

PERFORMANCE AUDIT
OF THE

Campbell County, TN

**Campbell County Business
Incubator**

Grant: TN-17163

OIG Report Number: 14-28

GRANT PERIOD: OCTOBER 2011 – DECEMBER 2013

WATKINS | MEEGAN

Appalachian Regional Commission
1666 Connecticut Avenue, N.W.
Suite 700
Washington, DC 20009-1068

Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Campbell County Business Incubator Program Grant TN-17163. The report is in response to the report is in response to Contract No. BPA 11-01-B.

Watkins Meegan LLC

Tysons, Virginia
June 16, 2014

Campbell County, TN

Campbell County Business Incubator

TN-17163

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

Campbell County (County or Grantee) is an ARC-designated at-risk county located in rural East Tennessee. The County requested Grant funding from ARC to support the creation of a Business Incubator Program to provide technical assistance and advice to help start-up and existing small businesses succeed. In the Grant application, the County proposed partnering with the Center for Entrepreneurial Growth (CEG), a subsidiary of Technology 2020 (Tech2020), a private non-profit 501(c)(3) organization with past experience establishing similar programs in southeastern states. The scope of CEG's work would include, but not be limited to, procurement of equipment for the incubator to prepare it for tenants, establishment of a physical office for the incubator, hiring and training of a director to transition into the role on a permanent basis, development of tenant/client leases and other incubation program documents, and recruitment of clients and tenants within the incubation program's proposed service area.

On September 29, 2011, ARC approved the Campbell County Business Incubator Grant, number TN-17163 (Grant), in the amount of \$214,982 to Campbell County, TN for the period October 1, 2011 to March 31, 2013. The Grant also required matching funds (non-federal) of \$92,150, for a total of \$307,132. The Grant terms were amended on March 25, 2013 to extend the period of performance to December 31, 2013.

Executive Summary

Grant funds were used to fund personnel and contractor expenses along with other administrative and program expenses for the Grantee to facilitate the creation of a business incubator program in Campbell County. While the Grant period is complete, the administrative closing and final release of Grant funds is still in process, pending the submission of a final report and approved reimbursement request from the Grantee. Based on our review of expenditures through the end of the Grant period, the full \$214,982 in awarded funds were expended by the Grantee.

Expenses reviewed during the audit appeared to be valid and properly supported and in direct relation to supporting the Grant and its objectives. In addition, we validated that the stated performance objectives of the Grant were met. A finding was noted related to the completeness, accuracy and timeliness of the Grantee reporting during the Grant period. A second finding related to the percentage contribution of the reported matching funds to the total program outlays. Additional information on these findings can be found in the Results section of this report.

Campbell County, TN

Campbell County Business Incubator

TN-17163

Objective

Watkins Meegan LLC was engaged to conduct a performance audit of the Campbell County Business Incubator Grant for the period October 1, 2011 – December 31, 2013. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC and matching funds reported to ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant had been achieved.

Scope

We completed a performance audit of the Campbell County Small Business Incubator Program TN-17163 at the Campbell County Office of Finance from April 21 – 23, 2014, as described under this section and under the Audit Methodology section. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Methodology

Our procedures were based on the Audit Program provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the Mayor of Campbell County, the Executive Director of the Small Business Incubator, the Deputy Director of Finance and other members of the Office of Finance of the County to discuss the Department's overall structure and processes around grant administration and monitoring. We also discussed and reviewed other financial and operational elements related to the conduct of the program.

Our review of background material included the Grantee's application, other Grant-related documentation from ARC's Grant management system, and the Grantee's audited financial statements for the fiscal year ended June 30, 2013.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant, examined a sample of supporting documentation to validate the processes and controls in place, and observed and made inquiries regarding whether the Grantee is making progress towards, or has achieved, the goals and objectives of the Grant.

Campbell County, TN

Campbell County Business Incubator

TN-17163

Results

Compliance with Grant Provisions

At the time of the audit, ARC had reimbursed the Grantee \$193,465 for the period October 1, 2011 through August 31, 2013. Matching contributions of \$48,016 were reported by the Grantee for the same period. Based on our review of expenditures through the end of the Grant period, the Grantee will be requesting reimbursement for additional expenses totaling the remaining \$21,517 in awarded funds when the final report for the Grant is submitted and approved by ARC. The Grantee previously submitted a final report that was returned by ARC requesting revisions before processing the final reimbursement request for the Grant.

