
**APPALACHIAN REGIONAL COMMISSION
OFFICE OF INSPECTOR GENERAL**

AUDIT OF GRANT AWARD

**Tennessee Technology Development Corporation
d/b/a Launch Tennessee
Nashville, Tennessee**

**Final Report Number: 19-04
Grant Number: TN-17178-C2 & C3
November 2018**

Prepared by:

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November 6, 2018

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Leon Snead & Company, P.C. completed an audit of grant number TN-17178-C2 and C3 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 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); (5) matching requirements, and (6) the established performance measures were met or likely to be met.

Overall, LaunchTN's financial management and administrative procedures and related internal controls were adequate to manage the funds under the ARC grants audited. Procedures for monitoring grant sub-recipients and those related costs were found to be adequate. However, the established procedures for approving sub-recipient costs were not followed in some instances, contributing to grant costs being questioned. We questioned \$73,278 of the grant expenditures because they occurred after the end of the approved grant period of performance. In addition, these costs were based on estimates and did not have adequate supporting documentation at the time LaunchTN charged them to the grant and requested and received reimbursement from ARC.

The required amount of non-federal matching was met on both grants and was adequately documented. Financial and project reporting requirements were met with regard to timely submission and formatting. The questioned costs and related procedural issue and recommended corrective actions are discussed in the Finding and Recommendations section of this report.

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

Sincerely,


Leon Snead & Company, P.C.

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Background

Leon Snead & Company, P.C. completed an audit of grant number TN-17178-C2 and C3 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 Inspector General, to assist the office in its oversight of ARC grant funds.

LaunchTN's mission is to increase the formation and expansion of science and technology businesses in Tennessee. Working in partnership with the Tennessee Department of Economic and Community Development and funded under an agreement with the State of Tennessee, LaunchTN works to align public and private research institutions with business development organizations and the investment community to increase the number of high-skill, high-wage jobs in Tennessee.

The grant provided funding for three regional business accelerator programs covering 52 counties in Appalachian Tennessee. These three accelerators, referred to as Entrepreneurship Centers (ECs), engage companies, host events, and recruit mentors for participating companies. The three ECs were the Knoxville Entrepreneur Center (KEC), Company Lab (Co-Lab), and BizFoundry. The EC activities included a program where experienced entrepreneurs guide individuals through the business development process; another for running coding camps that educated youth on computer science; and one called Creative Communities (CC), which provided funding and support to organizations to offer entrepreneurial education and training and workforce development to both youth and adults.

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); (5) matching requirements, and (6) the established performance measures were met or likely to be met.

Grant TN-17178-C2 covered the period July 1, 2015 to June 30, 2016, and provided \$300,000 in ARC funding and required \$300,000 in non-federal matching. Grant TN-17178-C3 covered the period July 1, 2016 to June 30, 2017, and provided \$750,000 in ARC funding and required \$750,000 in non-federal matching to cover the total estimated project costs. The ARC funds under C2 and C3 were used by LaunchTN to reimburse sub-recipients for salary, travel, contractual, and equipment costs and both had been administratively closed by ARC at the time of our audit.

We reviewed documentation provided by LaunchTN and interviewed its staff members to obtain an understanding of grant activities, the accounting system, and general operating procedures and controls applicable to the grant. We reviewed LaunchTN's procedures for monitoring sub-recipients, the related costs, and the agreements with the sub-recipients. We reviewed

financial and project reports to determine if they were submitted to ARC in accordance with requirements. We reviewed the most recent A-133 audit report to identify any issues impacting the ARC grant. We reviewed non-federal matching documentation to determine if the matching requirements were met. We evaluated grant results discussed in the final project progress reports to determine if the planned performance goals and objectives were met.

Also, we tested a selection of cost transactions to determine if the costs were properly supported and allowable under the ARC grant. Of the expenditures charged to the grant and claimed for reimbursement, we tested cost transactions valued at \$171,353 for C2 and \$219,484 for C3. We also tested non-federal match in the amount of \$77,000 for C2 and \$353,000 for C3 to determine whether the charges were properly supported and allowable.

The on-site fieldwork was performed at the LaunchTN offices in Nashville, Tennessee during September 5-11, 2018. The preliminary results were discussed with the LaunchTN staff at the conclusion of the on-site visit and they were in general agreement with the issue identified and the related recommended actions.

The primary criteria used in performing the audit were 2 CFR 200, the ARC Code, and the grant agreements. The audit was performed in accordance with the *Government Auditing Standards*.

Summary of Audit Results

Overall, LaunchTN's financial management and administrative procedures and related internal controls were adequate to manage the funds under the ARC grants audited. Procedures for monitoring grant sub-recipients and those related costs were found to be adequate. However, the established procedures for approving sub-recipient costs were not followed in some instances, contributing to grant costs being questioned.

