

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

**Consolidated Technical Assistance**

**ARC Grant Nos.: TN-7783-95-C16-302-0428**

**and TN-7783-96-C16-302-0428**

**July 1, 1995 through June 30, 1997**

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**Report Number: 98-18**

**Date: January 13, 1998**

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**July 1, 1995 through June 30, 1997**

**Prepared By:**

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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. 98-18

SUBJECT TO: Memorandum Review Report on Tennessee Department of Economic and  
Community Development (ECD), Consolidated Technical Assistance,  
Nashville, Tennessee. Grant Nos.: TN-7783-95-C16-302-0428 and TN-  
7783-96-C16-302-0428, ARC Contract Numbers 95-85 and 7783-96.

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 and 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 programs including project reviews, development of project information, and recommendations to the Governor.

ARC awarded Grant Number TN-7783-95-C16-302-0428 to ECD for the period July 1, 1995 through June 30, 1996 and Grant Number TN-7783-96-C16-302-0428 for the period July 1, 1996 through June 30, 1997. The purpose of the grants was to provide continued funding for the consolidated technical assistance program in Appalachian Tennessee in fiscal years 1996 and 1997, 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 1996 grant was for \$210,000, or 50 percent of actual, reasonable and eligible project cost and the fiscal year 1997 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 drew down the entire federal portion for fiscal year 1996 and 1997 grants.

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

- 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 programs 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. Economic Report. Prepare the components pertaining to Appalachian Tennessee of the fiscal years 1996 and 1997 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 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 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.

RESULTS: The following results were based on our review performed at ECD's offices in Nashville, Tennessee on January 5 through 13, 1998.

**A. Incurred Costs**

ECD incurred total program costs of \$860,000, of which they claimed direct reimbursable costs from July 1, 1995 through June 30, 1997 of \$430,000. 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, except for the indirect costs incurred by the University of Tennessee which were claimed as match by the Grantee.

Governor's Economic Report

ECD claimed as matching costs, University of Tennessee indirect costs incurred in the preparation of the Governor's Economic Report. ARC Grant Administration Provisions, Article A2, Overhead Costs of State and Political Subdivision, states:

“Overhead and other indirect expenses of a State or political subdivision, or any agency or instrumentality thereof, are not ordinarily eligible as project costs for operating projects, except that reasonable indirect costs may be recognized as eligible costs for:

- (1) State supported educational institutions, if it is the established practice that such institutions make a charge for such costs in accepting grants from, or contracting with, a State, political subdivision or agency or instrumentality thereof in situations not involving Federal assistance;
- (2) local development districts, in accordance with shared or common cost procedures currently accepted by ARC; and
- (3) jointly funded projects at the State’s option.”

We were unable to determine if it is the University’s established practice to charge indirect costs in contracting with the State. We recommend that ARC make a determination as to the University’s standard practice in determining the allowability of these indirect costs.

In addition, the contract between the University of Tennessee and ECD for the preparation of the Governor’s Report states that the University of Tennessee, ECD, the Department of Employment, and the Department of Revenue will each share in the cost of funding the Report. ECD’s share was estimated to be \$46,323 for 1996 and \$47,063 for 1997. The University of Tennessee was to provide matching funds in these same amounts for the respective years as the non federal share of the costs. The contract states that the University share was to be used as the non-federal share for the ARC grant.

The following schedules show the actual costs reported on the University of Tennessee’s invoices for the preparation of the report, and the amounts claimed by ECD as direct costs and match under the ARC grant.

1996	ECD	Match	Total
Invoiced Costs			
Direct	\$118,371	\$12,206	\$130,577
Indirect	17,755	33,169	50,924
Total Invoiced Costs	\$136,126	\$45,375	\$181,501
Claimed Costs			
ARC	\$ 50,896	\$26,639	\$ 77,735

1997	ECD	Match	Total
Invoiced Costs			
Direct	\$132,272	-	\$132,272
Indirect	9,814	47,063	56,877
Total Invoiced Costs	\$142,085	\$47,063	\$189,149
Claimed Costs			
ARC	\$71,095	\$45,256	\$116,351

ECD paid the full cost of the report less matching as invoiced by the University. We were however unable to determine if ECD was reimbursed by the Department of Revenue and Department of Employment for their share as stipulated in the contract. Therefore we were unable to determine if the direct costs claimed should be reduced to reflect this reimbursement or be reflected as match. We recommend ARC investigate the possibility that ECD was reimbursed by other State departments for a portion of the preparation costs of the Governor's Report, and whether these costs were properly reported.

**B. Internal Controls**

We determined that the ECD had the following internal control weakness, which affected the accountability of costs and compliance with terms of the grant. This weakness could result in unallowable costs being charged to the grant.

Governor's Economic Report Exceeded Budget

Expenditures incurred by ECD for the preparation of the Governor's Economic Report exceeded the approved budget for 1996 and no approval was obtained to transfer amounts from other budget categories. The preparation costs for the Governor's Economic Report exceeded the approved budget by \$24,096. Based on 10 percent of the total grant award, budget categories could be exceeded by \$22,000 without obtaining prior ARC approval. ECD did not request formal approval to transfer funds among the other direct cost categories to cover the cost of preparing the Governor's Economic Report. The following budget categories were approved by ARC and claimed by ECD:

ARC Approved Budget Category	1996		
	Amount Approved	Total Claimed	Difference
Salaries	\$124,500	\$110,366	\$(14,134)
Fringe Benefits	31,100	28,604	(2,496)
Governor's Economic Report	47,000	71,096	24,096
Travel	16,000	6,435	(9,565)
Other	1,400	3,934	2,534
<b>Totals</b>	<b>\$220,000</b>	<b>\$220,435</b>	<b>\$ (435)</b>

OMB Circular A-102, Appendix D, subpart c, paragraph (c), Budget Changes states:

"Except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any of the following changes is anticipated under a non-construction award:

- (i) Any revisions which would result in the need for additional funding.
- (ii) Unless waived by the awarding agency, cumulative transfers among direct cost categories, or, if applicable, among separately budgeted programs, projects, functions or activities which exceed or are expected to exceed ten percent of the current total approved budget, whenever the awarding agency's share exceeds \$100,000."

### RECOMMENDATIONS

We recommend that ECD request approval from ARC for the transfer of budgeted funds from other direct cost categories when the amount exceeds ten percent of the total grant award.

### **C. Program Results**

ECD appeared to be working toward accomplishing the specific tasks identified in the approved grant agreement. The overall objective of the grant however, 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 1995 and 1996, we found no program results that 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 our prior review report dated October 10, 1995.

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.

GRANTEE'S RESPONSE TO THE DRAFT REPORT:

In the future, we will request approval from ARDC for the transfer of budgeted funds from other direct cost categories when the amount exceeds 10 percent of the total grant award. We were previously told that only changes over \$100,000 needed approval. We will also include measurable program objectives for these two years. The exclusion of such was an oversight.

DISCUSSION:

We discussed the issues with ECD's management during the exit conference held on January 13, 1998. Management responded by stating that the preparation of the Governor's Economic Report did exceed the anticipated budget, but management did not request a transfer of funds from the other cost categories since the funding was available.

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