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

**Tennessee Technology Development Corp.
dba Launch Tennessee
Nashville, Tennessee**

**Final Report Number: 15-30
Project Numbers: TN-17541 and TN-17551
September 2015**

**Prepared by:
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Leon Snead & Company, P.C. completed an audit of grant numbers TN-17541 and TN-17551 awarded by the Appalachian Regional Commission (ARC) to the Tennessee Technology Development Corporation, doing business as Launch Tennessee (Launch TN). The audit was conducted at the request of the ARC, Office of the 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 the goals and objectives of the grant were met.

The administrative policies and procedures followed in administering the ARC grant were compliant with the Federal requirements. There were no significant issues noted with the financial report process for reimbursements. However, we questioned costs related to reimbursed amounts and matching costs reported by Launch TN relating to two sub-grantees.

The performance goals on both grants were adequately met. However, we identified some report format and content areas that could be improved in collecting and reporting performance results to ARC.

The issues identified and the recommended corrective actions are discussed in the Findings and Recommendations section of this report. A draft report was provided to Launch TN on July 29, 2015, for comments. Launch TN provided a response to the report on August 28, 2015. These comments are included in their entirety in Appendix I.

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

Sincerely,


Leon Snead & Company, P.C.

TABLE OF CONTENTS

	<i>Page</i>
Background.....	1
Objectives, Scope, and Methodology	1
Summary of Audit Results.....	2
Findings and Recommendations	3
A. Grant Match Funding.....	3
B. Performance Reporting	6
Grantee Response - Appendix I.....	8

Background

Leon Snead & Company, P.C. completed an audit of grant numbers TN-17541 and TN-17551 awarded by the Appalachian Regional Commission (ARC) to the Tennessee Technology Development Corporation (TTDC), doing business as Launch Tennessee (LaunchTN). The audit was conducted at the request of the ARC, Office of the Inspector General, to assist the office in its oversight of ARC grant funds.

LaunchTN is responsible for the oversight and funding of the nine regional business accelerators that serve the Tennessee Appalachian region. In carrying out the state-wide program, LaunchTN focuses on four key areas: Entrepreneurship; Commercialization; Capital; and Outreach. A major element of the program involved establishing a network of nine seed business accelerators throughout the state. The accelerators serve and support the startup business community and entrepreneurs in their region through providing training and mentoring, obtaining funding, and other activities. In 2011, the Tennessee Department of Economic and Community Development (ECD) obtained ARC grant funding to support four of the nine accelerators that served Appalachian areas. That grant ended in March 2013, but ARC has continued to fund this effort through additional grants awarded directly to LaunchTN and the accelerators.

Grant TN-17541, awarded to LaunchTN and subsequently sub-awarded to the Upper Cumberland Entrepreneurial Foundation (UCEF), covered the period April 1, 2013 to March 31, 2014 and provided \$250,000 in ARC funds and required \$250,000 in non-ARC recipient match funding. The majority of the funding was budgeted for personnel and benefits expenses, contractual costs, and smaller amounts for supplies and travel. The grant had been completed and was administratively closed by ARC with a total of \$230,541 in ARC funds being expended and reimbursed.

Grant TN-17551, awarded to LaunchTN and subsequently sub-awarded to the Knoxville Entrepreneurial Center (KEC), covered the period January 1, 2013 to June 30, 2014 and provided \$250,000 in ARC funds and required \$250,000 in non-ARC recipient match funding. The majority of the funding was budgeted for contractual costs with smaller amounts for supplies, travel, and equipment. The grant had been completed and was administratively closed by ARC with a total of \$250,000 in grant funds reported being expended and reimbursed by ARC.

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 LaunchTN and interviewed personnel to obtain an overall understanding of the grant activities and general operating and accounting procedures

used to administer the accelerator 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 also discussed issues and recommended corrective actions identified during earlier audits of the grants to UCEF and KEC to determine if additional actions were needed by LaunchTN.

The primary criteria used in performing the audit were the grant agreements, applicable Office of Management and Budget Circulars, and the ARC Code. The audit was performed in accordance with *Government Auditing Standards*. The onsite audit fieldwork was performed June 15-19, 2015 at LaunchTN offices in Nashville, Tennessee. The preliminary results were discussed with staff at the conclusion of the onsite visit. The grantee was in general agreement with the preliminary results.

Summary of Audit Results

LaunchTN had some written financial and administrative policies and procedures, including a manual for the accounting system that was used to record and track ARC funds. The specific policies and procedures applicable to administering the grants that we reviewed were considered to be generally compliant with the applicable Federal requirements and adequate to administer the grants.

