and the corresponding recommended corrective actions are discussed in the Finding and Recommendation section of this report.

Finding and Recommendation

A. Performance Reports

The grantee did not prepare and submit performance reports to ARC as required by cooperative agreement TN-18055-C1. As a result, the grantee did not fully comply with the terms and conditions of the cooperative agreement.

Cooperative agreement TN-18055-C1 states that:

The cooperator's responsibilities for reporting on projects administered under this agreement are set forth in the incorporated Memorandum of Understanding and Registered State Basic Agency (RSBA) Grant Administration Manual. The Cooperator shall also submit to ARC an annual status report on all projects being managed under this agreement, on a schedule to be determined mutually between the Cooperator and the ARC Project Coordinator

The RSBA Grant Administration Manual reporting requirements states that upon request, the registered state basic agency must provide (among others) the following documents to ARC for each project involving ARC funds.

- Semi-annual progress reports from the grantee and a final report on the costs of each project with sufficient detail to permit an audit of expenditure.
- An annual Basic Agency Monitoring Report.

We discussed this matter with TNECD officials. They responded that the cooperative agreement only required an annual status report on all projects being managed under the agreement on a schedule to be determined mutually by TNECD and the ARC Project Coordinator.

The TNECD officials also stated that:

- ARC did not provide any feedback to the grantee regarding the lack of performance reports or request that performance reports be prepared and submitted.
- This was the first year of the cooperative agreement and it was the first one of this type for TNECD; consequently, there was some degree of unfamiliarity with the project requirements.

We agree that cooperative agreement TN-18055-C1 required an annual report on all projects being managed under the agreement on a schedule to be "mutually determined" between TNECD and ARC. In our opinion, however, this reporting requirement is in addition to the requirement for semi-annual progress reporting and a final report specified in the RSBA Grant Administration Manual.

For TN-18055-C2, TNECD made draw downs through the ARC system. Under the ARC drawdown system, TNECD sends financial status reports and performance reports with each request for reimbursement. Consequently, performance reports were submitted to ARC for agreement TN-18055-C2.

Recommendation

TNECD should review its requirements for reporting under TN-18055-C1 and provide any information needed by ARC to properly closeout the C1 grant and ensure future performance reports are prepared and submitted to ARC in accordance with the terms and conditions of the cooperative agreement.

Grantee's Response

The grantee responded that they partially concur with the finding. During the C-1 grant, they said they were unaware of this requirement, and they believe that ARC was also unaware that this should have occurred during the C-1 grant timeframe (the grantee included an email regarding this reporting requirement during the C-1 year with their response). They stated that ARC did not request these reports and they believe the issue has been resolved. Also, they noted that TN-18055-C2 was also reviewed and the required reports were completed.

The grantee requests that ARC address the requirement of semi-annual reporting for these grants and reconcile the differences between the Memorandum of Understanding, the State Basic Agency Grant Administration Manual, and the Cooperative Agreement.

Auditor's Comments

ARC will determine whether the information provided in the grantee's response is adequate to resolve the finding and close the recommendation.



Department of Economic and Community Development

Bob Rolfe
Commissioner

Bill Haslam
Governor

November 29, 2018

RE: Draft report for TN-18055

Dear Mr. Sneed,

Leon Sneed & Company completed an audit of cooperative agreement number TN-18055 awarded by the Appalachian Regional Commission to the Tennessee Department of Economic and Community Development.

We have received a copy of their Draft Report. One finding has been identified: "The grantee did not prepare and submit performance reports to ARC as required by cooperative agreement TN-18055-C1. As a result, the grantee did not fully comply with the terms and conditions of the cooperative agreement."

The corresponding recommendation states "TDECD should review its requirement for reporting under TN-18055-C1 and provide any information needed by ARC to properly closeout the C1 grant and ensure future performance reports are prepared and submitted to ARC in accordance with the terms and conditions of the cooperative agreement."

TNECD has reviewed the report. We partially concur with the finding. During the C-1 grant, TNECD was unaware of this requirement, and we believe that ARC was also unaware that this should have occurred during the C-1 grant timeframe (please see the attached email regarding this reporting requirement during the C-1 year). ARC did not request these reports. We believe that this issue has been resolved. TN-18055-C2 was also reviewed and the required reports were completed.

We request that ARC address the requirement of semi-annual reporting for these grants and reconcile the differences between the Memorandum of Understanding, the State Basic Agency Grant Administrative Manual, and the Cooperative Agreement.

