



**APPALACHIAN
REGIONAL
COMMISSION**

*A Proud Past,
A New Vision*

*Report
closed*

Date: March 21, 2003
Subject: Itawamba County Small Business Entrepreneurship
MS 13945, 03-3
To: Clifford Jennings
Inspector General

Staff held discussions with the grantee about the audit that found \$15,877 in unallowable costs charged to the ARC grant as a result of work incurred after the end date of the grant.

After discussions with the ARC State Program Manager for Mississippi, the grantee requested and ARC approved an extension of the grant through September 4, 2002. This extension allowed the expenses noted in the audit to be eligible for reimbursement.

A final payment of \$18,772 was made on March 13, 2003. The grant is now closed.

Please contact Judy Rae if additional information is needed or if you have any further questions about the Itawamba County Small Business Entrepreneurship audit report.

Thomas M. Hunter
Executive Director



December 13, 2002

MEMORANDUM FOR The Federal Co-Chairman
ARC Executive Director

SUBJECT: OIG Report 03-3—ARC Grant MS-13945
Itawamba County Development Council
Small Business Entrepreneurship Pilot Project

Attached is a copy of the subject report dealing with the Small Business Entrepreneurship Pilot Project of the Itawamba County Development Council in Fulton, Mississippi. There is one recommendation requiring action by ARC. Specifically, Finding 2 notes the grantee will be requesting \$15,877 that we do not consider supportable at this time; we are recommending deobligation of the funds. Please provide an action plan with dates for dealing with this recommendation within 30 days. This report will remain open until there has been a satisfactory resolution of the open item.

Please contact me if you have any questions on this issue.

A handwritten signature in black ink, appearing to read "C/H/J", followed by a long, sweeping horizontal stroke that ends in a loop.

Clifford H. Jennings
Inspector General

Attachment

cc: Ms. Judy Rae



December 13, 2002

MEMORANDUM FOR The Federal Co-Chairman
ARC Executive Director

SUBJECT: OIG Report 03-3—ARC Grant MS-13945
Itawamba County Development Council
Small Business Entrepreneurship Pilot Project

Attached is a copy of the subject report dealing with the Small Business Entrepreneurship Pilot Project of the Itawamba County Development Council in Fulton, Mississippi. There is one recommendation requiring action by ARC. Specifically, Finding 2 notes the grantee will be requesting \$15,877 that we do not consider supportable at this time; we are recommending deobligation of the funds. Please provide an action plan with dates for dealing with this recommendation within 30 days. This report will remain open until there has been a satisfactory resolution of the open item.

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A handwritten signature in black ink, appearing to read "C/H/J", followed by a large, stylized flourish.

Clifford H. Jennings
Inspector General

Attachment

cc: Ms. Judy Rae

**MEMORANDUM REPORT ON REVIEW OF
ITAWAMBA COUNTY DEVELOPMENT COUNCIL
FULTON, MISSISSIPPI**

SMALL BUSINESS PLAN ENTREPRENEURSHIP PILOT PROJECT

ARC Grant Number: MS-13945

May 1, 2001 through May 1, 2002

CAUTION: *Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

Report Number: 03-03

Date: December 6, 2002

**MEMORANDUM REPORT ON REVIEW OF
ITATWAMBA COUNTY DEVELOPMENT COUNCIL
FULTON, MISSISSIPPI**

SMALL BUSINESS PLAN ENTREPRENEURSHIP PILOT PROJECT

ARC Grant Number: MS-13945

May 1, 2001 through May 1, 2002

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, KENTUCKY 40243

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 Number: 03-03

SUBJECT: Memorandum Review Report on Itawamba County Development
Council, Small Business Plan Entrepreneurship Pilot Project, ARC
Grant Number: MS-13945.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by the Itawamba County Development Council (ICDC) for its Small Business Plan Entrepreneurship Pilot Project initiative were expended in accordance with the ARC approved grant budget 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) that the objectives of the grant had been met.

BACKGROUND: ARC awarded Grant Number MS-13945 to ICDC for the period May 1, 2001 through May 1, 2002. Total grant funding was for an amount not to exceed \$26,750 or 39 percent of actual, reasonable and eligible project costs. ARC required that the grant be matched with \$41,500 or 61 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made one advance payment to ICDC in June 2001 totaling \$7,978.

The Entrepreneurship Pilot Project is a cooperative effort between the Itawamba County Development Council and Itawamba Community College (ICC). The project will provide business support to existing businesses within the community and encourage entrepreneurs to develop new businesses within the community. The project will rely on several resources to provide businessmen, businesswomen and entrepreneurs with valuable information pertaining to various aspects of operating a business successfully. Those resources include, but are not limited to: simulation software, college professors and a group of established area businesspersons. The project is to serve 256 small

businesses and is expected to create a total of 128 new jobs through business expansion, and the creation of 60 additional jobs by 14 new business start-ups.

SCOPE: We performed a program 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 agreed-upon procedures previously discussed with the ARC, OIG. Specifically, we determined if the tasks described above had been performed, if the accountability over ARC funds was sufficient as required by applicable Office of Management and Budget (OMB) Circulars, and if the ICDC had compliance with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with ICDC personnel. Our results and recommendations are based on those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results are based on our review performed at the ICDC's office in Fulton, Mississippi on July 29 and 30, 2002.

