



April 10, 2000

MEMORANDUM FOR The Federal Co-Chairman
 ARC Executive Director

SUBJECT: OIG Reports

Enclosed are copies of the following reports for which our records do not indicate transmittal to your office. The reports were previously distributed to the grantees. In most instances, the reports were closed on issuance based on the absence of material findings.


- 00-13(H) Benton County, Mississippi, Head Start Facility
- 00-14(H) Team Pennsylvania Entrepreneurial Education Program
- 00-15(H) Team Pennsylvania Entrepreneurial Network Initiative
- 00-16(H) Northern Tier Pennsylvania RPDC Administrative Grant
- 00-17(H) New York State Technical Assistance
- 00-20(H) Kentucky Regional Diabetes Healthcare Delivery in Appalachia
- 00-21(H) Tennessee Technical Assistance
- 00-22(H) Clay County, Tennessee, Industrial Project
- 00-23(H) Southwest Virginia Higher Education Center
- 00-24(H) Appalachian Rural Systemic Initiative, Kentucky
- 00-25(H) Dental Care, Cumberland Plateau Health District, Virginia
- 00-29(H) Carraway Life Saver Program, Alabama
- 00-31(H) Alabama J-1 Followup Visits

These reviews generally disclosed that grant funds were accounted for, controls were in place, and project tasks were completed.

Report 00-15(H), Team Pennsylvania Entrepreneurial Network Initiative, contains several open issues with respect to a small claim for costs incurred prior to grant start; \$3,185 in unsupported matching costs; and subrecipient monitoring.

Report 00-20(H), Regional Diabetes Healthcare Delivery in Appalachia, questions \$12,247 in personnel costs incurred outside the grant period. Report 00-21(H), Tennessee Technical Assistance recommends improved identification of performance measures and results.

Several reports are awaiting auditee comments with a primary issue noted in these reports being limited grantee oversight or monitoring of subrecipients or subcontractors with the result being difficulty to assess whether the activities performed were commensurate with the costs incurred.


Hubert N. Sparks
Inspector General

Enclosures

cc: Ms. Judy Rae

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Alabama
Georgia

Kentucky
Maryland

Mississippi
New York

North Carolina
Ohio

Pennsylvania
South Carolina

Tennessee
Virginia

West Virginia

**MEMORANDUM REPORT ON REVIEW OF THE
TENNESSEE DEPARTMENT OF ECONOMIC
AND COMMUNITY DEVELOPMENT
NASHVILLE, TENNESSEE**

Consolidated Technical Assistance

ARC Grant No's: TN-7783-97-C18

And TN-7783-C19-302

July 1, 1997 through June 30, 1999

Prepared By:

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

FROM: Tichenor & Associates
Louisville, Kentucky

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 00-21 (H)

SUBJECT TO: Memorandum Review Report on Tennessee Department of Economic and
Community Development (ECD), Consolidated Technical Assistance,
Nashville, Tennessee. ARC Grant No's: TN-7783-97-C18 and TN-7783-
C19-302.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by ECD for its Consolidated Technical Assistance 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 grants; (b) the accounting, reporting and internal control systems provided for disclosure of pertinent financial and operating information; and (c) the objectives of the grants had been met.

BACKGROUND: The ECD is a division of the Tennessee State government which serves as the central point of contact for an assortment of state, federal, and technical assistance programs geared toward promoting local development. ECD is responsible for the coordination of the program including project reviews, development of project information, and recommendations to the Governor.

ARC awarded Grant Number TN-7783-97-C18 to ECD for the period July 1, 1997 through June 30, 1998 and Grant Number TN-7783-C19-302 for the period July 1, 1998 through June 30, 1999. The purpose of the grants were to provide continued funding for the consolidated technical assistance program in Appalachian Tennessee in fiscal years 1998 and 1999, respectively. This program was designed to emphasize activities which would enhance the attractiveness of Appalachian communities for development and the sound management of all available resources to attain the objectives of Tennessee's Appalachian Program--preservation of jobs, creation of new employment, and increasing family income.

The fiscal year 1998 ARC grant was for \$216,000, or 50 percent of actual, reasonable and eligible project cost and the fiscal year 1999 ARC grant was for \$220,000 or 50 percent of the actual, reasonable and eligible project cost. The remaining project costs were to be paid by the State from non-federal resources. ECD has drawdown the entire ARC portion for both grants.

