
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL
AUDIT OF GRANT AWARD**

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

**Final Report Number: 15-29
Project Numbers: TN-17178
September 2015**

**Prepared by:
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September 1, 2015

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Leon Snead & Company, P.C. completed an audit of grant number TN-17178 awarded by the Appalachian Regional Commission (ARC) to the Tennessee Department of Economic and Community Development (ECD). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

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 the goals and objectives of the grant were met.

The financial and administrative policies and procedures being followed in administering the ARC grant were compliant with the Federal requirements and adequate to administer the grants. Also, the expenditures tested were adequately documented and supported. The grantee provided support to address the finding on questioned cost in response to the draft report. As a result, the finding could be resolved based on the documentation provided.

Based on a limited test of performance goals, we concluded that the grantee's actual achievements were reasonable.

The issue identified and the recommended corrective actions are discussed in the Findings and Recommendations section of this report. A draft report was provided to ECD on July 29, 2015, for comments. ECD provided a response to the report on August 21, 2015. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the ECD 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 grant number TN-17178 awarded by the Appalachian Regional Commission (ARC) to the Tennessee Department of Economic and Community Development (ECD). The audit was conducted at the request of the ARC, Office of the Inspector General, to assist that office in its oversight of ARC grant funds.

ARC awarded grant TN-17178 to ECD in October 2011 to provide funding support in establishing and implementing an accelerator program in four locations that served counties within the Tennessee Appalachian region. The grant covered the period October 1, 2011 to September 30, 2012 and provided \$1,000,000 in ARC funds and required \$1,000,000 in non-ARC recipient match funding. All of the ARC funds were budgeted and approved for ECD to award individual grants to the four ARC accelerators for \$250,000 each. These amounts were intended to cover the accelerator personnel, equipment, supplies, travel, and other operational costs. The grant period was subsequently extended by ARC to March 31, 2013. The grant had been completed and was administratively closed by ARC at the time of this audit, with a total of \$942,805 in grant funds reported being expended and reimbursed by ARC and an equal amount of match reported as being expended on the total project.

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 the goals and objectives of the grant were met.

We reviewed documentation provided by ECD and interviewed personnel to obtain an overall understanding of the grant activities and general operating and accounting procedures and controls used to administer the four accelerator sub-grants. We reviewed financial and project progress reports to determine if they were submitted in accordance with requirements and to determine the final reported results on grant goals and objectives. We selected and reviewed a sample of expenditure transactions totaling \$341,621 from the total \$942,805 reimbursed by ARC to determine if costs were supported and allowable. We also sampled and reviewed \$285,544 of the total match amount reported.

The primary criteria used in performing the audit were the grant agreement, applicable Office of Management and Budget Circulars, and the ARC Code. The audit was performed in general accordance with the *Government Auditing Standards*. The on-site audit fieldwork was performed June 11-12, 2015 at ECD offices in Nashville, Tennessee. The preliminary results were discussed with ECD staff at the conclusion of the on-site visit. The grantee was in general agreement with the preliminary results.

Summary of Audit Results

We questioned \$170,671 of the ARC funding expenditures sampled and tested because they were not adequately documented and supported in ECD records. These amounts, which were for purchase of goods and services by two of the accelerators, had documentation showing the purchase had been made, but there was no documentation verifying that the vendors had actually been paid. Match amounts reviewed on the grants were adequately supported and no problems were noted that require action by ECD.

We could not fully evaluate the performance goals (outputs and outcomes) and determine if they were fully met on the completed grant. This was because, for undeterminable reasons, neither the grantee proposal nor ARC staff had ever established any planned or expected numerical goals for two of the four performance outputs and outcomes shown in ARC's management system that were used to evaluate final grant performance. Therefore, we had no basis to fully compare planned vs. actual final results reported. Based on the actual results reported on the four metrics and discussions with current staff who were involved in the latter stages of the grant, we were able to make a judgmental assessment. Considering that the sub-grant agreements were not awarded until early 2012, and the accelerators required considerable time to staff and establish their operations and begin effectively implementing the program, we consider the actual achievements reasonable.

The questioned costs and the recommended corrective action are discussed in the Finding and Recommendation section of this report.

