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

**Upper Cumberland Entrepreneurial Foundation
Dba Biz Foundry
Crossville, Tennessee**

**Final Report Number: 15-23A
Project Numbers: TN-17541-I & TN-17541-C1
July 2015**

**Prepared by:
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July 6, 2015

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Leon Snead & Company, P.C. completed an audit of grant numbers TN-17541-I and TN-17541-C1 awarded by the Appalachian Regional Commission (ARC) to the Upper Cumberland Entrepreneurial Foundation (UCEF). The audit was performed to assist the Office of the Inspector General in carrying out its oversight of ARC grant activities.

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 financial and administrative policies and procedures being followed in administering the ARC grant were compliant with the Federal requirements and adequate to administer the grants. Also, the expenditures tested were adequately documented and supported. However, UCEF automated accounting records were not sufficient to provide accurate tracking and reporting of ARC funds and some established procedures needed to be updated and better enforced.

Although none of the planned performance goals (outputs and outcomes) were fully met on the completed grant, TN-17541-I, we considered the shortfalls to be reasonably explained and overall final results to be acceptable. Progress to date for the performance goals on grant TN-17541-C1 also appeared reasonable. However, we did identify problems with how some performance measures were being reported to ARC and supported with documentation.

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 UCEF on May 14, 2015, for comments. UCEF provided a response to the report on June 8, 2015. These comments are included in their entirety in Appendix I.

Leon Snead & Company appreciates the cooperation and assistance received from the UCEF 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 & Recommendations.....	3
A. Financial Procedures	3
B. Accounting Records and Reports	5
C. Grant Performance Results.....	6
Grantee Response - Appendix I.....	8

Background

Leon Snead & Company, P.C. completed an audit of grants TN-17541-I and TN-17541-C1 awarded by the Appalachian Regional Commission (ARC) for work performed by the Upper Cumberland Entrepreneurial Foundation (UCEF). The audit was made at the request of the ARC Office of the Inspector General to assist the office in its oversight of ARC grant funds.

Tennessee initiated a state-wide program called Launch Tennessee (LaunchTN). LaunchTN is a public-private partnership, funded in part under an agreement with the Tennessee Department of Economic and Community Development that supports the development of high-growth companies in Tennessee. LaunchTN is responsible for overseeing nine seed accelerators throughout the state. The accelerators serve and support the startup business community and entrepreneurs through training, mentoring, and other activities. Four of the nine accelerators are located in rural Appalachian areas and are eligible for ARC funding.

ARC awarded grant TN-17541-I to LaunchTN as the primary grantee in 2013 to provide funding support for activities of the UCEF, one of the four accelerators eligible for ARC support. A subsequent grant TN-17541-C1 was awarded directly to UCEF as the primary grantee in 2014 to continue development and delivery of the program. The UCEF, which does business as the Biz Foundry, is a private, non-profit 501(c)(3) corporation that provides mentoring, access to capital, training and other support to startup businesses and entrepreneurs in its 14-county region, to help them develop and flourish. A Board of Directors, composed of experienced entrepreneurs, provides oversight and guidance for UCEF activities. The day-to-day operations and programs are carried out by a President appointed by the Board and staff of three employees from offices in Crossville, TN. UCEF receives most of its revenues from grants including the ARC funding, but also receives some from other sources such as sponsorships and in-kind donations.

Grant TN-17541-I 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 ARC funds were budgeted for salary/benefits and contractual costs with 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-17541-C1 covers the period July 1, 2014 to June 30, 2015 and provides \$200,000 in ARC funds and requires \$336,000 in non-ARC recipient match funding. The majority of ARC funds (\$150,000) were budgeted for salary/benefits with the remaining \$50,000 for cohort program activities. Although ARC awarded the grant to UCEF, the terms were later modified to allow LaunchTN to serve as the fiscal/administrative agent processing billings and reports to ARC as it had done on the previous grant. The grant was still in process at the time of the review with a total of \$125,293 in ARC funds being expended and reimbursed as of February 2015.

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 UCEF and interviewed personnel to obtain an overall understanding of the grant activities, the accounting system, and general operating procedures and controls. We reviewed financial and project progress reports to determine if they were submitted in accordance with grant requirements. We selected and reviewed a sample of expenditures transactions valued at \$103,370 from the total of \$230,541 reimbursed by ARC to determine if costs were supported and allowable. We reviewed the written policies and administrative procedures to determine if they were compliant with federal requirements and adequate to administer the grant. We reviewed the most recent A-133 report to identify any issues that significantly impacted the current review.