Expenditures for the two sub-grantees were previously sampled and tested during their respective audits, so extensive testing was not performed during this review. We reviewed LaunchTN's reimbursement and financial reporting process for the two grants along with related supporting reports and documentation and found no significant issues with the process in general. However, we questioned costs related to reimbursed amounts and matching costs reported by LaunchTN relating to the two audited sub-grantees.

The performance goals on both grants were considered to have been adequately met or explained based on the final reported results. However, in evaluating LaunchTN's role in collecting and reporting grant performance to ARC, we identified some report format and content areas that could be improved.

The identified issues, questioned cost amounts, and the recommended corrective actions are discussed in the Findings and Recommendations section of this report.

Findings and Recommendations

A. Grant Match Funding

Projects funded under grants by ARC in most cases require some level of funding to be provided by the recipient in addition to the ARC funding approved in order to meet total estimated project costs. The amount of non-ARC funding to be provided is referred to as match and can be in the form of cash, in-kind contributions, or other allowed types. The amount of ARC funding and match funding is typically established in the grant application estimated budget and the eventual ARC-approved budget. The grant budget approved by ARC represents the official level of funding, sources, and category of acceptable costs on which the project was justified and accepted. Under ARC and federal requirements, substantial changes to any of these elements (the level, source, or category) must be justified and approved in advance by ARC. As the grantee on both grants, LaunchTN was responsible for preparing the financial reports submitted to ARC on the grants and for ensuring that the amounts reported by the sub-grantees and included in the ARC report for reimbursement were correct and supported.

The approved budget for grant TN-17541 provided \$250,000 in ARC funding and also required \$250,000 in grantee match funding for a total project cost of \$500,000. The approved budget for grant TN-17551 also provided \$250,000 of ARC funding and required \$250,000 match funding for a total project cost of \$500,000. Based on the ARC-approved budgets, the total project costs were intended to be a 50/50 share or \$1 of recipient funding for every \$1 of ARC funding used. At the time of this audit, both grants had ended, the final reports had been submitted, and ARC had reimbursed LaunchTN and closed both grants.

We reviewed the final financial reports to verify the final amounts reimbursed to LaunchTN and identified some inconsistencies with the approved budget that resulted in ARC funds being reimbursed to LaunchTN in excess of the 50/50 cost share. On grant TN-17541, LaunchTN reported a final project total cost of \$346,645 with \$230,541 charged to ARC and \$116,105 charged to match. Based upon the approved budget 50/50 share ratio, \$173,332 should have been allocated to both ARC funds and match. On grant TN-17551, LaunchTN reported a final project total cost of \$445,860 with \$250,000 charged to ARC and \$195,860 charged to the match. Based upon the approved budget 50/50 share ratio, \$222,930 should have been allocated to both ARC funds and the match. As shown in Table 1, this resulted in LaunchTN being reimbursed more than it should have been on both grants under the approved budget and final total costs reported.

Table 1

Grant	Final Total Project Cost	Budget Approved ARC Share	ARC Amount Reimbursed	Amount Overpaid
TN-17541	\$346,645	\$173,322	\$230,541	\$57,219
TN-17551	\$445,860	\$222,930	\$250,000	\$27,070

LaunchTN staff explained that the amount used for match in preparing the ARC report and final billing was based on the amount reported to them by the sub-grantees. The amounts reported

by the sub-grantees were based on provisions contained in the written agreements between them and LaunchTN. The sub-agreements between LaunchTN and its subgrantees may have been inconsistent with the agreements between ARC and LaunchTN.

In the absence of an ARC budget revision, we identified the \$1 to \$1 ARC funds to match funds ratio reflected in the approved budgets as the proper level to be used for reimbursement and the different ratio reflected in the actual funding amounts reported are questionable. Thus, we questioned \$57,219 excess reimbursed on TN-17541 and \$27,070 excess reimbursed on TN-17551 for a total of \$84,289 in questioned costs.

Recommendations

LaunchTN should:

1. Coordinate with the sub-grantees to identify any additional allowable match amounts that will be least equal to the ARC expenditure amount claimed and reimbursed or refund the amount questioned to ARC.
2. Revise the written agreements and implement procedures and guidance to ensure that future amounts of match reported for final billing and reimbursement by ARC are consistent with the approved budget.
3. Ensure the procedures include submitting a budget revision for ARC approval whenever the match amount in the approved budget will not be met.

Response Item A – Grant Match Funding

Management Concur. The final reports submitted to ARC for the sub-grantees in question should have reflected the allowable match amounts that equaled the ARC expenditure amounts. The final reports submitted by LaunchTN to ARC as they relate to the sub-grantees in question did not fully reflect the allowable match amounts that equaled the ARC expenditure amounts. LaunchTN submitted the reports to ARC based on submissions by the sub-grantees. LaunchTN is working with the sub-grantees to obtain the necessary documentation of in-kind services, which will fully reflect the allowable match amounts that equaled the ARC expenditure amounts. LaunchTN will submit revised final reports to ARC.