Grant funds were used for personnel and contractor expenses along with other administrative, equipment and program expenses to facilitate the creation of a business incubator program in Campbell County. We examined supporting documentation for a sample of the expenses incurred against the Grant and noted that all those selected for review appeared to be valid, adequately supported and in direct relation to supporting the Grant and its objectives.

Through inquiry and review, we sought to validate the outputs and outcomes expected from the Grant award. The anticipated output and outcome measurements were:

- i) The establishment of a business incubation program in Campbell County
- ii) Creation of 36 new jobs

We requested and obtained evidence from the Grantee to assess the performance against the aforementioned measurements and goals. We visited and inspected the business incubator office and reviewed examples of training content offered and presented to participating organizations. Based on information provided by the Grantee and our review, a total of 63 organizations, including 35 newly established businesses, have worked with the business incubator program to obtain assistance and guidance during various stages of their business start-up or expansion. We interviewed personnel from a selection of these organizations to validate the information provided by the Grantee and noted no exceptions. Based on the information provided by the Grantee, a total of 88 jobs were created across the 35 new businesses supported by the incubator program during the Grant period, surpassing the target performance goal.

At the conclusion of the audit, we discussed the following items with the Grantee, who generally agreed with the findings and recommendations as described below:

Finding – Progress Reports

Part II, Article 4 of the Grant agreement outlines the reporting requirements for the Grantee for both Progress Reports and the Final Report at the conclusion of the Grant period. Part II, Article 11 § (1)(c) requires that progress payment requests be submitted at the same frequency as progress reports.

Finding – Progress Reports (Continued)

We noted on review of the interim performance reports and reimbursement requests that the Grantee had persistent issues filing timely and accurate progress reports to ARC. Reports were submitted past the due date and covered inconsistent and overlapping reporting periods; however, the reports did cover the entire Grant period. Errors were also noted in the allocation of budgeted expenditures between expense categories in reimbursement requests submitted by the Grantee, although the total budget reconciled to the approved Grant agreement. Issues with the reporting were identified by ARC, requiring multiple revisions to the documentation provided by the Grantee, up to and including the final report submitted at the conclusion of the Grant period. The first final report submitted by the Grantee was returned to be revised and re-submitted. At the conclusion of our fieldwork, the revised final report was still under review with ARC.

Turnover and unplanned absences impacted the Grantee's ability to complete timely and accurate progress reports and reimbursement requests. Delays and inaccuracies in the interim and final reporting have led to delays in the release of funds to the Grantee. Per the terms of the Grant agreement, ARC is withholding the final 10 percent of Grant funds until the corrected final report is submitted by the Grantee and approved by ARC.

Recommendation:

The Grantee should work with the ARC project coordinator to ensure that the final report is revised to include all required information for the full Grant period so that all reporting requirements and obligations are fulfilled. In the future, all reports should be submitted timely.

Finding – Matching Fund Contributions

The Grant agreement required that the Grantee obtain or contribute matching funds amounting to at least 30 percent of the total costs of the program. However, the final reimbursement request prepared by the Grantee reported match funds of \$84,308, representing only 28 percent of the total program outlays of \$299,290 reported in the reimbursement request.

The ARC contribution is higher than the agreed proportion of total cost contemplated in the Grant agreement and ARC may withhold final reimbursement to ensure its contribution to the total program outlays does not exceed 70 percent.

Through our review of the matching expenditures and supporting transactions, we noted that the matching expenses in the detailed General Ledger reports were approximately \$3,000 higher than those reported to ARC. The Grantee also noted that some in-kind contributions had not been included in the reported matching costs and needed to be evaluated and added to the total matching funds in the final reporting to ARC.

Recommendation:

The Grantee should perform a detailed reconciliation of its matching costs and ensure that all related expenditures, including in-kind contributions, are appropriately evaluated and reported to ARC in the revised final report. The final financial report should be submitted based on the determination of final project costs and request the appropriate final payment. The Grantee should also establish a process to review and approve the ARC reports prior to submission and reconcile the reported numbers back to the supporting accounting records and Grant requirements.