The primary criteria used in performing the audit were the grant agreement, applicable Office of Management and Budget Circulars, and the ARC Code. The audit was performed in accordance with the *Government Auditing Standards*. The fieldwork was performed during April 13-17, 2015 including on-site work at UCEF offices in Crossville, TN. The preliminary audit results were discussed with UCEF staff at the conclusion of the on-site visit.

Summary of Audit Results

The financial and administrative policies and procedures being followed in administering the ARC grant were compliant with the Federal requirements and adequate to administer the grants. Also, the expenditures tested were adequately documented and supported. However, UCEF automated accounting records were not sufficient to provide accurate tracking and reporting of ARC funds and some established procedures needed to be updated and better enforced.

Although none of the planned performance goals (outputs and outcomes) were fully met on the completed grant, TN-17541-I, we considered the shortfalls to be reasonably explained and overall final results to be acceptable. Progress to date for the performance goals on grant TN-17541-C1 also appeared reasonable. However, we did identify problems with how some performance measures were being reported to ARC and supported with documentation.

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

Findings and Recommendations

A. Financial Procedures

The procedures established by UCEF to manage financial activities were generally acceptable. However, in reviewing how they were being implemented, we identified some procedures that needed to be improved and also some that were not being adequately followed.

General Ledger

UCEF maintained all financial transactions on a general ledger (GL). Under their procedures, all entries and balancing of the accounts are the responsibility of one person--the UCEF Administrator--with final approval by the UCEF President. The procedures provided that the President should review the general ledger on a periodic basis for any unusual transactions. The President's separate review and approval is critical since there is only one person responsible for recording financial transactions into the accounting system. The review provides a reasonable measure of separation of duties for internal control purposes. In evaluating the process and internal control risk, we determined that UCEF did not have any records to verify that the independent review and approvals required under their policies were in fact being performed. The President stated that he logged onto the Administrator's computer and reviewed the general ledger, on a monthly basis, but did not maintain a log or any other record of what was reviewed or the results. We believe the controls would be improved if the review results were documented. One approach could include a system where: (a) the Administrator provides the President a monthly GL detailed report showing all transactions on the ARC grant; (b) the President reviews the data and discussed it as necessary with the Administrator; (c) the President annotates the report indicating it was reviewed, with a signature and date; and (d), the signed report is returned to the Administrator to be filed with other system reconciliation and closeout reports. The written accounting procedures should be updated accordingly to reflect such a process.

Account Reconciliations and Corrections

UCEF had written procedures that required routine account reconciliations, including monthly and year-end close-out actions and reports. Generally, the procedures appeared reasonable and acceptable. In reviewing expenditures and reports on the ARC grant, however, we noted several instances where transaction corrections were not properly processed or documented. First, the March 2014 invoice to LaunchTN on grant TN-17541-I was for \$34,106 but UCEF records showed only \$34,006 was reimbursed and deposited. There was no documentation to show the amounts were reconciled or the accounting records were corrected. Thus, it is possible that the current records on that grant are currently incorrect.

Second, the September 2015 invoice to LaunchTN on grant TN-17541-C1 was for \$23,232, but only \$23,222 was reimbursed to UCEF and deposited. The \$10 difference related to an expense for which UCEF could not provide a receipt and LaunchTN did not allow it for reimbursement. Rather than make the correction on the accounting records via a journal voucher entry, and document that action, the Administrator instead changed the invoice amount on the system (which serves as the source document for the transaction). Although the amount was minor, the method of correcting the account did not provide an audit trail of the transactions. The

Administrator acknowledged it was not appropriate but said it was done to save time. We noted that the current written accounting policies and procedures do not address the requirements for processing and documenting data changes to the accounting records. The procedures need to be revised and improved accordingly.

Finally, UCEF procedures required periodic bank reconciliations to be prepared by the Administrator and then reviewed, approved, dated and initialed by the President. The reconciliations were being prepared, and the President stated they were being reviewed, but they were not being dated and initialed as required. Thus, this important step is not being properly documented and is not consistent with UCEF policy.

Recommendations

The UCEF President and Treasurer should:

1. Ensure that the review processes for all accounting transactions are documented.
2. Review the written accounting procedures to ensure they provide effective internal controls over the financial process.
3. Revise and update the accounting policies and procedures as needed, to include coverage for the areas identified in the finding above.