A. Incurred Costs

1. Matching Costs Inadequately Supported

Itawamba County Development Council (ICDC) was required to match \$41,500 or 61 percent in cash, contributed services, or in-kind contributions under the Small Business Plan Entrepreneurship Pilot Project. In its grant application, ICDC proposed to match \$33,000 in in-kind contributions and \$8,500 in cash contributions.

The matching costs consisted of ICDC personnel salaries and wages for faculty and students from the Itawamba Community College (ICC). ICDC did not require timesheets to be maintained to support any payroll expenses claimed or any other documentation that would support the matching costs reported. The wages appeared to be paid with local matching funds; however, since we were unable to obtain a sufficient level of confidence in the matching costs claimed, the matching portion of the grant will be considered unsupported until such time as the Grantee submits any necessary documentation to support its claims.

OMB Circular A-110, Subpart C, Post-Award Requirements, Financial and Program Management, .23 Cost sharing or matching, paragraph (a) states:

“All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria:

(1) Are verifiable from recipient's records...”

Part II, Appalachian Regional Commission Grant Agreement: General Provisions, Article 14 Records/Audit, paragraph (1) states:

“Grantee shall establish procedures to ensure that all records pertaining to costs, expenses, and funds related to the Agreement shall be kept in a manner which is consistent with generally accepted accounting procedures. The documentation in support of each action in the accounting records shall be filed in such a manner that it can be readily located. Grantee shall maintain custody of time records, payrolls, and other data, as appropriate, to substantiate all services reported to the Commission as Contributed Services under this Agreement.”

RECOMMENDATION #1

We recommend that ICDC employ the use of a separate general ledger in order to better account for matching funds. In addition, we recommend that supporting payrolls, time and attendance records and any other data, as appropriate, be maintained for all individuals claimed as direct expense or match under a grant award. In addition, we recommend that the ICDC submit documentation supporting the matching funds claimed in order to avoid the disallowance of ARC funds awarded under grant MS-13945.

GRANTEE’S RESPONSE

In response to our draft report, the Itawamba County Development Council stated “matching funds were paid with local funds. Our organizations revenue is derived from local public and private sector contributions. Revenue that comes into the organization is labeled as government funding, membership funding, grant funding, interest income, railroad funding, or special events. For this and other previous grant funded projects, we also use our in-house software *QuickBooks* and tag all revenue and expenditures as being part of the Small Business Entrepreneur Pilot Project. With this software a cash flows report was provided to show the expenditure, the amount and the date the transaction took place. A copy of this report and back-up documented receipts is included with this report. We have also worked with our organizations auditor to create a general ledger document and this has been included with this report. In the future we will incorporate the auditors suggestions and maintain a general ledger for each grant project and we will seek to set up a separate revenue account for matching contributions.”

“Project specific time ledgers will be kept in the future, our office does not work on a timesheet system and this issue simply was not discussed when we hired the two new staff persons who took over this project. Salary figures were based on projected percentages over a 15th month period from May 2001-July 2002.”

ADDITIONAL COMMENTS

While we are satisfied that the Itawamba County Development Council has produced a ledger document and explained the matching funds in their response, the fact that the expenditures were and are unverifiable does not negate the finding.

2. Expenses Claimed Subsequent To Grant Period And Budgeted Expenses Not Expended

While reviewing both furniture and equipment and other direct costs, we found that expenses totaling \$16,533 were claimed. Of those expenses, \$5,211 claimed was incurred subsequent to the grant period. Specifically, we noted that \$3,115 of furniture and equipment and \$2,096 in other direct expenses were claimed subsequent to May 1, 2002. That data infers that only \$11,322 in allowable expenses was actually incurred. Of that \$11,322, the Grantee received an advance of \$7,978 in June 2001. Therefore, the remaining entitlement is \$3,344. However, based on conversations with the Grantee and our review of the Grantee's draft final report, we noted that the Grantee intends to request the remaining award balance of \$18,772 still on hand with the ARC. If the Grantee requests the remaining balance, it would be requesting \$15,428 in funds that are not supported at this time.

OMB Circular A-110, Subpart C, Post Award Requirements.28 Period of availability of funds states:

“Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the Federal awarding agency.”

OMB Circular A-122, Attachment A, General Principles, Section A, Basic Considerations, Item 2, Factors affecting allowability of costs, states:

“To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- g. Be adequately documented.”