Finding and Recommendation

A. Allowable Costs

During our testing of costs charged to ARC funds, we identified \$170,671 in costs that had inadequate supporting documentation. This was because ECD approved the costs, which were incurred and submitted by two of the sub-grantee accelerators, and billed ARC without obtaining documentation to show they were incurred and paid by the sub-grantee. As a result, we questioned whether or not the amounts involved were allowable. Federal guidelines applicable to ECD and the sub-grantees require costs charged to ARC grants to meet several conditions in order to be considered allowable, including having adequate supporting documentation. If the costs involve procuring goods or services, adequate support would include documentation to show that the vendor's bill or invoice was properly reviewed and approved for payment by an appropriate official, and a cancelled check or similar evidence verifying that the vendor was actually paid and thus a valid reimbursable expense. In a situation involving a primary grantee and sub-grantee, where the primary grantee approves sub-grantee incurred costs and bills ARC for reimbursement, the primary grantee's records should have sufficient documentation to support and verify the costs.

We sampled and tested a total of \$341,621 of costs reported as related to ARC and billed by the four ARC accelerators to ECD for reimbursement. The billed amounts sampled included costs for salaries, travel, contractual, and other types. ECD policies and the written sub-grant agreements with the accelerators required the sub-grantee to provide supporting documentation with their invoices. We noted that the types and extent of supporting documentation varied between the accelerators. For example, some provided timesheets or payroll reports to support salary costs while others did not. Some provided cancelled checks for every vendor invoice payment, while some did so for selected invoices but not all. Generally, we considered the overall level of support for the sample items to be reasonable. However, we identified \$170,671 in costs involving purchases of goods and services by two of the accelerators that did not have fully adequate supporting documentation to allow independent verification that the amounts had been properly approved and actually paid prior to reimbursement by ARC. The amounts sampled and tested for the other two accelerators were adequately supported and allowable. The amounts questioned are shown in table A below.

Table A. Costs Questioned

Sub-grantee	Vendor/Invoice Date	Amount	Billed	Questioned
U of Tennessee	3Degrees - 8/15/12	\$ 20,833	\$ 20,833	\$ 20,833
U of Tennessee	Socially U - 12/10/12	25,000	25,000	25,000
U of Tennessee	Tech20/20 - 11/29/12	100,000	100,000	100,000
U of Tennessee	Entrepreneurial Transition - 10/15/12	12,000	12,000	12,000
U of Tennessee	Entrepreneurial Transition - 10/15/12	12,000	12,000	12,000
CoLab	Full Media - 12/26/12	838	838	838

The supporting documentation ECD provided to us for these amounts included copies of the vendor invoices received from the sub-grantee. All of the vendor invoices, except for the

Co-Lab invoice, showed that they had been properly approved for payment by a sub-grantee official. The CoLab invoice did not contain any evidence of such approval. ECD staff could not provide any documentation, such as the payment check to the vendor, to verify that the vendor had actually been paid the amounts shown in the table. We therefore question the total \$170,671 for those invoices due to the lack of adequate documentation as described.

Recommendation

ECD should either provide ARC with supporting documentation for the \$170,671 questioned that will verify the amounts were properly approved for payment and were actually disbursed by the sub-grantee prior to being approved by ECD and submitted to ARC or prepare a revised final financial report for the grant and refund the amount to ARC.

Grantee Response

See Appendix I

Auditor's Comments

In response to the draft report, the grantee provided additional documentation to support the costs questioned. The documentation provided adequately supports the costs incurred and the finding could be resolved based on the grantee's response. ARC will determine if the response is adequate to resolve the finding and closeout the recommendation.

Appendix I
Grantee Response

TNECD Response to Audit Finding

A. Allowable Cost

Leon Snead & Company, P.C. completed an audit of grant number TN-17178 awarded by the Appalachian Regional Commission (ARC) to the Tennessee Department of Economic and Community Development (TNECD) at the request of the ARC, Office of the Inspector General, to assist that office in its oversight of ARC grant funds.

In the audit report received by TNECD, the following questioned costs were identified as a possible finding.

Table A. Costs Questioned

Sub-grantee	Vendor/Invoice Date	Amount	Billed	Questioned
U of Tennessee	3Degrees - 8/15/12	\$ 20,833	\$ 20,833	\$ 20,833
U of Tennessee	SociallyU - 12/10/12	25,000	25,000	25,000
U of Tennessee	Tech20/20 - 11/29/12	100,000	100,000	100,000
U of Tennessee	Entrepreneurial Transition - 10/15/12	12,000	12,000	12,000
U of Tennessee	Entrepreneurial Transition - 10/15/12	12,000	12,000	12,000
CoLab	Full Media - 12/26/12	838	838	838

TNECD disagrees that the Co-Lab invoice did not contain evidence of an approval. The request for reimbursement by Co-Lab is documented by a signed invoice attesting to the Full Media expense being an allowable, reasonable, and necessary expense per section C.5.b.(1) of the contract between TNECD and Co-Lab (attached).