Grantee Response

UCEF stated in its response that it is in agreement with the finding and has taken the following actions to address the issues:

1. Procedures have been implemented for the President to document that he has reviewed the general ledger with a signature and date.
2. Procedures have been implemented for the Administrator to reconcile ARC grant funds documenting any corrections with approved adjusting journal entries in order to provide an audit trail.

Reviewer's Comments

The recommendation should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendation or whether additional information or actions are needed.

B. Accounting Records and Reports

The ARC Administrative Requirements and OMB grant requirements, to which UCEF was subject, establishes financial standards the recipient's financial system and processes must meet. These include being able to (a) adequately and accurately segregate and track ARC grant assets, expenditures, and income, and (b) provide accurate and complete accounting system reports on the grant financial transactions.

UCEF's accounting system and records were automated using QuickBooks software. In discussing their financial system and requesting accounting system reports for our use to examine and test ARC expenditures, we determined that the QuickBooks system is not set up in a manner to specifically identify and track ARC expenditures and revenues. This is because they have not established account codes or categories on the system to identify various program or grant activities. Instead, costs were being assigned to general classifications such as Accounts Payable, Contract Services without relating them to the funding used such as ARC funds. As a result, they were not able to provide us a summary General Ledger/Profit and Loss report showing transactions related only to ARC funding. Rather, they could only provide a report that included all revenues and expenditures for all their operations, not just the ARC-related ones. Reports containing only ARC-related transactions were not being produced and used to prepare invoices to obtain reimbursement under the ARC grants. The UCEF Administrator, instead, had to review the entire general ledger for the period, decide which expenditures would be charged to ARC funds, manually collect the related invoices and other supporting records, and use that information to prepare the invoices for reimbursement.

The entries and records on the QuickBooks system should be structured to allow identification and tracking of ARC funds and transactions, and summary reports from the system showing ARC-related transactions should be used as the basis for preparing the invoices for reimbursement.

Recommendations

The UCEF President and Treasurer should:

1. Revise the QuickBooks accounts to individually identify and track ARC grant funds and transactions and produce reports that will provide an accurate basis for preparing reimbursement invoices.
2. Ensure these procedures and reports are used to prepare the final billing on grant TN-17541-C1 and all future invoices on ARC grants.

Grantee Response

UCEF stated in its response that it is in agreement with the finding and procedures have been implemented to individually identify and track all funds utilizing the Class Code feature available in QuickBooks.

Reviewer's Comments

The recommendation should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendation or whether additional information or actions are needed.

C. Grant Performance Results

ARC uses performance metrics to assist in evaluating grant results and determining the extent to which the grant contributed to overall ARC program goals and objectives. This information is used both internally and to provide information to Congress. Thus, it is important for the data reported by grantees to be complete and accurate. This means the grantee should have a process to document and verify the data collected and reported, and to review the information carefully before it is submitted to ARC. The grants reviewed contained several performance metrics in terms of planned outputs and outcomes including the number of businesses served, number improved, number of jobs created, and amount of private investment obtained. To provide ARC actual results on the planned measures, UCEF staff was responsible for collecting and summarizing the performance information, preparing the draft report in the ARC format, and providing the draft report to LaunchTN for final submission to ARC.

In reviewing and discussing grant performance and metrics reported to ARC, we noted two issues that require management attention to improve the accuracy and usefulness of the data submitted. First, a recent progress report submitted to ARC on grant TN-17541-C1 did not contain updated results on all of the applicable grant metrics. One of the metrics included in the grant award was a planned output of "100 businesses to be served" during the grant period. The progress report submitted to ARC for the period ended February 2015 did not even list a metric called "businesses served" in the table showing performance goals and success to date. According to information we saw, the report should have shown that 41 businesses had been served during the grant period to date. The UCEF staff member who prepared the report said the metric should have been included but was omitted due to an apparent oversight. We believe UCEF needs to improve its review of the draft reports to ensure they are complete and accurate.