Please let me know if you have any additional questions about the draft report or our response.

Thank you,

A handwritten signature in black ink, appearing to read "Brooxie Carlton".

Brooxie Carlton
Governor's Alternate to the ARC Board

cc: Judy Tribble, Internal Auditor
Logan McCoy, ARC Program Manager

Leon Snead Company

From: Julie Lawhorn [jlawhorn@arc.gov]
 Sent: Monday, September 24, 2018 3:33 PM
 To: Lindsay Gainous
 Subject: RE: TN-18055 C1

Follow Up Flag: Follow up
 Flag Status: Flagged

*** This is an EXTERNAL email. Please exercise caution. DO NOT open attachments or click links from unknown senders or unexpected email - STS-Security. ***

Hi Lindsay,

In the documentation-files tab there is a stash of the payment requests made through ARCnet for ASAP drawdowns. We changed the system in the following year (C2) so you actually had to do reports and send in the four forms. Back in the C1 days, it was just an ASAP drawdown notification. Then at the bottom of this list of files is the closeout report. Does this help? If not and you are looking for other things, LMK!

TN-18055-C1 - CLOSED

Project ID: 54281
 TNECD Registered State Basic Agency Cooperative Agreement

Coordinator: Lawhorn, Julie
 Fiscal Year: 2017

Grantee: Tennessee and Community De
 ARC Funding: \$54,

General Processing Contact Location Financial Performance Report **Documentation** Project Review

Print

Correspondence

SYSTEM UPLOADED FILES

Files

FileName	Document Type	Date Created	Type	Size	Uploaded By	Description	
APPROVAL_MEMO_TN-18055-C1_54281_74251.pdf	Application Forms	2/27/2017 4:20:03 PM	System	169 kb	ARCnet	Approval Memo Form	Edit
GRANT_AGREEMENT_PART_I_and_II_TN-18055-C1_54281.pdf	Application Forms	2/27/2017 10:22:00 AM	System	233 kb	ARCnet	Executed Grant Agreement Form I & II	Edit
DRUG_FREE_WORKPLACE_CERTIFICATION_TN-18055-C1_54281.pdf	Application Forms	2/27/2017 10:22:00 AM	System	61 kb	ARCnet	Drug Free Workplace Certification	Edit
LOBBYING_RESTRICTIONS_CERTIFICATION_TN-18055-C1_54281.pdf	Application Forms	2/27/2017 10:22:00 AM	System	62 kb	ARCnet	Lobbying Restriction Certification	Edit
ARC_Grants_Manual.pdf	Application Forms	2/27/2017 10:23:00 AM	System	119 kb	ARCnet	ARC Grant Administration Manual	Edit
Approved Budget #1 - TN-18055-C1_54281_0.pdf	Project Budget	2/27/2017 10:23:00 AM	System	115 kb	ARCnet	Approved Budget #1	Edit
ASAP_Drawdown_Request_1_TN-18055-C1.pdf	Application Forms	3/2/2017 8:29:00 AM	System	127 kb	ARCnet	ASAP Drawdown Request	Edit
ASAP_Drawdown_Request_2_TN-18055-C1.pdf	Application Forms	3/7/2017 9:02:00 AM	System	127 kb	ARCnet	ASAP Drawdown Request	Edit
ASAP_Drawdown_Request_3_TN-18055-C1.pdf	Application Forms	5/1/2017 9:37:00 AM	System	127 kb	ARCnet	ASAP Drawdown Request	Edit
ASAP_Drawdown_Request_4_TN-18055-C1.pdf	Application Forms	6/3/2017 10:17:00 AM	System	127 kb	ARCnet	ASAP Drawdown Request	Edit
ASAP_Drawdown_Request_5_TN-18055-C1.pdf	Application Forms	7/26/2017 9:15:00 AM	System	127 kb	ARCnet	ASAP Drawdown Request	Edit
	Application	9/12/2017	System	117	System	ASAP	Edit

From: Lindsay Gainous [<mailto:Lindsay.Gainous@tn.gov>]
Sent: Monday, September 24, 2018 10:01 AM
To: Julie Lawhorn <jlawhorn@arc.gov>
Subject: TN-18055 C1

Julie,

I am trying to put together everything for our audit. I don't see in our files or on arcnet the reports for the above referenced project. Do you see them? If so, can you send them to me. I think that was before we had the RSBA separated out.

Thanks,
Lindsay

Lindsay Gainous

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