

**MEMORANDUM REPORT ON REVIEW OF
OAK RIDGE CHAMBER OF COMMERCE
OAK RIDGE, TENNESSEE**

Technology 2020

ARC Grant No: TN-12106-95-I-302-0428

October 1, 1995 through September 30, 1996

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Report Number: 97-18 (H)

Date: July 9, 1997

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October 1, 1995 through September 30, 1996

Prepared By:

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Woodbridge, Virginia**

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

FROM: Tichenor & Associates
Woodbridge, Virginia

REPORT FOR: The Federal Co-Chairman
ARC Executive Director
OIG Report No. 97-18 (H)

SUBJECT TO: Memorandum Review Report on Oak Ridge Chamber of Commerce,
Technology 2020, Oak Ridge, Tennessee. Grant No: TN-12106-95-I-
302-0428, ARC Contract No. 95-157.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Oak Ridge Chamber of Commerce (Grantee) for its Development of Technology 2020 Project, 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) the objectives of the grant have been met.

BACKGROUND: ARC awarded Grant Number TN-12106-95-I-302-0428 to Oak Ridge Chamber of Commerce for the period October 1, 1995 through September 30, 1996. Total grant funding was for an amount not to exceed \$203,000, or 49.8 percent of actual, reasonable and eligible project cost, whichever was less. The Grantee was to pay, or cause to be paid, the non-federal share of \$204,000, or 50.2 percent in cash, contributed services or in-kind contributions, as approved by ARC. ARC made three progress payments to the Grantee totaling \$153,094 and a final payment of \$49,906 upon completion of the project in November 1996.

In addition to the ARC Grant, the Technology 2020 Project received the following private and federal sector funding:

- BellSouth - \$1.7 million for construction of the facility;
- U.S. Department of Energy - \$1.5 million for the purchase of equipment;

- BellSouth - \$1.0 million operating grant over a five year period; and
- U.S. Department of Commerce's Advanced Technology Program via South Carolina Research Authority for a healthcare research & development project known as Healthcare Information Technologies Enabling Community Care (HITECC) - \$1.0 million.

As a result of the initial funding, Technology 2020 has become an independent tax exempt organization under Section 501-C-3 of the Internal Revenue Code. All ARC grantee matching requirements were met by Technology 2020 through the BellSouth operating grant,

The overall objective of the ARC Grant was to utilize Tennessee's advanced telecommunications infrastructure to help create new jobs in existing businesses, establish new businesses, and stimulate the development of new information technology applications. The grant was to provide funds for first-year operations support for four individual telecommunications centers located in the Technology Business Incubator facility, Oak Ridge, TN. The four telecommunications centers were to occupy approximately 2,500 square feet of space in the incubator, and contain state-of-the-art telecommunications equipment which was to be used to demonstrate various applications of technology to business, education and medicine. The centers were to be set up for specific use by different sectors of the economy. The specific tasks of the grant program were to:

- Provide operational support for four telecommunications centers which will be located in the Technology Business Incubator in Oak Ridge, TN;
- Hire a Market Development Specialist and support staff to work with Industrial Development Boards, Chambers of Commerce, and County Executives in the 15 counties comprising the Tennessee Resource Valley;
- Develop a market analysis map of information technology resources and needs requirements of business and industry;
- Develop key application areas;
- Develop a market development plan which will analyze information technology needs of the service area;
- Design seminars and other mechanisms of information dissemination; and
- Evaluate the overall project.

SCOPE: We performed a financial and compliance program review 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 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 the Grantee had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with the Grantee and Technology 2020 personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at Oak Ridge Chamber of Commerce and Technology 2020's offices in Oak Ridge, Tennessee on December 4 through 6, 1996.

A. Incurred Costs

The Grantee incurred total program costs of \$420,885, of which they claimed direct and indirect reimbursable costs from October 1, 1995 through September 30, 1996 of \$203,000 and in-kind costs of \$217,885. We reviewed the direct and in-kind costs incurred and determined that the funds had generally been expended as reported by the Grantee. However, we determined that there were both unsupported costs and improperly allocated costs as follows:

- \$39,948 of indirect costs claimed were unsupported;
- \$2,612 of direct costs were not supported by the general ledger; and
- \$2,392 of costs recorded in the general ledger were not supported by adequate source documentation; and,
- \$1,404 of costs were not allowable charges to the grant.

