



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.

Handwritten signature of 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**

**Clay County Industrial Project**

**ARC Grant No's: TN-13079-I-302**

**May 1, 1998 through April 30, 1999**

**Prepared By:**

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

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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. 00-22 (H)

SUBJECT TO: Memorandum Review Report on Tennessee Department of Economic and  
Community Development (ECD), Clay County Industrial Project, Celina,  
Tennessee. ARC Grant No: TN-13079-I-302.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by ECD for its Clay County Industrial Project 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: 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-13079-I-302 to ECD for the period May 1, 1998 through April 30, 1999. The purpose of the grant was to provide funds to the Industrial Development Board of Clay County, Tennessee, for the purchase of a vacated industrial building. This building was to be leased to an appropriate industrial or commercial tenant and the loaned funds repaid with the lease payments. The ARC portion of the loan repayments shall be applied by the State of Tennessee to future projects serving Appalachian Tennessee, as approved by ARC.

The fiscal year 1999 ARC grant was for \$762,000, or 26 percent of actual, reasonable and eligible project cost. Other state and federal funding totaling \$2,179,700 represented 74 percent of total project funding. ECD has drawdown the entire federal portion for fiscal year 1999.

The following specific tasks were to be performed:

1. Provide grant funds to the Industrial Development Board of Clay County, Tennessee to purchase a vacated industrial building.
2. Lease the facility purchased with grant funds to an industrial or commercial tenant.

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 ECD had complied with the requirements of the grant agreement. 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 Clay County Executive offices in Celina, Tennessee on February 4, 2000.

#### **A. Incurred Costs**

ECD incurred total program costs of \$2,935,700, of which they claimed and received direct reimbursable costs from May 1, 1998 through April 30, 1999 of \$756,000 from the ARC grant. We reviewed the direct and in-kind costs incurred and determined that the costs claimed by ECD were properly supported, allowable and were expended as reported. However, the financial status report and project performance reports were not submitted to ARC. 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. Financial Status Reports and Project Performance Reports Were Not Submitted to the ARC

During the period of the grant, Financial Status and Project Performance 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.

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**

Our review of the Tennessee Department of Economic and Community Development, Clay County Industrial Project, indicated that all specific tasks identified in the grant award notification, and summarized above, had been achieved.

DISCUSSION:

We discussed the issues with Clay County, Tennessee executive management during an exit conference held on February 4, 2000. Management responded by stating that they followed a grant agreement prepared by the Tennessee Department of Economic and Community Development, and was not aware of the reporting requirements.

OTHER:

We provided a copy of our draft report to ECD's management on March 9, 2000. Management had no response to our findings and recommendations.

ADDITIONAL COMMENTS AND RECOMMENDATIONS:

We have no further comments and recommendations.

*Tichenor & Associates*

TICHENOR & ASSOCIATES

Louisville, Kentucky

February 4, 2000



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A New Vision*

*Office of the Inspector General*

July 19, 2000

Mr. Frank Halsell, Project Director  
Tennessee Department of Economic  
and Community Development  
Rachel Jackson State Office Building  
320 – 6<sup>th</sup> Avenue, North  
Nashville, TN 37243-0405

re: OIG Report 00-22(H), Grant TN-13079


Dear Mr. Halsell:

Since our files are unclear as to whether we previously forwarded this report, I am enclosing a copy of our final report dealing with a grant to assist with the purchase of an industrial building. The work was performed by auditors with Tichenor and Associates, C.P.A., under contract with my office.

The audit is considered closed; and a copy of the report is being provided to the Federal Co-Chairman, the ARC Executive Director, and the Tennessee State Alternate.

The courtesies and cooperation afforded the auditors were appreciated.

Sincerely,

  
Hubert N. Sparks  
Inspector General

Enclosure



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Office of the Inspector General

July 19, 2000

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

re: OIG Report 00-22(H), Grant TN-13079

Dear Mr. McGuire:

Enclosed is a copy of our report dealing with the subject grant. Our files are unclear as to whether we previously forwarded a copy of this report.

Sincerely,

A handwritten signature in cursive script that reads "Hubert N. Sparks".

Hubert N. Sparks  
Inspector General

Enclosure