We questioned \$73,278 of the grant expenditures because they occurred after the end of the approved grant period of performance. In addition, these costs were based on estimates and did not have adequate supporting documentation at the time LaunchTN charged them to the grant and requested and received reimbursement from ARC.

The required amount of non-federal matching was met on both grants and was adequately documented. Financial and project reporting requirements were met with regard to timely submission and formatting.

The performance goals on both grants were reasonably met and, in some cases, exceeded. For grant TN-17178-C2, audit evidence indicated the continued development of the three accelerators, as well as the enhancement of the entrepreneurial ecosystem in the related 52 counties. Grant TN-17178-C3's final performance results indicated that 434 businesses were served out of a projected 490, and 198 businesses were improved, which exceeded the projected number of 156. In addition, 519 students were served, which exceeded the projected number of 310; and 385 students were improved, which exceeded the projected number of 240. Lastly, 40 new businesses were created out of a projected 44.

The questioned costs and related procedural issue and recommended corrective actions are discussed in the Finding and Recommendations section of this report.

Finding and Recommendations

A. Lack of Support for Grant Costs

We questioned costs in the amount of \$73,278, of which \$43,045 was from grant TN-17178-C2 and \$30,233 was from grant TN-17178-C3. These costs were questioned because they occurred after the approved grant period of performance had ended, the costs charged to and reimbursed by ARC were based on estimates, and they did not have adequate supporting documentation.

Under the Federal cost principles in 2 CFR 200, costs charged to grants and reimbursed to a grantee must have adequate supporting documentation. This documentation, including invoices, receipts, time records, and other types of support, must show that the costs involved were actual expenditures, i.e., the expense had occurred and payment had been disbursed, and were necessary, reasonable, and allowable. Budget or other estimates are not an acceptable basis for charging and claiming grant costs. Also, per the ARC Grant Administration Manual, expenditures occurring before or after the grant period will not be reimbursed. Grant extensions, if necessary, must be requested and approved before the grant period expires.

LaunchTN established written sub-agreements with the three ECs, who were responsible for conducting most of the planned grant activities. These sub-agreements provided for special projects under which a project proposal and budget estimate was submitted to LaunchTN for review and approval, and LaunchTN reimbursed the sub-recipients for their costs.

The costs and documentation for the \$171,353 tested for grant TN-17178-C2 included a \$50,000 reimbursement to Co-Lab for an approved special project for a summer 2016 Cohort Program and a \$50,000 reimbursement to KEC for an approved special project for The Works 2016 Cohort Program. The costs and documentation for the \$219,484 tested for grant TN-17178-C3 included a \$50,000 reimbursement to Co-Lab for an approved special project for a Cohort Program and a \$25,000 reimbursement to KEC for an approved special project for the AG Works Program.

In reviewing the supporting documentation and verifying the costs for these four approved special projects, we determined that the costs were incurred and paid for after the grant ended. Under grant C2, \$22,341 was paid to Co-Lab and \$20,704 was paid to KEC for expenditures after the grant period ended; for grant C3, \$10,833 was paid to Co-Lab and \$19,400 was paid to KEC for expenditures after the grant ended. Both grants ended on their initial approved dates and no extension was requested or approved according to documents we were provided. Details on the individual cost type and amount for these totals are shown in Appendix A.

LaunchTN's procedures for approving EC costs, reimbursing them, and charging the ARC grant required the ECs to submit detailed invoices each month with supporting schedules, documents, and receipts, which were reviewed in detail by LaunchTN staff before reimbursing them. Only after reviewing and verifying the costs did LaunchTN normally charge them to the grant and report them to ARC for reimbursement. However, these procedures were not followed on these special projects. Rather, LaunchTN, upon approving the project and budget, instructed the EC to submit an invoice for the total estimated budget amount, and reimbursed them that amount without requiring or obtaining any subsequent documentation or receipts to verify the actual

expenditures. Shortly after reimbursing the EC, LaunchTN charged the amount to grant funds and requested and received ARC reimbursement.

The LaunchTN staff felt the different procedures were acceptable because both they and ARC understood that these projects covered a long period of time and the actual expenditures would occur over time, and once LaunchTN reimbursed the EC, that amount was considered an expense and could be reported for reimbursement.

Recommendations

LaunchTN should:

1. Coordinate with ARC to resolve the \$73,278 in questioned costs that occurred outside the grant period and did not have adequate supporting documentation.
2. If applicable, submit a refund along with adjusted SF-270s for each grant reflecting any amounts that ARC determines should be refunded.
3. Ensure that established internal controls are followed consistently and all costs submitted to ARC for reimbursement are supported with adequate documentation showing they were based on actual disbursements, not estimates; occur within the established grant period of performance; and otherwise meet all the other federal requirements in 2 CFR 200 for being allowable costs.

