

**MEMORANDUM REPORT ON REVIEW OF
TECHNOLOGY 2020
OAK RIDGE, TENNESSEE**

Tennessee Regional Entrepreneurial Initiative

ARC Grant Number: TN-12930-EI-98-302

January 15, 1998 through August 1, 1999

CAUTION: *Certain information contained herein is subject to disclosure restrictions under the Freedom of Information Act, 5 U.S.C. 522 (b)(4). Distribution of this report should be limited to Appalachian Regional Commission and other pertinent parties.*

Report Number: 99-24 (H)

Date: September 30, 1999

MEMORANDUM REPORT ON REVIEW OF
TECHNOLOGY 2020
OAK RIDGE, TENNESSEE

Tennessee Regional Entrepreneurial Initiative

ARC Grant Number: TN-12930-EI-98-302

January 15, 1998 through August 1, 1999

Prepared By:

Tichenor & Associates
Certified Public Accountants
303 Middletown Park Place, Suite E
Louisville, Kentucky 40243

TICHENOR & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT CONSULTANTS

303 MIDDLETOWN PARK PLACE, SUITE E
LOUISVILLE, KENTUCKY 40243

PARTNERS

WILLIAM R. TICHENOR
JONATHAN D. CROWDER
JAMES M. ANDERSON

BUSINESS: (502) 245-0775
FAX: (502) 245-0725
E-MAIL: TICHENORKY@AOL.COM

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 Number 99-24 (H)

SUBJECT: Memorandum Review Report on Technology 2020, Tennessee Regional
Entrepreneurial Initiative, Oak Ridge, Tennessee, Grant Number TN-12930-
EI-98-302, ARC Contract Number TN-12930.

PURPOSE: The purpose of our review was to determine if (a) the total funds claimed for reimbursement by Technology 2020 for its Tennessee Regional Entrepreneurial Initiative 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-12930-EI-98-302 to Technology 2020 for the period January 15, 1998 through August 1, 1999. Total grant funding was for an amount not to exceed \$310,000, or approximately 78 percent of actual, reasonable and eligible project cost, whichever was less. ARC required that the grant be matched with \$85,000 or 22 percent in cash, contributed services, and in-kind contributions, as approved by ARC. ARC made two advance/progress payments totaling \$199,115 as of the last day of our fieldwork, May 20, 1999.

The purpose of this grant was to provide access to capital and financial networks along with business and managerial assistance to entrepreneurs along with business and managerial assistance to entrepreneurs in Appalachian Tennessee. In addition, Technology 2020 will initiate a technology transfer pilot project in collaboration with Oak Ridge National Laboratory (ORNL), identifying ORNL technologies which have significant commercial potential and assist a selected group of

entrepreneurs with proven track records to establish new business start-ups. Technology 2020 will contract with three sub-regional organizations to supplement their geographic coverage of the region.

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 review 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 Technology 2020 had complied with the requirements of the grant agreement. In addition, we discussed the program objectives and performance with Technology 2020 personnel. Our results and recommendations are based on those procedures. These review procedures were performed in accordance with applicable Government Auditing Standards.

RESULTS: The following results were based on our review performed at the Technology 2020 offices in Oak Ridge, Tennessee on May 17 through 20, 1999.

A. Incurred Costs

Technology 2020 claimed total program costs of \$267,503, of which they claimed direct reimbursable costs from January 15, 1998 through May 20, 1999, the last day of our fieldwork, of \$199,115. We expect there to be additional claims by Technology 2020 before the end of the grant period, August 1, 1999. We reviewed the direct and in-kind costs incurred and determined that, in general, the funds had been expended as reported. However, we identified \$25,000 in matching funds that could not be supported and \$5,940 in direct reimbursable costs that were overcharged to the grant. These issues are discussed below.

1. Matching Costs Not Supportable

Technology 2020 was required to match \$85,000 or 22% in cash, contributed services, and in-kind contributions under the Tennessee Regional Entrepreneurial Initiative. The match was to be provided by Technology 2020, Innovative Ventures Corporation, and three subgrantees. We reviewed the match provided by Technology 2020 and found that it had generally been met as proposed in the application for federal assistance. However, Innovative Ventures Corporation was to provide \$25,000 in matching funds for two individuals working on the Angel Investor Network and the Strategic Alliance Program. Technology 2020 had no support for the matching cost other than a letter indicating that approximately \$28,750 to \$38,333 had been expended by Innovative Ventures Corporation on the projects.

ARC General Contract and Administrative Provisions, Article A14 Records Requirements, Audit, Adjustment, and Refunds States:

"Contractor shall maintain custody of time records, payrolls, and other data, as appropriate, to substantiate all services reported to the Commission as Contributed

Services under this contract."

2. Fringe Benefits Were Improperly Calculated Resulting in \$5,940 of Overcharges to the Grant

Technology 2020 charged fringe benefit costs to the grant based on budgets that were submitted with the grant application. The budgets were based on the staff assigned to the projects for calendar year 1998. During the year, one individual assigned to the ARC projects left Technology 2020 and another individual was hired to continue the projects. This change in staff changed the salary mix that was used in calculating the fringe benefits charged to the grant. This resulted in \$5,940 in fringe benefits being overcharged to the grant.

ARC General Contract and Administrative Provisions, Article A14 Records Requirements, Audit, Adjustment, and Refunds 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. All disbursements from the contract account shall be for obligations incurred, after the effective date, in the performance of this contract, and shall be supported by contracts, invoices, vouchers and other data, as appropriate, evidencing the disbursements."

RECOMMENDATIONS:

We recommend that ARC require Technology 2020 to submit additional documentation to support the \$25,000 in matching funds claimed under the grant award. We also recommend that ARC instruct Technology 2020 to reprogram the fringe benefit costs to personnel costs if they were actually incurred under the award.

B. Internal Controls

1. Subrecipients Were Not Properly Monitored

Technology 2020 included three subgrantees in its application for federal assistance. One each located in the Cumberland Plateau, Upper East Tennessee and South East Tennessee Regions of Appalachia. The subgrantees were to help ensure that all 50 ARC counties benefited from the award through development of their own local entrepreneurship efforts. Each subgrantee was to receive \$30,000 in ARC funds and was required to match \$10,000 in local funds. Technology 2020 performed no monitoring of the subgrantees to ensure that the subgrantees administered the federal awards in accordance federal requirements.

OMB Circular A-133, part M, Subrecipient Monitoring states:

"A pass-through entity is responsible for:

- Identifying to the subrecipient the federal award information and applicable compliance requirements;
- Monitor the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with federal requirements;
- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any findings;
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations;

Factors such as size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring.

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan."

2. Provisional Indirect Cost Rates Not Adjusted To Actual

Technology 2020 calculated provisional indirect cost rates based on budgeted costs and did not adjust the provisional rate to actual. Rates of 34.289% administrative and 9.250% for overhead were calculated by Technology 2020 to allocate the indirect costs to all programs. Technology 2020 allocated \$50,612 in indirect costs to the ARC Tennessee Entrepreneurial Initiative Grant.

OMB Circular A-122, Attachment A, General Provisions, E. Negotiation and Approval of Indirect Cost Rates, e. Provisional rate states:

"or billing rate means a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement, and reporting indirect costs on awards pending the establishment of a final rate for the period."

RECOMMENDATIONS:

We recommend that ARC require Technology 2020 to implement procedures for monitoring subrecipients for all future ARC awards. Also we recommend that ARC require Technology 2020 to compute the actual indirect cost rate for the grant period be based on actual costs and adjust the amount claimed as indirect cost if necessary.