Second, in reviewing the sources and methods used to collect data for assessing and reporting actual results on the planned outputs and outcomes, we determined that reported results for the two goals for "number of jobs created" and "amount of private investment leveraged" may not be fully accurate or complete. This was due to UCEF not having any formal, standard method to collect and validate this information. Entrepreneurs and others participating in the UCEF programs and receiving assistance were not being required or requested, as a condition of their participation, to provide UCEF staff the data necessary to measure program results, including the two ARC metrics noted above. To evaluate the program and prepare the ARC report, staff instead had to send out emails, make phone calls to the participants requesting the information, or rely on other methods. If they are unable to contact or get a reply from the participating entrepreneur, or find some other source for the information, they must prepare the report without the needed data. This means that there may be some jobs that were created or funding received by the entrepreneur that was not reflected in the reported results.

In addition to not having data that fully reflected the true program results, we were also unable to verify the accuracy of the data that was collected and reported. Therefore, its accuracy is questionable. There were two reasons for this. First, for the data that was collected from recipients on jobs and financing, UCEF was not obtaining any documentation such as loan or investment commitment letters or employment information which would validate the data provided to UCEF. Although we have no basis to say participants or others are providing inaccurate or misleading data, we do feel it is important to have some reasonable documentation to substantiate it. Second, for data obtained via phone or email, UCEF staff was not maintaining

copies of the emails or records of phone calls to support the data reported to ARC. We believe UCEF could improve how it collects and verifies data used to report program and ARC grant results.

Corrective actions are needed to ensure the final project report to ARC contains reported results on all required performance goals and that the data reported is as accurate and complete as possible.

Recommendations

The UCEF Board and President should:

1. Take necessary steps to enable the collection of data from participants required to accurately record program results especially for ARC grant performance goals, including possibly making it a requirement for program participation.
2. Ensure that ARC project reports and performance data are carefully reviewed and verified prior to submission to LaunchTN and ARC.

Grantee Response

The grantee stated in its response that it is in agreement with the finding and will take actions to address the issues. Procedures are being developed to document collection of data from program participants. To implement these procedures, the Biz Foundry will perform the following activities:

1. The Biz Foundry will collect this data from program participants utilizing email and/or written correspondence, one on one status conferences, or phone conferences.
2. Copies of email and/or written correspondence will be collected and preserved; and a log will be maintained detailing information from one on one and phone conferences.
3. The data submitted from the participants will contain backup documentation to include, but will not be limited to, the number of jobs created and the amount of private investment obtained.
4. The Biz Foundry will include documentation to accurately account for businesses served, businesses improved and amount of funds leveraged during the reporting period.
5. The Biz Foundry staff will verify that all project reports and performance data is accurate prior to submission to LaunchTN and ARC.
6. Management has scheduled a work session with the Treasurer and will have all items reviewed by same.

Reviewer's Comments

The recommendation should remain open and ARC will determine whether the actions identified in the grantee's response are adequate to resolve the recommendation or whether additional information or actions are needed.

Appendix I
Grantee Response



Forging Ideas Into Companies

June 4, 2015

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

Re: Audit of
Grant TN-17541 and 17541-C1
Appalachian Regional Commission

Dear Mr. Snead:

In reference to audit findings and recommendations of the above mentioned grant, the Upper Cumberland Entrepreneurial Foundation dba Biz Foundry management responses are:

A. Financial Procedures

General Ledger

Management concurs and procedures have been implemented for the President to document that he has reviewed the general ledger with a signature and date.

Account Reconciliations and Corrections

Management concurs and procedures have been implemented for the Administrator to reconcile ARC grant funds documenting any corrections with approved adjusting journal entries in order to provide an audit trail.

B. Accounting Records and Reports

Management concurs and procedures have been implemented to individually identify and track all funds utilizing the Class Code feature available in Quickbooks.

C. Grant Performance Results

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Management concurs and procedures are being developed to document collection of data from program participants. The Biz Foundry will collect this data from program participants utilizing email and/or written correspondence, one on one status conferences, or phone conferences.

Copies of email and/or written correspondence will be collected and preserved; and a log will be maintained detailing information from one on one and phone conferences. The data submitted from the participants will contain backup documentation to include, but will not be limited to, the number of jobs created and the amount of private investment obtained.

In addition, the Biz Foundry will include documentation to accurately account for business served, businesses improved and amount of funds leverage during the reporting period.

The Biz Foundry staff will verify that all projects reports and performance data is accurate prior to submission to Launch TN and ARC.

Management has scheduled a work session with the Treasurer and will have all items reviewed by same.

Should you need additional information, please feel free to contact me.

Best Regards,

A handwritten signature in cursive script that reads "Jeff M. Brown". The signature is written in dark ink and is positioned above the typed name.

Jeff Brown,
President/CEO