These costs are discussed below.

1. Indirect Costs Not Supported

The Grantee included indirect costs, at a 24.5 percent provisional rate, in its grant application. The Grantee claimed indirect costs of \$39,948 for the project. However, the Grantee was unable to provide documentation to support the types of costs claimed as indirect, whether the costs had been incurred, whether the costs duplicated costs already claimed as direct, and whether the costs were allowable in accordance with the applicable OMB Circulars and ARC Code. The costs were not recorded on the general ledger and we were not able to ascertain whether they were for indirect costs incurred by the Chamber of Commerce or Technology 2020. In either case, because the costs were not recorded we were unable to determine if they were allowable grant expenditures.

OMB A-110, Subpart C, Post Award Requirements,.21 Standards for financial management systems, states in part:

"Recipient's financial management systems shall provide for:...

(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."

ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (1), states:

"Contractor shall establish procedures to ensure that all records pertaining to costs, expenses, and funds related to the contract 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."

2. General Ledger Did Not Support \$2,612 of Claimed Direct Costs

The Grantee claimed reimbursable direct costs from October 1, 1995 through September 30, 1996 of \$163,052 for the Technology 2020 Project. The general ledger for Technology 2020 supported total costs, direct and indirect, of only \$160,440. The difference of \$2,612 could not be explained or supported by the Grantee. Without supporting documentation, we were unable to determine if the costs had been incurred, were allowable and were allocable to the project.

As stated above, the Grantee is required to maintain records to support all costs incurred and claimed in accordance with ARC Grant Administration Provisions, Article A10, Records Requirements, paragraph (1).

3. Disbursements Totaling \$3,796 Were Not Supported or Unallowable

The Grantee was unable to provide adequate support for \$2,392 of direct non-personnel costs claimed, and \$1,404 were unallowable. The following transactions were questioned:

Date	Vendor	Amount
October, 1995	American Express	(1) \$ 904
December, 1995	Larry Byrd	(2) 1,404
February, 1996	Various	(1) 1,225
February, 1996	Bell South	(1) 263
June, 1996	Unknown	(1) 400
Total		<u>\$3,796</u>

- (1) Invoices not available to support payments
- (2) Consultant cost for subcontractor to BellSouth

Mr. Larry Byrd provided consultant services to Technology 2020 on the purchase of networks and other equipment for the facility. Mr. Byrd was under contract with BellSouth. Technology 2020 did not contract with Mr. Byrd although he performed the services. Since Mr. Byrd's costs were associated with the purchase of equipment for the building, we conclude that his costs should have been charged to BellSouth rather than to ARC.

RECOMMENDATIONS

We recommend that the Grantee provide ARC with documentation to support the indirect costs claimed, a full reconciliation of the general ledger to the direct costs claimed including supporting invoices, and make any adjustments necessary, including addressing the \$2,612 potential overclaim. In addition, all future allocation of costs between grants should be documented in writing, performed in a consistent manner, and matched with the revenue received.

GRANTEE'S RESPONSE TO THE FINDINGS AND RECOMMENDATIONS

The Grantee stated that there were no unsupported indirect costs charged to the grant. Since Technology 2020 was a new project, they established a provisional indirect cost rate of 24.5 percent based on the Oak Ridge Chamber of Commerce's indirect rate in 1995. They stated that

since their books were not set up to clearly show an indirect cost rate, the financial statements do indicate indirect expenses incurred well beyond the 24.5 percent indirect rate charged to the ARC grant. The Grantee did not provide any comments with respect to the potential overclaim of \$2,612, missing invoices, and the allocation of costs between grants.

ADDITIONAL COMMENTS TO GRANTEE'S RESPONSE

While Technology 2020 officials state that there were no unsupported indirect costs charged to the grant, we were not provided with any documentation to support the indirect costs charged. A provisional rate can be used until the actual rate, as supported by the accounting records as being incurred, allowable and properly allocated, is determined. However, the Grantee's records did not support any indirect costs incurred. In addition, Oak Ridge Chamber of Commerce was unable to provide any documentation to support indirect costs incurred which equalled or exceeded the provisional indirect rate of 24.5 percent. Also, we found no evidence that the financial statements supported indirect costs exceeding the 24.5 percent charged to the ARC grant.