In addition, we have attached documentation of the canceled check showing payment of the expenses. Please note that the Full Media expense listed was part of group of expenses that was paid with one check. We have provided proof of payment for your review.

TNECD also disagrees with the questioned costs for the University of Tennessee. We have attached proof of payment for the UT expenses for your review. The payment for the 3 Degrees expense is part of a \$26,666.66 payment which includes expenses of \$20,833 + \$5,833.33. The documentation for Entrepreneurial Transitions is documented under one payment to the vendor on November 5, 2012 for \$24,000.

Based on the documentation provided, and following contractual and department policy and internal controls, we feel all the expenses were properly approved for payment. In conjunction, all the expenses were allowable, reasonable, and necessary expenses.



Display Check Information

Check recipient Check issuer Accompanying docs Payment document

Paying company code Payment document no 2002950913

Bank details

House Bank	FI177	Bank Key	064204347
Account ID	0693	Bank Account	100327400
Bank name	1ST TENNESSEE BANK - GREENEVILLE		
City	GREENEVILLE		

Check information

Check number	11950496	Currency	USD
Payment date	10/18/2012	Amount paid	26,666.66
Check encashment	* 10/23/2012	Cash discount amount	0.00
Extract creation	10/18/2012	14:01:07	

Check recipient

Name	3 DEGREES BUSINESS DEVELOPMENT LLC
City	INDIANVILLE
Payee's country	US
Regional code	TX



Display Check Information

Check recipient Check issuer... Accompanying docs Payment document

Paying company code HT Payment document no. 2002500307

Bank details

House Bank	FIB57	Bank Key	064204347
Account ID	0633	Bank Account	100327100
Bank name	1ST TENNESSEE BANK - GREENEVILLE		
City	GREENEVILLE		

Check information

Check number	11921229	Currency	USD
Payment date	12/20/2012	Amount paid	25,000.00
Check encashment	* 01/09/2013	Cash discount amount	0.00
Extract creation	12/26/2012	14:00:11	

Check recipient

Name	SOCIALLY LLC
City	SIGNAL MOUNTAIN
Payee's country	US
Regional code	TN



Display Check Information

Check recipient Check issuer... Accompanying docs Payment document

Payno company code: UT Payment document no: 2002953289

Bank details

House Bank	FIBGV	Bank Key	064204347
Account ID	0635	Bank Account	400327406
Bank name	1ST TENNESSEE BANK - GREENEVILLE		
City	GREENEVILLE		

Check information

Check number	11984767	Currency	USD
Payment date	01/07/2013	Amount paid	100,000.00
Check encashment	* 01/13/2013	Cash discount amount	0.00
Extract creation	01/07/2013	14:01:13	

Check recipient

Name	TECHNOLOGY 2020
City	OAK RIDGE
Payee's country	US
Regional code	IN





Display Check Information

Check recipient
 Check issuer...
 Accompanying docs
 Payment document

Paying company code
 Payment document no. 2602953741

Bank details

House Bank	FTBCV	Bank Key	064204347
Account ID	0633	Bank Account	100327400
Bank name	1ST TENNESSEE BANK - GREENEVILLE		
City	GREENEVILLE		

Check information

Check number	11966235	Currency	USD
Payment date	11/05/2012	Amount paid	24,000.00
Check encashment	11/09/2012	Cash discount amount	0.05
Extract creation	11/05/2012		

Check recipient

Name ENTREPRENEURIAL TRANSITIONS LLC
 City KNOXVILLE
 Payee's country US
 Regional code TN



COLAR
55 E MAIN ST STE 105
CHATTANOOGA, TN 37408

1505
87-96/13
1255

12/27/12 Date

Pay to the Order of Full Media \$ 8000.00

eight thousand 00/100 Dollars



For Shelba Givens

⑆061300367⑆1505 184111040⑈

⑆15959609

PAY TO THE ORDER OF
HAMILTON STATE BANK
GAINESVILLE, GA 30601
061120479
FOR DEPOSIT ONLY
FILMEDIA
207401

BOFD >061120479<
2012-12-28
803989609

COLAB
55 E MAIN ST STE 106
CHATTANOOGA, TN 37408

1478
87-08/913
1385

11/26/12
Date

Pay to the
Order of

Sun Marketing

\$ 2000.00

two thousand dollars + 00/100 Dollars



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For

Chanel Brooks

⑆061300367⑆1478 184111040⑈