RECOMMENDATION #2

Due to the questions surrounding the Grantees actual expenses and compliance and after discussing this issue with the OIG, we recommend that ICDC revise its' final drawdown request to reflect the non-allowable expenses that are included as well as all advances made. We feel that the ICDC maximum reimbursable entitlement should not exceed \$3,344 as follows:

Expenses Claimed	\$16,533
Non-Allowable Expenses	<u>(5,211)</u>
Actual Expenses Incurred	11,322
Advanced Payments	<u>(7,978)</u>
Reimbursable Amount	<u>3,344</u>
Pending De-obligation	\$15,428

GRANTEE'S RESPONSE

In response to our draft report, the Itawamba County Development Council stated "this project and subsequent expenditures was delayed due to our organization losing two lead staff persons on this project and the completion of our surveying efforts. We found it difficult to coordinate the schedules of both our Itawamba Community College staff and student and our entrepreneurs and this along with a change in staff delayed this project, but we felt like the feedback from the survey was critical if we were going to establish a strong foundation for the small business resource center. As soon as this information was gathered we proceeded to establish the program and purchase the necessary software and learning aids."

"We have also attached a final report showing the budgeted amounts, actual spent, and the reimbursement request on this project."

ADDITIONAL COMMENTS

We advised the Itawamba County Development Council that operating within the grant period and obtaining extensions when necessary was its sole responsibility per the applicable OMB Circular. Therefore, we stand behind our finding due to the lack of authorization of expenditures that occurred after the grant period.

B. Internal Controls

1. No General Ledger Was Available For Review

During our review, we discovered that the ICDC did not maintain a separate general ledger for the ARC grant award. The ARC funds were commingled with other funds and provided no clear evidence of where the funds were being used (equipment, personnel, copies, etc.). Also, ICDC did not maintain a separate general ledger for its matching funds.

Office of Management and Budget Circular A-110, Subpart C, Post Award Requirements, Financial and Program Management, .21 Standards for financial management systems, paragraph (b) states:

“Recipients’ financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally sponsored project or program in accordance with the reporting requirements set forth in Section .52.
- (2) Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.”

RECOMMENDATION # 3

We recommend that ICDC employ the use of a separate general ledger when accounting for federal awards.

GRANTEE’S RESPONSE

In response to our draft report, the Itawamba County Development Council stated “information is recorded in one general ledger using financial software *QuickBooks*. The revenue and expenses for this project was placed in budgeted line items and tagged as being a revenue or expenditure attributed too this project. Since the meeting with the auditors the office manager has worked with our organizations auditor to pull all related invoices and billing related to the project and prepare a general ledger that is included with this report.”

ADDITIONAL COMMENTS

The Grantee did submit a general ledger document, for our review, with their response. In addition, the Grantee, as stated in their response to RECOMMENDATION #1, has pledged that they will use separate general ledgers for all future awards and their respective matching requirements.

2. Final Report Was Not Submitted To The ARC In A Timely Manner

During our review, we discovered the ICDC did not submit a draft-copy of its final report to the ARC Project Coordinator. The ICDC did not receive a time extension to submit the report.

Part II, Appalachian Regional Commission, Grant Agreement: General Provisions, Article 4, Reports, paragraph (2), subparagraph (a) Draft; Contents states:

“Within one (1) month after the period of performance (see Part I), Grantee shall prepare and submit to the ARC Project Coordinator for approval, a draft final report of all work accomplished under this Agreement including recommendations and conclusions based on the experience and results obtained.”

RECOMMENDATION #4

We recommend that ICDC submit the final report as soon as possible, and institute policies to ensure timely submission of reports. Also, we recommend that the ARC withhold any further payments to the Grantee until all necessary reports have been submitted and reviewed.

GRANTEE’S RESPONSE

In response to our draft report, the Itawamba County Development Council stated, “as stated in the exit memorandum, ARC was aware of the delay in submitting the final report. In the future it will be noted that all reports will be submitted by the deadline.”

C. Program Results

Our review of the specific tasks identified in the grant agreement and as described above, we determined that all specific tasks had not been achieved as follows.

Project Did Not Produce Results Claimed In Grant Application

During our review we noted that several references were made to the creation of 188 new jobs within the Itawamba community through the achievement of the project goals. Specifically, the references were made in a direct response to the ARC Project Coordinator in the Grant Application and the reference was made again in the Project Announcement. While conducting our fieldwork, we observed no physical evidence supporting the Grantee’s assertion pertaining to any new jobs that were created. We feel that this is due to the Grantee being behind in the completion of the project. For instance, the open house activities to introduce the resource center to the community were held on July 24, 2002, which is well after the May 1, 2002 grant ending date.

OMB Circular A-110, Subpart C, Post-Award Requirements, Reports and Records, .51 Monitoring and reporting program performance, paragraph (a) states in part:

“Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award.”

RECOMMENDATION #5

We recommend that ICDC provide information to the ARC Project Coordinator concerning new jobs created in the community as a direct result of this grant.

GRANTEE'S RESPONSE

In response to our draft report, the Itawamba County Development Council stated, "this project is an ongoing project that will continue to impact Northeast Mississippi entrepreneurs and businesses for many years to come. With the failing economy and tougher lending climate our redefined focus with this project was to establish a strong foundation for short-term and long-term success. During the research component and since the center opened we have made over 140 small business and entrepreneur contacts. We have had some success in starting new businesses, but the combination of a weak economy, tough financing climate, and the project being delayed has prevented us from reaching our job development goals."

Tichenor & Associates LLP

Tichenor & Associates, LLP
Louisville, Kentucky
September 20, 2002