

MEMORANDUM REPORT ON REVIEW OF  
TENNESSEE TOMORROW  
NASHVILLE, TENNESSEE

Development of a Strategic Vision for the Economy  
of the State Through the Year 2005

ARC Grant No: TN-11804-94-I-302-0819

July 1, 1994 through January 31, 1996

Prepared By:

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

FROM: Tichenor & Associates  
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REPORT FOR: The Federal Co-Chairman  
ARC Executive Director  
OIG Report No. 97-19 (H)

SUBJECT TO: Memorandum Review Report on Tennessee Tomorrow, Development of  
a Strategic Vision for the Economy of the State Through the Year 2005,  
Nashville, Tennessee. Grant No.: TN-11804-94-I-302-0819, ARC  
Contract No. 95-12.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Tennessee Tomorrow for its Development of a Strategic Vision for the Economy of the State Through the Year 2005 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-11804-94-I-302-0819 to Tennessee Tomorrow (the Grantee) for the period July 1, 1994 through January 31, 1996. Total grant funding was for an amount not to exceed \$50,000, or 20 percent of actual, reasonable and eligible project cost, whichever was less. The Grantee was required to pay or cause to be paid the non-federal share of \$150,000 or 60 percent in cash, contributed services or in-kind contributions, as approved by ARC. Other federal funds in the amount of \$50,000, or 20 percent were to be paid from the Tennessee Valley Authority. ARC made two progress payments to the Grantee totaling \$45,000 and a final payment of \$5,000 upon completion of the project.

The funds from this grant were to provide for the establishment of a venture capital fund; to provide for technical assistance in collaboration between private, public, state, Federal, and university laboratories specializing in innovation and research and development; to build on existing technologies to bring new products to market, increase awareness and understanding with respect to education, training, and work force development; and to position Tennessee as a leader in developing the Information Highway. The specific tasks of the grant program were to:

- Assist with market analysis in the formation of a development bank that will expand access to forms of finance not currently available in the market to small and emerging companies;
- Partially fund the necessary survey and background research to determine the level of need for additional finance authority in the establishment of a worldwide venture capital fund;
- Develop a high performance work organization (HPWO) study; and
- Develop an Enterprise Wellness initiative to promote technology innovation and business linkages.

**SCOPE:** We performed a program 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 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's personnel. Our results and recommendations are based on those procedures.

**RESULTS:** The following results were based on our review performed at the Grantee's offices in Nashville, Tennessee, on December 2 and 3, 1996.

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

The Grantee incurred total program costs of \$364,576, of which they claimed direct reimbursable costs from July 1, 1994 through January 31, 1996, of \$50,000 and in-kind costs of \$314,576. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported by the Grantee. However, we determined that claimed payroll costs were based on estimated time spent on the ARC project and that \$56,284 in consultant costs had not been approved by ARC. The consultant costs are discussed in the Internal Controls section below.

The Grantee did not maintain timesheets or any other activity reports for its personnel. The Grantee allocated salary and fringe benefit costs to the ARC project based on estimates of the days spent on the ARC project to total days available. No documentation to support these estimates was available. Three estimates were developed as follows:

| Period            | Total Available Days | Development Bank | Venture Capital | High Perf Work Org Study | Enterprise Wellness | Total ARC Project |
|-------------------|----------------------|------------------|-----------------|--------------------------|---------------------|-------------------|
| 7/1/94 - 3/31/95  | 176                  | 88               | 14              | 9                        | 9                   | 125               |
|                   | 100%                 | 50%              | 8%              | 5%                       | 5%                  | 68%               |
| 4/1/95 - 9/30/95  | 118                  | 30               | 2               | 30                       | 1                   | 63                |
|                   | 100%                 | 25%              | 2%              | 25%                      | 1%                  | 53%               |
| 10/1/95 - 1/31/96 | 78                   | 4                | 2               | 48                       | -                   | 54                |
|                   | 100%                 | 5%               | 2%              | 62%                      | -                   | 69%               |

The Grantee is required to maintain timesheets or other activity reports to support the actual costs allocable to the ARC project, and to allocate actual salary and fringe benefit costs based on the actual time spent, in accordance with OMB Circular A-122, Attachment B, *Support of Salaries and Wages*, which states, in part:

“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.”

**RECOMMENDATION:** We recommend that the Grantee develop a timekeeping system which will comply with the requirements of OMB Circular A-122, as cited above.

**B. Internal Controls**

The Grantee acquired the services of five consultants to perform work under the grant without ARC approval. The consultants performed market research, legal, financial advisory, computer, and loan strategies and prepared and reviewed work organization plans. Two consultants were approved and incorporated into the grant agreement through Amendment No. 2. The Grantee did not include the use of the additional consultants in its application, approved budgets or progress reports.

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

- “(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.”

**RECOMMENDATION:** We recommend that ARC review the agreements for the additional consultants and ensure the costs are allowable in accordance with the scope of the grant. In addition, we recommend that in the future all budget deviations be approved by ARC before the Grantee incurs costs.

### **C. Program Results**

Our review of The Grantee's Development of Strategic Vision for the Economy of the State Through the Year 2005 indicated most of the objectives and specific tasks identified in the grant, and summarized above, had been achieved. The Grantee proposed to develop an Enterprise Wellness Initiative which would better meet the needs of business for expanded, intensive technology innovation and business linkages for small firms, with an emphasis on the information superhighway. The Grantee worked to form the Tennessee Education Alliance for Manufacturing (TEAM) whose primary purpose was to establish a statewide alliance on industry, academia, technology, providers and government agencies. TEAM was to become an operating policy group of the Grantee. Once established, the alliance would address the goals and objectives established for the Enterprise Wellness Initiative. TEAM was to be funded through a \$1,500,000 grant through the Advanced Research Project Agency. In March 1995, the Grantee learned that the Advanced Research Project's Agency would not be funded and, therefore, the grant application for TEAM would not be approved.

**DISCUSSION:** We discussed these issues with the Grantee's management during the exit conference held on December 3, 1996. Management responded by stating that two of the consultants used were under contract with the state of Tennessee. The other consultant was used because of a unique, computerized statistical data program developed by the consultant,

the lack of time to complete the project, and the reputation of the contractor for completing projects timely. Management stated that prior approval would be obtained for future use of consultants under any federal grant.

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