The objectives of the grants consisted of the following four tasks:

- A. Community Preparedness:
 - (1) Provide an inventory of small communities in Tennessee that have a minimum threshold of preparedness for economic development, particularly manufacturing.
 - (2) Develop a positive "can-do" attitude toward economic development among community leaders.
 - (3) Provide public recognition of communities which have made the effort to become better prepared for economic development.
- B. Assign Community Development Specialists to work with local leadership to satisfy the requirements for certification under the Governor's Three Star Program centering around: community and organizational development, people development, and economic development.
- C. Provide program management in administering the program's of the Commission in Appalachian Tennessee to include identification and development of projects, construction of the annual Tennessee Project Package, pursuit of alternate federal and state funding programs to supplement ARC funds, monitoring of all on-going ARC projects, coordinating with ARC staff in Washington and provision of public information regarding the ARC program in Appalachian Tennessee.
- D. Prepare the components pertaining to Appalachian Tennessee of the fiscal years 1998 and 1999 Economic Reports to the Governor. These reports will contain

economic updates and planning forecasts that are vital to interdepartmental consistency in all planning and budgeting activities that must be sensitive to Tennessee's overall economic environment and the needs of the Appalachian region.

SCOPE: We performed a program review of the grants as described in the Purpose, above. Our review was based on the terms of the grant agreements and on the application of certain review 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 ECD had complied with the requirements of the grant agreements. In addition, we discussed the program objectives and performance with ECD'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 ECD's offices in Nashville, Tennessee on February 1 through 3, 2000.

A. Incurred Costs

ECD incurred total program costs of \$838,339, of which they claimed direct reimbursable costs from July 1, 1997 through June 30, 1999 of \$419,170. We reviewed the direct and in-kind costs incurred and determined that the costs claimed by ECD were properly supported, allowable and were used in the continuation of the Consolidated Technical Assistance program.

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 agreements:

1. Quarterly Financial Status and Project Performance Reports Were Not Submitted to the ARC

During the period of the grants, Quarterly Financial Status and Project Performance reports were not prepared and submitted to the ARC as required by the terms and conditions of the grant agreements.

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.”

RECOMMENDATION:

We recommend that for future grants, ECD submit reports in accordance with grant agreement provisions.

C. Program Results

1. Status Reports Did Not Show Measurable Results

ECD appeared to be working toward accomplishing the specific tasks identified in the approved grant agreement. The overall objective of the grant, as stated above, was the preservation of employment, the creation of new employment, and the increase of family income. Based on our review of the final status reports for the fiscal years 1998 and 1999, we found activities which addressed these objectives.

ECD continues to work with communities in the Appalachian region to enable the communities to become certified under the Three Star Program and to meet the minimum threshold of preparedness for economic development. However, the status reports did not indicate that certification under either of the programs had led to the preservation or creation of employment and the increase in family income. This issue was also reported in prior review reports dated October 10, 1995 and January 13, 1998.

RECOMMENDATION:

We recommend that ECD include measurable program objectives in the grant applications and also report all program accomplishments in the status reports submitted to ARC. We recommend that ARC use the reported results in assessing the appropriate level of funding for future Technical Assistance grants.

DISCUSSION:

We discussed the issues with ECD's management during the exit conference held on February 3, 2000. Management responded by stating that they have historically issued progress reports on a semi-annual basis. Management did not respond to status reports not showing measurable results.

OTHER:

We provided a copy of our draft report to ECD's management on March 9, 2000. Management responded to our findings and recommendations as follows:

Quarterly Reporting Not Submitted to the ARC:

Management had no response to this issue.

Status Reports Did Not Show Measurable Results:

Management stated that the ARC staff that reviews the Consolidated Technical Assistance grant has been happy with previous submitted reports. Management will comply with the existing grant's requirements.

ADDITIONAL COMMENTS AND RECOMMENDATIONS:

We recommend that ARC review program objectives with the Tennessee Department of Economic and Community Development to assess their effectiveness. We recommend that ECD include measurable program objectives in the grant applications and report program results in objective terms.

Tichenor & Associates

TICHENOR & ASSOCIATES

Louisville, Kentucky

February 3, 2000



APPALACHIAN
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*A Proud Past,
A New Vision*

Office of the Inspector General

July 19, 2000

Mr. Michael E. McGuire
Director, Grants and Loans
Rachel Jackson State Office Building
320 – 6th Avenue, North, 6th Floor
Nashville, TN 37243-0405

re: OIG Report 00-21(H), Grant TN-7783

Dear Mr. McGuire:


Our files are unclear as to whether we sent you this report. Therefore, I am sending a copy of our final report dealing with technical assistance grants. The work was performed by auditors with Tichenor and Associates, C.P.A., under contract with my office.

Although further response is not requested, we are recommending that ARC program staff, in conjunction with state staff, review the issue of identifiable and reportable performance measures.

A copy of this report is being provided to the Federal Co-Chairman and ARC Executive Director.

The courtesies and cooperation afforded the auditors were appreciated.

Sincerely,


Hubert N. Sparks
Inspector General

Enclosure