Current guidelines and procedures will be reviewed and revised as necessary to ensure that future amounts of match reported for final billing and reimbursement by ARC are consistent with the approved budget. The guidelines and procedures will include language that clearly states the procedures for budget revisions (when a revision is required, the process, notification process, timeline for submission, etc.). In addition, LaunchTN is coordinating a mandatory in-person training of ARC Sub-Grantees. The agenda items to be discussed will include, but will not be limited to, the spend down ratio of the grant per ARC federal guidelines, budget revision process and procedures, and reporting.

Invoices and reports submitted by sub-grantees will be reviewed to ensure funds are spent at an appropriate spend down rate consistent with the ARC approved budget. Deviations will require the submission and approval of a budget revision. To ensure compliance, semi-annual fiscal site visits will include a review of spend-down ratios and supporting documentation. Any deficiencies will result in the proper remedy and additional technical assistance will be provided to the sub-grantees.

Auditor's Comments

ARC will determine whether the actions identified in the grantee's response stated above are sufficient to resolve the finding.

B. Performance Reporting.

We noted some inconsistencies in the metrics established for the various grants and how the results were reported to ARC. LaunchTN staff primarily takes the individual reports submitted by the four sub-grantees and forwards them to ARC as a combined report without substantive revision or reorganization. LaunchTN had not provided any specific guidance to ensure the sub-grantees' reports were developed or formatted the same way, although there was some consistency. A further improvement would be for LaunchTN to prepare a summary table from the sub-grantee reports showing the combined results to provide a perspective on the success of the overall grant.

We noted while reviewing the interim and final reports submitted to ARC that there were some performance goals where the actual results were below, in some cases substantially, the level that was planned or expected. However, the report narrative did not include any type of discussion regarding the reasons for the underperformance, what action(s) were taken or planned to improve performance, or what the lessons learned were regarding the underperformance. We believe this kind of information is intended under ARC guidance for reporting contained in its Grant Manual and that it would improve the usefulness of the reports if it was included. Management actions are needed to improve reporting.

Recommendations

LaunchTN should revise the reporting requirements for ARC performance measures to:

1. Establish a standard table and format for presenting metrics in the reports submitted to ARC and ensure all reports meet that format.
2. Require all metrics for which actual results significantly deviate from the expected or planned results to be explained and provide the reason(s) and what actions were taken or planned to be taken to improve the results.

Response Item B – Performance Reporting

Management concurs. A standard table and format for presenting metrics in the reports submitted to ARC were not in place during the period reviewed. LaunchTN has since changed the method for collecting data from sub-grantees, and a standard table and format are in place. Report due date reminders are sent to sub-grantees to ensure timely submissions. Sub-grantees are required to submit their metrics monthly in a Google document created by LaunchTN staff members. In addition, they are required to provide back-up data for each metric at the end of each quarter in a separate section of the Google document. Each sub-grantee is required to maintain backup data with notes for each metric on site so that the information can be verified during program on-site reviews.

Currently, in the instances in which actual results significantly deviate from the expected or planned result, the sub-grantee is contacted and asked to provide the reason and plan of action to improve the results. Technical assistance is provided to assist the sub-grantee in achieving the

desired results. Procedures and processes will be updated to include that sub-grantees will have to provide in the report the reasons for any significant deviations and a plan of action to improve results.

Goals are re-evaluated to align with the demand in each region. Based on the evaluation and as a result of conversations with sub-grantees, goals may need to be adjusted. Not every region has the same demand, which has resulted in a more customized approach to meet the needs of each region.

Auditor's Comments

ARC will determine whether the actions taken and planned by the grantee are adequate to resolve the finding and close out the recommendations.

Appendix I
Grantee Response

From: Patricia Beavers [patricia@launchtn.org]
Sent: Friday, August 28, 2015 3:13 PM
To: Leon Snead & Company
Subject: LaunchTN Response
Attachments: ARC-DraftMgtRpt-LaunchTenn.docx

Good afternoon!

Attached is our response to the recent review.

Please let me know if you have any questions.

Thank you!

Upcoming events

Tennessee Demo Days starting July 28th in Chattanooga and finishing up Sept 4th in Oak Ridge. Here is the full [Demo Day Schedule](#).

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Response Item A – Grant Match Funding

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Response Item B – Performance Reporting

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Goals are re-evaluated to align with the demand in each region. Based on the evaluation and as a result of conversations with sub-grantees, goals may need to be adjusted. Not every region has the same demand, which has resulted in a more customized approach to meet the needs of each region.