

**MEMORANDUM REPORT ON REVIEW OF THE
THE UNIVERSITY OF TENNESSEE
INSTITUTE FOR PUBLIC SERVICE
KNOXVILLE, TENNESSEE**

UT Telecommunications Initiative

ARC Grant No's: TN-12461

July 17, 1996 through June 30, 2000

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Report Number: 00-43 (H)

Date: September 13, 2000

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TO: Appalachian Regional Commission (ARC)
Office of Inspector General (OIG)

FROM: Tichenor & Associates, LLP
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 00-43 (H)

SUBJECT TO: Memorandum Review Report on The University of Tennessee Institute for
Public Service, UT Telecommunications Initiative, Knoxville, Tennessee.
ARC Grant No: TN-12461.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by The University of Tennessee Institute for Public Service for its UT Telecommunications Initiative were expended in accordance with the ARC approved grant budgets and did not violate any restrictions imposed by the terms and conditions of the grant; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grant had been met.

BACKGROUND: ARC awarded Grant Number TN-12461 to The University of Tennessee, Institute for Public Service (IPS) for the period July 17, 1996 through June 30, 2000. The purpose of the grant was to provide technical assistance to approximately 50 communities and organizations in the Appalachian region on what advanced telecommunications services can do for the various economic sectors of the communities. The IPS was to provide telecommunications demonstrations in the areas of electronic commerce, export assistance, government assistance demonstrations, and technical services in setting up approximately 70 new

internet home page sites for businesses and communities.

The total ARC grant was for \$770,337, or 66 percent of actual, reasonable and eligible project cost. State match fund requirement totaled \$401,837 or 34 percent of total project funding. IPS had drawdown \$583,500 of ARC obligated funds at the time of our review.

The following specific tasks were to be performed:

1. Develop a set of applications that will enable:
 - a. Cities and counties to link up electronically with state agencies and other service providers.
 - b. Economic development professionals to link up regularly with the Tennessee Department of Economic and Community Development.
 - c. Small manufacturers to link up regularly with service providers.
2. Provide demonstrations for local government officials, owners and managers of small and medium-size firms, and community leaders on telecommunications resources available to them and ways to take advantage of them.
3. Provide technical assistance to cities, counties and small manufacturers to connect to the information highway.
4. Help local teams determine how to best use the telecommunications capability being deployed through ConnectTEN, the Tennessee link, in ways that contribute to community-wide economic development goals.
5. Evaluate the project.

SCOPE: We performed a review of the grant as described in the Purpose, above. Our review was based on the terms of the grant agreement and on the application of certain procedures in accordance with the ARC, OIG Review Program. Specifically, we determined if the tasks listed above had been performed, if the accountability over ARC funds was sufficient as required by the applicable Office of Management and Budget (OMB) Circulars, and if IPS had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with IPS's personnel. Our results and recommendations are based on those procedures and were conducted in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at ISP Executive offices in Knoxville, Tennessee on February 28 through March 1, 2000, and revised as of July 24, 2000.

A. Incurred Costs

IPS incurred total program costs of \$893,438, of which they claimed and received direct reimbursable costs from July 17, 1996 through June 30, 2000 of \$583,500 from the ARC grant. We reviewed the direct and in-kind costs incurred and determined that the costs claimed by IPS were properly supported, allowable and were expended as reported. However, progress reports were not submitted to ARC on a quarterly basis. This issue is discussed below.

B. Internal Controls

We determined that the Grantee had the following internal control weakness that affected the accountability of costs or compliance with the terms of the grant agreement:

1. Quarterly Progress Reports Were Not Submitted to the ARC

During the period of the grant, progress reports were not prepared and submitted to the ARC on a quarterly basis as required by the terms and conditions of the grant agreement. The Grantee did submit several progress reports during the grant period. These reports covered the following periods:

- a. Annual reports at September 1997, August 1998, and December 1999.
- b. A five month report for the period 11/17/96 – 4/17/97.
- c. A six month report for the period 7/1/97 – 12/31/97.
- d. A three month report for the period 1/1/98 – 3/31/98.

OMB A-102, Subpart C, Section 41, para. (b)(3), Frequency, states:

“The Federal agency may prescribe the frequency of the report for each project or program. However, the report will not be required more frequently than quarterly. If the Federal agency does not specify the frequency of the report, it will be submitted annually. A final report will be required upon expiration or termination of grant support.”

Grant Agreement, Part I – Special Provisions, Article 2, Scope of Services, 2-9.1 Progress Reports, states:

“Grantee shall prepare and submit to the ARC Project Coordinator, in three copies, quarterly progress reports indicating the work accomplished under the agreement to date, any problems encountered and ameliorative actions taken, and a forecast of work for the next report period.”

RECOMMENDATION:

We recommend that IPS submit reports in accordance with grant agreement provisions.

C. Program Results

Our review of The University of Tennessee Institute for Public Service, UT Telecommunications Initiative, indicated that all specific tasks identified in the grant award notification, and summarized above, had been achieved.

DISCUSSION:

We discussed the issues with University of Tennessee, Institute for Public Service executive management during an exit conference held on March 1, 2000. Management responded by stating that they understood that they did not prepare and submit quarterly progress reporting to ARC for all quarters during the grant period. Management explained that ARC was late in sending funding, and they did not begin project work until funds were received. Therefore, some quarterly reports were not prepared.

Tichenor & Associates, LLP

TICHENOR & ASSOCIATES, LLP
Louisville, Kentucky
March 1, 2000