MEMORANDUM REPORT ON REVIEW OF THE

KNOXVILLE COMMUNITY DEVELOPMENT CORPORATION (ECONOMIC VENTURES, INC.)

KNOXVILLE, TENNESSEE

Entrepreneurial Training Program

ARC Grant No's: CO-12988-98-302

April 1, 1998 through September 30, 1999

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Report Number: 00-60 (H)

Date: September 25, 2000

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Prepared By:

Tichenor & Associates, LLP
Certified Public Accountants
304 Middletown Park Place, Suite C
Louisville, Kentucky 40243

TICHENOR & ASSOCIATES, LLP
CERTIFIED PUBLIC ACCOUNTANTS and MANAGEMENT CONSULTANTS

304 MIDDLETOWN PARK PLACE, SUITE C
LOUISVILLE, KY 40243

PARTNERS
WILLIAM R. TICHENOR
DEIRDRE M. REED

BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: TICHENORKY@AOL.COM

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. 00-60 (H)

SUBJECT TO: Memorandum Review Report on the Knoxville Community Development Corporation (Economic Ventures, Inc.), Entrepreneurial Training Program, Knoxville, Tennessee. ARC Grant No: CO-12988-98-302.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Economic Ventures, Inc. for its Entrepreneurial Training Program 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 CO-12988-98-302 to Economic Ventures, Inc. for the period April 1, 1998 through September 30, 1999. The purpose of the grant was to provide funding to assist displaced Levi Strauss employees to make a successful transition to new work opportunities following the Levi Strauss plant closing in Knoxville, Tennessee. The entrepreneurial training program would provide former Levi Strauss employees with the tools, training, and support necessary to start new micro-businesses.

The total ARC grant was for $100,000, or 53 percent of actual, reasonable and eligible project cost. State match fund totaled $90,400 or 47 percent of total project funding.

The following specific tasks were to be performed:

1. Provide small business loans ranging from $500 to $10,000 in increments through the peer lending group. The peer group, as loan review committee, is responsible for loan repayment and problem solving for delinquent loans.

2. The group coordinator/trainer will provide group support and individual technical assistance. The coordinator will make site visits to businesses and case management to participants.

3. Sponsor a local business professional to conduct a one hour workshop the third Tuesday of each month. The workshops are free and open to the public.

4. Hold program network meetings following each workshop to discuss current issues affecting the program and local businesses.

5. During the initial intake and entrepreneurship assessment review, evaluate the participant for an apprenticeship and mentoring placement.

6. Provide credit education and an initial credit evaluation of the participants' credit report. Teach the participants to read their credit report and understand the rating system.

7. Provide leadership development training during the first 8 weeks of the program. Each peer group develops by-laws, elects officers, charters the group with the state, and opens a group savings reserve account. Officers receive officer training and manuals.

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 Economic Ventures, Inc. had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Economic Ventures' 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 Economic Ventures, Inc. executive offices in Knoxville, Tennessee on August 7 through August 8, 2000.

A. Incurred Costs

Economic Ventures, Inc. incurred total program costs of $174,308, of which they claimed and received direct reimbursable costs from April 1, 1998 through September 30, 1999 of $79,575 from the ARC grant. We reviewed the direct and in-kind costs incurred and determined that the costs claimed by Economic Ventures, Inc. were properly supported, allowable and were expended as reported. However, progress reports were not submitted to ARC for each 120-day period. 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. Progress Reports Were Not Submitted to the ARC For Each 120-Day Period

   a. During the period of the grant, progress reports were not prepared and submitted to the ARC for each 120-day period as required by the terms and conditions of the grant agreement. The Grantee did submit one progress report, which covered a 15-month period, from April 1998 to June 1999.

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, Paragraph 3, Reports, states:

"A progress report for each 120-day period and a final report are required under this agreement."

RECOMMENDATION:

We recommend that Economic Ventures, Inc. submit reports in accordance with grant agreement provisions for all future grants.

C. Program Results

Our review of Economic Ventures, Inc., Entrepreneurial Training Program, indicated that all specific tasks identified in the grant award notification, and summarized above, had been achieved.

DISCUSSION:

We discussed the issues with Economic Ventures, Inc. executive management during an exit conference held on August 8, 2000. Management responded by stating that the grant period was a very hectic time and there was not enough time to perform the details of progress reporting.

Tichenor & Associates, LLP

TICHENOR & ASSOCIATES, LLP
Louisville, Kentucky
August 8, 2000