Grantee's Response

LaunchTN responded that they concur with the results of the audit and propose the following to rectify the issue:

Option 1: Submit to your firm or to ARC substitute costs in the amount of \$73,278 related to this grant.

Option 2: Arrange a post-closure grant extension for TN-17178-C2 and C3 from 6/30/16 and 6/30/17 to 8/30/16 and 10/15/17.

LaunchTN stated they will ensure established internal controls are followed consistently going forward and reimbursable disbursements occur within the grant performance period.

Auditor's Comments

ARC will determine whether the actions identified in the grantee's response are adequate to resolve the finding and close the recommendations.

Details on Questioned Costs

1. Grant 17178-C2 (Period of Performance July 1, 2015 to June 30, 2016)

a. \$50,000 invoice - Company Lab (Co-Lab) - Summer of 2016 Cohort Program.

COST TYPE	DATE OF COSTS	CHG TO GRANT	AMT AFTER GRANT PD
Salary	7/2016	\$ 6,585	\$ 6,585
Salary	7/2016	6,585	6,585
Svc-FD Acct	7/2016	1,200	1,200
Stipend-Callahan	6-7/2016	928	484
Svc-Hunter	7-8/2016	900	900
Svc-Morgan	7/2016	2,400	2,400
Svc-Disbro Video	8/2016	662	662
Event Svc	7/2016	3,213	3,213
Temp Svc-Beker	6-7/2016	684	312
Total		\$23,157	\$22,341

b. \$50,000 invoice - KEC - The Works 2016 Cohort Program.

COST TYPE	DATE OF COSTS	CHG TO GRANT	AMT AFTER GRANT PD
Svc-Hurst	8/2016	\$ 5,000	\$ 5,000
Travel-Mark	8/2016	379	379
Travel-Brandon	8/2016	389	389
Legal-Morehous	9/2016	3,500	3,500
Svc-Campbell	8-9/2016	1,000	1,000
Svc-Agreda	10/2016	5,000	5,000
Svc-Dawson	8/2016	5,159	5,159
Travel-LaRue	8-9/2016	277	277
Total		\$20,704	\$20,704

Details on Questioned Costs

2. Grant 17178-C3 (Period of Performance July 1, 2016 to June 30, 2017)

a. \$50,000 invoice - Co-Lab - Accelerator Cohort Program

COST TYPE	DATE OF COSTS	CHG TO GRANT	AMT AFTER GRANT PD
Svc-SPD Consult.	8/2017	\$ 2,500	\$ 2,500
Svc-SPD Consult.	9/2017	2,500	2,500
Svc-SPD Consult.	10/2017	2,500	2,500
Svc-Lanade	8/2017	1,667	1,667
Svc-Lanade	8/2017	1,667	1,667
Total		\$10,833	\$10,833

b. \$25,000 invoice - KEC - AG Works Program

COST TYPE	DATE OF COSTS	CHG TO GRANT	AMT AFTER GRANT PD
Svc-KnoxChamb	7/2017	\$ 3,100	\$ 3,100
Svc-KnoxChamb	8/2017	3,000	3,000
Svc-KnoxChamb	9/2017	2,300	2,300
Svc-Aldridge	8/2017	814	814
Svc- Aldridge	9/2017	1,286	1,286
Svc-Aldridge	10/2017	1,269	1,269
Svc-Aldridge	11/2017	569	569
Svc-Aldridge	12/2017	\$1,006	1,006
Svc-Aldridge	12/2017	\$5,056	5,056
Svc-Ramsey	9/2017	\$1,000	1,000
Total		\$19,400	\$19,400



LaunchTennessee

November 1, 2018

Leon Snead & Company, P.C.
416 Hungerford Drive; Suite 400
Rockville, MD 20850

Mr. Snead,

LaunchTN acknowledges receipt of the draft audit report pertaining to Grant Numbers TN-17178-C2 and C3. We concur with the results of the audit and in response propose the below to rectify the issue identified as 'Lack of Support for Grant Costs'.

Option 1:

Submit to your firm or to ARC substitute costs in the amount of \$73,278 related to this grant.

Option 2:

Arrange a post-closure grant extension for TN-17178-C2 and C3 from 6/30/16 and 6/30/17 to 8/30/16 and 10/15/17.

LaunchTN will ensure established internal controls are followed consistently going forward and reimbursable disbursements occur within the grant performance period.

We appreciate your visit and professionalism during this audit and look forward to resolving the identified issue.

Sincerely,

Charlie Brock, CEO and President
Tennessee Technology Development Corp DBA LaunchTN

Lindsey Cox, Director of Operations and Government Affairs
Tennessee Technology Development Corp DBA LaunchTN