

**MEMORANDUM REPORT ON REVIEW OF THE
TENNESSEE QUALITY AWARD
NASHVILLE, TENNESSEE**

International Business Development In Appalachia Tennessee

ARC Grant No: TN-12315-96-RI-302-0117

September 1, 1996 through August 31, 1997

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Report Number: 98-20

Date: January 16, 1998

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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. 98-20

SUBJECT TO: Memorandum Review Report on Tennessee Quality Award (TQA),
International Business Development in Appalachia Tennessee, Nashville,
Tennessee. Grant No: TN-12315-96-RI-302-0117, ARC Contract No.
12315-96.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by TQA for its International Business Development in Appalachia Tennessee program 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 had been met.

BACKGROUND: ARC awarded Grant Number TN-12315-96-RI-302-0117 to TQA for the period September 1, 1996 through August 31, 1997. Total grant funding was for an amount not to exceed \$150,000, or 80 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$37,500, or 20 percent in cash, contributed services, or in-kind contributions, as approved by ARC. ARC made four advance payments to TQA totaling \$135,000. The balance of \$9,377 remained unspent at the end of the grant period. ARC requested the funds be returned in a letter dated January 8, 1998. As of January 16, 1998, the funds had not been returned to ARC.

The purpose of this grant was to establish a pilot program using the Tennessee Quality Award program as a vehicle to educate and prepare businesses to engage in international trade. TQA was to perform the following specific tasks:

1. Establish a baseline of data regarding companies currently involved in exporting;
2. Identify competencies necessary for export success;
3. Identify foreign market potentials for businesses not currently exporting;
4. Develop of marketing plans;
5. Assess potential export organizations against criteria for success;
6. Undertake a "gap" analysis of businesses;
7. Develop a program for training, technical assistance and services;
8. Measure impacts of program against baseline data;
9. Modify program as appropriate to achieve program objectives;
10. Prepare a marketing awareness program for use by the State Department of Commerce and other service providers;
11. Implement a multi-tiered export readiness improvement tool;
12. Recruit and train volunteer assessors of export readiness (from businesses assisted);
13. Deliver training and technical assistance to current and potential exporters; and,

14. Deliver linkages with other public and private sector entities to expand export capabilities.

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 TQA had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with TQA's personnel. Our results and recommendations are based on those procedures.

RESULTS: The following results were based on our review performed at TQA's offices in Nashville, Tennessee on January 14 through 16, 1998.

A. Incurred Costs

TQA incurred total program costs of \$190,345, of which they claimed direct reimbursable costs from September 1, 1996 through August 31, 1997, of \$125,623. We reviewed the direct and in-kind costs incurred and determined that the funds had been expended as reported and were used for the ARC program as described.

B. Internal Controls

Final Expenditure Report Not Submitted Timely

TQA did not submit its final expenditure report within the timeframes required by OMB Circular A-110. The period of the award was from September 1, 1996 through August 31, 1997. TQA submitted its final expenditure report to ARC on December 23, 1997.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart D, After the Award Requirements, .71 Closeout procedures, states:

"Recipients shall submit , within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. The Federal awarding agency may approve extensions when requested by the recipient."

TQA officials stated that due to the extensive work required during the assessment of TQA applicants and preparation of feedback reports, they were unable to timely complete all reports to ARC as required.

C. Program Results

TQA appeared to be working toward accomplishing the specific tasks as indicated in the application for Federal assistance and the grant agreement. TQA officials indicated that it was their intention to complete all the specific tasks within a three-year period.

GRANTEE'S RESPONSE TO THE DRAFT REPORT:

TQA stated that the final expenditure report was submitted in December 1997. However, the final performance report was submitted September 30, 1997, which is within the 90-day requirement. Two factors were involved with submitting financial reports beyond the 90-day requirement. First, as indicated, the period from mid-September through November is the heaviest processing period during the annual assessment process. Numerous assessments, site visits and feedback reports were completed concurrent with awards banquet event planning for one thousand attendees. Prior to submitting final expenditure reports, an internal audit is completed. Staff resources were not available earlier.

Second, in quickly reviewing the requirements at the conclusion of the grant year, it was mistakenly thought that the reference for 90 days was relative to the project report only. All future reports will be submitted within the timeframes established by the grant agreement and OMB requirement.

In addition, TQA check for the unspent \$9,377 was issued on January 16, 1998, and mailed the following week.

ADDITIONAL STATEMENTS:

We concur with TQA's intention to submit all required reports in a timely fashion in the future. We recommend that ARC verify the receipt of the requested funds reportedly mailed in January 1998.

RECOMMENDATION:

We recommend that TQA submit all reports to ARC within the timeframes established by the Grant Agreement and OMB requirement or request extensions from ARC. In addition, we recommend that TQA return the unspent \$9,377 which has been requested by ARC.

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DISCUSSION:

We discussed the issue with TQA's management during the exit conference held on January 16, 1998. Management responded by stating it would comply with regulations as required.

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