B. Internal Controls

1. Personal Activity Reports Were Not Prepared and No Consistent Basis Was Used To Allocate Personnel Costs or Expenses to the Grant

The Grantee and Technology 2020 did not maintain Personal Activity Reports to support allocations of salary and benefits of personnel working under the grant. We noted during our review, that these costs were not allocated based on reported labor statistics and were not allocated based on any consistently applied percentage of time. Technology 2020 did not prepare or maintain documentation to support the allocation percentage or method used. In addition, other direct expenses were allocated inconsistently between the ARC Grant, BellSouth, and the South Carolina Research Authority Grants in place.

OMB A-122, Attachment B, Selected Items of Cost, I, Support of Salaries and Wages, states:

"Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personal activity reports, except when a substitute system has been approved in writing by the cognizant agency."

2. Budgeted Costs Reprogrammed Without ARC Approval

The Grantee and Technology 2020 exceeded the approved budget and reprogrammed funds between grant line items without the approval of ARC. The budget was exceeded by \$24,030 for personnel costs and \$17,193 for contractual costs, by utilizing costs originally budgeted for travel, supplies, other and indirect costs. The following were the budgeted and actual costs:

Budget Category	Budget Amount	Cost Incurred	Difference
Personnel	\$ 70,000	\$ 94,030	\$ 24,030
Travel	20,000	6,210	(13,790)
Supplies	20,000	7,601	(12,399)
Contractual	22,000	39,193	17,193
Other	31,000	13,406	(17,594)
Indirect	40,000	39,948	(52)
Totals	\$203,000	\$200,388	\$ (2,612)

OMB A-110, Subpart C, Post Award Requirements,.25 Revision to budget and program plans, states:

- "(a) The budget plan is the financial expression of the project or program as approved during the award process.
 - (b) Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plans revisions, in accordance with this section.
 - (c) For non-construction awards, recipients shall request prior approvals from Federal awarding agencies for one or more of the following program or budget related reasons.
- (8) Unless described in the application and funded in the approved awards, the subaward, transfer or contracting out of any work under an award."

3. Draft Final Progress Report Not Submitted to ARC

As of the completion of our review on December 6, 1996, the Grantee had not submitted a draft final progress report to the ARC Project Coordinator. The grant period ended on September 30, 1996 and the draft report was due to ARC by October 31, 1996.

Grant Agreement No. TN-12106-95-I-302-0428, Section 2-9.2, Final Report, states:

"Within one (1) month after the period of performance, grantee shall prepare and submit to the ARC Project Coordinator for approval, three copies of a draft final report of all work accomplished under this agreement including recommendations and conclusions based on the experience and results obtained."

RECOMMENDATIONS

We recommend that the Grantee and Technology 2020 implement procedures to track personnel time by project in order to assure proper allocation of salary and benefits and that ARC follow-up to ensure the procedures have been implemented. In addition, we recommend that all budget deviations be approved prior to incurring costs on all future grants and that all progress reports are submitted timely.

GRANTEE'S RESPONSE TO THE FINDINGS AND RECOMMENDATIONS

The Grantee stated that they disagreed with the finding that there were no personal activity reports and there was no consistent basis for allocating costs to the grant. At the beginning of the grant period, Technology 2020 estimated the manpower required to meet the tasks specified in the grant document. As they proceeded to implement the grant activities, they made specific allocations of personnel time based on actual grant activity, utilizing a grant worksheet to substantiate the allocations made each month. Technology 2020 responded to the reprogramming of budgeted costs by stating that the ARC Project Coordinator was informed of the budget changes via letter dated August 15, 1996. Technology 2020 also stated that the ARC Project Coordinator gave verbal permission for additional time to submit the draft report and it was submitted on December 20, 1996.

OUR EVALUATION OF TECHNOLOGY 2020'S RESPONSE

While Technology 2020 stated that specific allocations were made based actual grant activity and grant worksheets, we were not provided with any specific methodologies or grant worksheets to support the allocations during our fieldwork. OMB A-122, Attachment B, Selected Items of

Cost, 1, Support of Salaries and Wages, states that the distribution of salaries and wages to awards must be supported by personal activity reports, except when a substitute system has been approved in writing by the cognizant agency. Technology 2020 did not complete personal activity reports and had no ARC approved alternative methodology to charge the grant. Technology 2020 did request the budget modifications in writing, however, the ARC Project Coordinator never responded to the requested budget changes via modification of the grant or written approval.

C. Program Results

Our review of the Technology 2020 first year operations support for four individual telecommunication centers used to demonstrate various applications of technology to business, education and medicine, indicated all of the objectives and specific tasks identified in the grant, and summarized above, were achieved.

Tichenor & Associates
TICHENOR & ASSOCIATES
Woodbridge, Virginia

TECHNOLOGY 2020

Developing a Clear Vision for the Future

June 19, 1997

Ms. Deirdre M. Reed, CPA
Partner
Tichenor and Associates
12531 Clipper Drive, Suite 2020
Woodbridge, VA 22192

Dear Ms. Reed:

Thank you for forwarding to us the draft report to Mr. Hubert Sparks, Inspector General, Appalachian Regional Commission regarding ARC Grant No. TN-12106-95-I-302-0428. We would like to make the following responses to your findings and recommendations to be included in the final report.

A.1. Indirect Costs not Supported.

We disagree that there were unsupported indirect costs charged to the grant. Since Technology 2020 was a new project, we established a provisional indirect cost rate of 24.5 percent based on the Oak Ridge Chamber of Commerce's indirect rate in 1995. While our books were not set up to clearly show an indirect cost rate, our financial statements do indicate indirect expenses incurred well beyond the 24.5% indirect rate charged to the ARC grant.

Specifically, listed below are the indirect expenses incurred each month of the grant period by Technology 2020, *not counting any personnel or depreciation expense allocations*, in comparison with the indirect costs charged to the grant:

<u>Month</u>	<u>Indirect Expenses Incurred</u>	<u>Charges to ARC Grant</u>
Oct. 95	\$12,937	\$3,605
Nov. 95	\$23,155	\$2,765
Dec. 95	\$12,193	\$2,896
Jan. 96	\$ 9,999	\$2,656
Feb 96	\$24,713	\$6,231
Mar. 96	\$16,100	\$3,951
Apr. 96	\$24,270	\$2,967
May 96	\$16,177	\$2,386
June 96	\$21,824	\$2,668
July 96	\$21,824	\$3,378
Aug. 96	\$17,389	\$3,098
Sept. 96	\$11,474	\$3,345

B.1. Personnel Activity

Technology 2020 disagrees with this finding. At the beginning of the grant period, we estimated the manpower required to meet the tasks specified in the grant document. As we proceeded to implement the grant activities, we made specific allocations of personnel time based on actual grant activity, utilizing a grant worksheet to substantiate the allocations made each month.

B.2. Budgeted Costs Reprogrammed; and B.3. Draft Final Report not Submitted.

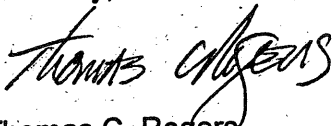
Technology 2020 had a management change in June, 1996. When the new President, Thomas C. Rogers, was hired, he asked for assistance from the ARC Project Coordinator in reviewing the project status, and Mr. Harry Roesch made a personal visit to Technology 2020 to assist us in reviewing the project. Mr. Roesch was very helpful in providing guidance regarding the adjustments which Technology 2020 needed to make to be in compliance with the terms of our ARC grant.

Technology 2020 informed the ARC Project Coordinator of our need to revise the original budget for the ARC grant via a letter dated August 15, 1996. We specifically requested written approval, if necessary, in point #2 of that letter. This letter is attached as Exhibit A.

Technology 2020 also telephoned our ARC project Coordinator and requested additional time to submit the draft final report. We received verbal permission for this additional time, and the draft report was submitted to ARC on December 20, 1996.

We appreciate the opportunity to respond to your draft report.

Sincerely,



Thomas C. Rogers
President and CEO

2020.477